

File No. 170518

Committee Item No. 8
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS
AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee

Date June 1, 2017

Board of Supervisors Meeting

Date _____

Cmte Board

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OTHER (Use back side if additional space is needed)

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Completed by: Linda Wong Date May 26, 2017
Completed by: Linda Wong Date _____

1 [Annexation of Property - Community Facilities District No. 2014-1 (Transbay Transit Center)]

2
3 **Resolution determining that property located at Assessor's Parcel Block No. 3740, Lot**
4 **No. 029, and Block No. 3740, Lot Nos. 030-032, is annexed to the City and County of**
5 **San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center); and**
6 **directing the Clerk of the Board of Supervisors to Record Notice of the Annexation.**

7
8 WHEREAS, This Board has adopted Resolution No. 350-14, on September 23, 2014,
9 and signed by the Mayor on September 29, 2014, entitled "Resolution of Formation of City
10 and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit
11 Center) and determining other matters in connection therewith" (the "Resolution of
12 Formation"), ordering the formation of the "City and County of San Francisco Community
13 Facilities District No. 2014-1 (Transbay Transit Center)" (the "CFD") and a "City and County of
14 San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (Future
15 Annexation Area)", authorizing the levy of a special tax on property within the CFD and
16 preliminarily establishing an appropriations limit for the CFD, all pursuant to the Mello-Roos
17 Community Facilities Act of 1982, as amended, constituting California Government Code
18 Chapter 2.5 of Part 1 of Division 2 of Title 5, commencing with Section 53311 (the "Mello-
19 Roos Act"); and

20 WHEREAS, This Board has also adopted a Resolution No.351-14, adopted by the
21 Board on September 23, 2014, and signed by the Mayor on September 29, 2014, entitled
22 "Resolution Determining Necessity to Incur Bonded Indebtedness for City and County of San
23 Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) and determining
24 other matters in connection therewith" (the "Resolution of Necessity"), determining the
25 necessity to incur bonded indebtedness and other debt (as defined in the Mello-Roos Act) in

1 the maximum aggregate principal amount of \$1,400,000,000 upon the security of the special
2 tax to be levied within the CFD pursuant to the Mello-Roos Act; and

3 WHEREAS, Under the provisions of the Resolution of Formation and the Resolution of
4 Necessity and pursuant to a "Resolution calling special election in City and County of San
5 Francisco Community Facilities District No. 2014-1 (Transbay Transit Center)" (the "Election
6 Resolution") heretofore adopted by this Board, the propositions of the levy of the special tax,
7 the establishment of the appropriations limit, and the incurring of bonded indebtedness and
8 other debt were submitted to the qualified electors of the CFD as required by the provisions of
9 the Mello-Roos Act and more than two-thirds of the votes cast at the election were in favor of
10 the propositions; and

11 WHEREAS, In the Resolution of Formation, this Board resolved that parcels within the
12 Future Annexation Area shall be annexed to the CFD only with the unanimous approval
13 (each, a "Unanimous Approval") of the owner or owners of each parcel or parcels at the time
14 that parcel or those parcels are annexed, without any requirement for further public hearings
15 or additional proceedings; and

16 WHEREAS, In Ordinance No. 1-15 heretofore adopted by this Board (the "Special Tax
17 Ordinance"), this Board authorized and levied special taxes within the CFD pursuant to the
18 Mello-Roos Act, at the rate and in accordance with the rate and method of apportionment of
19 special tax (the "Rate and Method") set forth in the Resolution of Formation, and further
20 ordered that the provisions of the Special Tax Ordinance shall apply not only to the initial
21 territory included in the CFD but also to parcels included in the Future Annexation Area that
22 are annexed to the CFD at the rate or rates to be approved unanimously by the owner or
23 owners of each parcel or parcels to be annexed to the CFD; and

24 WHEREAS, Mello-Roos Act Section 53339.8 provides that upon a determination by the
25 legislative body that the area proposed to be annexed is added to the existing community

1 facilities district, the clerk of the legislative body shall record notice of the annexation pursuant
2 to Streets and Highway Code Section 3117.5; and

3 WHEREAS, This Board has been provided with a Unanimous Approval executed by
4 the owner of certain property in the Future Annexation Area, namely Assessor's Parcel Block
5 No. 3740, Lot No. 029, and Block No. 3740, Lot Nos. 030-032 (the "Annexation Property");
6 and

7 WHEREAS, In order to comply with Mello-Roos Act Section 53339.8, this Board wishes
8 to determine that the Annexation Property is added to the CFD; now, therefore, be it

9 RESOLVED, That the foregoing recitals are all true and correct; and, be it

10 FURTHER RESOLVED, That this Board of Supervisors hereby determines that the
11 Annexation Property is added to the CFD and the Clerk of the Board of Supervisors is hereby
12 ordered and directed to record notice of the annexation pursuant to Streets and Highway
13 Code Section 3117.5; and, be it

14 FURTHER RESOLVED, That this Resolution shall take effect immediately upon its
15 adoption.

16
17 APPROVED AS TO FORM:
18 DENNIS J. HERRERA, City Attorney

19 By:  _____

20 Mark D. Blake
21 Deputy City Attorney

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**UNANIMOUS APPROVAL
of Annexation to a Community Facilities District
and Related Matters**

**CITY AND COUNTY OF SAN FRANCISCO
Community Facilities District No. 2014-1
(Transbay Transit Center)**

Annexation No. _____

1725 , 2017

Board of Supervisors of the
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Members of the Board of Supervisors:

The undersigned hereby states and certifies, under penalty of perjury, as follows:

1. Property Owner. The undersigned is the owner (the "Property Owner") of fee simple title to the real property identified by the assessor's parcel number(s) listed below (the "Property"), and possesses all legal authority necessary to execute this Unanimous Approval. If requested by the City and County of San Francisco (the "City"), the Property Owner has supplied to the City current evidence of its ownership of the Property.

The Property Owner hereby represents and warrants that there are no persons resident on the Property that are registered to vote.

2. Acknowledgement of CFD. The Property Owner acknowledges and understands the following:

(a) The Board of Supervisors of the City has formed the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "**CFD**") and a future annexation area for the CFD (the "Future Annexation Area"), pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the "**Act**") for the purpose of financing certain public facilities (the "Facilities") described on Exhibit A hereto and made a part hereof.

(b) The proceedings for the formation of the CFD authorized the Board of Supervisors to levy an annual special tax (the "**Special Tax**") on property in the CFD as specified in the Amended and Restated Rate and Method of Apportionment of Special Tax (the "**Rate and Method**") for the CFD, a copy of which is attached hereto as Exhibit B. The Property Owner acknowledges that the City will create a special account into which the Special Taxes will be deposited, when collected, and that the City will prepare the annual report required by Government Code Section 50075.3.

(c) The proceedings for the formation of the CFD authorized the Board of Supervisors to annex property in the Future Annexation Area to the CFD, without additional public hearings, upon approval of the owner of the property to be annexed as permitted by Section 53339.7(a) of the Act.

(d) The Property is in the Future Annexation Area for the CFD.

3. Unanimous Approval and Vote. This Unanimous Approval constitutes the unanimous approval and vote of the Property Owner in favor of the following matters for the purposes of Section 53339.7 et seq. of the Act and Article XIII A of the California Constitution:

a. Annexation: The annexation of the Property to the CFD for the purpose of financing the Facilities.

b. Special Tax: The levy of the Special Tax on the Property to finance the Facilities, according to the Rate and Method.

c. Bonds and other Debt: The issuance of bonded indebtedness and other debt (as defined in the Act) for the CFD in an aggregate principal amount not to exceed \$1,400,000,000. The Property Owner acknowledges that (i) the specific purpose of the bonds and other debt is to finance the acquisition and construction of the Facilities and pay related costs; (b) any proceeds received from the sale of any bonds and other debt will be applied only for such purpose; (c) the proceeds of any bonds and other debt will be deposited into special accounts to be created therefor as part of the issuance of the bonds and other debt; and (d) the City will cause a report to be prepared annually under Section 53411 of the Government Code.

d. Appropriations Limit: An initial appropriations limit for the CFD of \$300,000,000.

4. Waivers. The Property Owner hereby irrevocably waives (i) any right the Property Owner may otherwise have to protest or challenge the validity of the proceedings to form the CFD and to authorize the annexation of any property (including the Property) to the CFD, and (ii) any necessity, requirement or right for further public hearings or any election pertaining to the annexation of the Property to the CFD or the levy of the Special Tax on the Property.

5. Recordation of Amendment to Notice of Special Tax Lien. The Property Owner acknowledges and understands that a Notice of Special Tax Lien for the CFD (the "Notice of Special Tax Lien") was recorded in the Office of the Recorder of the City and County of San Francisco on January 22, 2015, as Document No. 2015K010238. The Property Owner hereby authorizes and directs the Clerk of the Board of Supervisors to execute and cause to be recorded in the office of the County Recorder of the City and County of San Francisco an amendment to the Notice of Special Tax Lien for the CFD as required by Section 3117.5 of the California Streets and Highways Code, which will impose a continuing lien on the Property to secure each levy of the Special Tax. The amendment to the Notice of Special Tax Lien shall include the Rate and Method as an exhibit thereto. The Property Owner acknowledges and understands that the lien of the Special Tax on the Property is coequal with the lien for ad valorem real property taxes levied by the County on the Property.

6. Disclosures. The Property Owner hereby agrees to provide to any subsequent purchaser of the Property written notice of the annexation of the Property to the CFD, and of the

authority of the Board of Supervisors to levy the Special Tax on the Property pursuant to the Rate and Method, to the extent required by applicable law.

7. Agreements. The Property Owner further agrees to execute such additional or supplemental agreements and to take such additional actions as may be required by the City to provide for any of the actions and conditions described in this Unanimous Approval, including any cash deposit required to pay for the City's costs in annexing the Property to the CFD.

The Property subject to this Unanimous Approval and to be annexed to the CFD, consists of the following Assessor's Parcel:

Lots 29, 30, 31, and 32, Block 3740

The full legal name of the Property Owner is:

Block One Property Holder, L.P.

The foregoing Unanimous Approval is hereby executed this 15 day of January, 2017, in San Francisco, CA.

BLOCK ONE PROPERTY HOLDER, L.P., a Delaware limited partnership

By: 

Authorized Signatory

Its: Carl D. Shannon

EXHIBIT A

CITY AND COUNTY OF SAN FRANCISCO Community Facilities District No. 2014-1 (Transbay Transit Center)

DESCRIPTION OF FACILITIES TO BE FINANCED BY THE CFD

City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "CFD") will pay or finance all or a portion of the costs of the following facilities (the "Facilities"). The Facilities will be constructed, whether or not acquired in their completed states, pursuant to the plans and specifications approved by the City and County of San Francisco (the "City") or other applicable public agencies.

FACILITIES

I. Streetscape and Pedestrian Improvements

Primary Streets (Mission, Howard, Folsom, Fremont, 1st, 2nd, New Montgomery): Improve existing primary streets in the Transit Center District, including Mission, Howard, Folsom, Fremont, 1st, 2nd, and New Montgomery Streets. Improvements would include sidewalk widening to accommodate additional pedestrian traffic from new development and the Transbay Transit Center, pedestrian and streetscape amenities, bicycle facilities, transit upgrades such as dedicated transit lanes, boarding islands, enhanced shelters and curb extensions to serve transit stops, and roadway circulation, parking, and loading changes. Recommended changes to Primary Streets would be informed by traffic studies to be funded by the CFD.

Living Streets (Beale, Main, and Spear Streets North of Folsom to Market Street): Improve Beale, Main, and Spear Streets from Folsom Street to Market Street by significantly expanding the sidewalk on one side of each street to approximately 30 feet and reducing the number of traffic lanes to one lane in either direction. Beale and Main Streets would feature a bike lane in the direction of traffic. Within the widened sidewalks, the Living Streets would include linear park space along the length of each block and provide additional open space and pedestrian amenities. The enhancements would include pedestrian amenities, street trees and landscaping, pedestrian lighting, street furniture, pocket parks, active uses, and curb extensions.

Alleys (Stevenson, Jessie, Minna, Natoma, Tehama, Clementina Street): Improve Stevenson, Jessie, Minna, Natoma, Tehama, Clementina Streets and other alleys within the project area. Alley improvements would include a variety of pedestrian improvements, including sidewalk widening, landscaping, pedestrian lighting, and street furniture, and potential redesign as single-surface shared pedestrian/vehicle ways.

Fremont/Folsom Freeway Off-Ramp Realignment: Realign the Fremont/Folsom Bay Bridge off-ramp so that it creates a "T" intersection with Fremont Street. This would enhance the safety of pedestrians crossing the off-ramp by standardizing the alignment of the off-ramp and improve the conditions along Folsom Street, planned as a major pedestrian boulevard.

Mid-block Crossings: Analyze and build new crosswalks at various mid-block locations in the Project Area. Mid-block crosswalks would include crosswalk striping at a

minimum. They may also include new traffic signals, curb extensions, and other pedestrian safety features as appropriate.

Signalization: Upgrade or install traffic signals at approximately 25 intersections in the Project Area. Traffic signal upgrades would be done in conjunction with overall circulation and street improvements in the Project Area.

Natoma Street: Create a pedestrian plaza and link to the Transit Center between 1st and 2nd Streets. The western two-thirds of Natoma Street between First and Second Streets would be closed to vehicles. Service vehicles and deliveries may be able to access this portion of Natoma Street during night and early morning hours before peak transit and retail times. The eastern one-third of Natoma Street (nearest to First Street) would remain open to vehicles to maintain access to parking and loading for existing buildings on the north side of Howard Street. The pedestrian space would include a new curbless single-surface space including decorative paving, pedestrian lighting, landscaping, and street furniture.

Casual Carpool waiting area Improvements: Improve drop-off and pick-up zones at casual carpool locations in the Project Area, including sufficient sidewalk waiting and passenger loading/unloading space and amenities, including shelters, seating, informational signage and other supportive services.

II. Transit and Other Transportation

Transit Delay Mitigation: Pay for the purchase of new transit vehicles to mitigate transportation impacts attributable to increased Project Area congestion.

BART Station Capacity: Enhance capacity constraints at Embarcadero and Montgomery Stations regarding crowding on platforms, vertical circulation, and the "dwell time" required for trains to load and unload passengers, which would be exacerbated by the additional transit riders brought on by new development and the Transbay Transit Center. Potential capacity enhancement measures could include additional vertical circulation (e.g. stairwells, escalators, and elevators), additional fare gates, improvements to the train control system to allow for more frequent service, platform edge doors, and better real-time public information displays on train arrivals at concourse and street levels.

Congestion Charging Pilot: Study, design and construct capital improvements relating to a congestion charging pilot program, potentially including fare booths, signals, electronic monitoring equipment, and the like. Conduct necessary analyses to inform the appropriate triggers, mechanisms, and capital improvements required for a congestion pricing pilot program to manage traffic volumes entering and exiting the CFD.

Underground Pedestrian Connector: Create an underground pedestrian tunnel connecting the Transbay Transit Center with the Embarcadero BART/Muni Metro Station, increasing circulation space available for pedestrians and creating a seamless link between the two transit stations.

Downtown Rail Extension (DTX): Extend the Caltrain rail tracks to the new Transbay Transit Center to accommodate Caltrain and California High Speed Rail, and construct the train components of the Transit Center building including associated systems. The funding would pay for the planning, engineering, right-of-way acquisition, and construction of the DTX.

III. Public Open space

City Park: Plan, design and construct public open space on the roof of the Transbay Transit Center.

City Park Connections: Provide connections to the Transbay Transit Center's City Park from adjacent private buildings or from public streets and plazas. Connections could include sky bridges, or connections from ground level to park level, such as elevators, escalators, funiculars, gondolas or similar means of conveying people to City Park. Connections would be required to be publicly accessible during standard hours so that members of the public could easily access City Park.

2nd and Howard Public Plaza: Create an approximately 0.5-acre open space at the corner of 2nd and Howard Streets, on a grouping of parcels located on top of the future train tunnel. The open space would serve as a major access point to the adjacent Transbay Transit Center, including featuring a possible connection to the elevated City Park on the roof of the Transit Center. The open space design would be determined through a public design process.

Transbay Park: Transbay Park would be a new approximately 1.1-acre park, located between Main, Beale, Tehama, and Clementina Streets. The Park would provide a mix of active and passive recreation spaces.

Chinatown Open Space Improvements: Improvements to multiple public open spaces in Chinatown whose use would be increased by new development in the Project Area. The open space improvements may include enhancements to Portsmouth Square, a new open space at the Chinatown Central Subway Station, and improvements to other Chinatown parks. Specific open space improvements would be determined through a public design process.

Other Downtown Open Space Improvements: Improvements to multiple public open spaces in Downtown, whose use would be increased by new development in the Project Area. Specific locations for open space improvements have not been identified yet.

Mission Square: Public plaza at the entrance to the new Transbay Transit Center at the corner of Fremont and Mission Streets. The plaza would create passive open space and circulation space for people entering and exiting the Transit Center and the adjacent Transit Tower development.

Under-Ramp Park: Under-Ramp Park would be a new system of open spaces, built adjacent to and under the Bay Bridge off-ramps and bus ramps to the Transbay Transit Center, between Harrison, Howard, First, and Second Streets. The Park would provide a mix of active and passive recreation spaces.

IV. Other Transit Center District Public Improvements

The Facilities include the other public improvements not listed above but described in the Transit Center District Plan Program Implementation Document, dated May 16, 2012, as such Document may be amended from time to time.

The costs to be financed include the costs of the acquisition of right-of-way (including right-of-way that is intended to be dedicated by the recording of a final map), the costs of design, engineering and planning, the costs of any environmental or traffic studies, surveys or other reports, costs related to landscaping and irrigation, soils testing, permits, plan check and

inspection fees, insurance, legal and related overhead costs, coordination and supervision and any other costs or appurtenances related to any of the foregoing.

OTHER

The CFD may also finance any of the following:

1. Bond or other debt-related expenses, including underwriters discount, reserve fund, capitalized interest, letter of credit fees and expenses, bond and disclosure counsel fees and expenses, bond remarketing costs, and all other incidental expenses.

2. Administrative fees of the City and the bond trustee or fiscal agent related to the CFD and the bonds or other debt.

3. Reimbursement of costs related to the formation of the CFD advanced by the City, the landowner(s) in the CFD, or any party related to any of the foregoing, as well as reimbursement of any costs advanced by the City, the landowner(s) in the CFD or any party related to any of the foregoing, for facilities, fees or other purposes or costs of the CFD.

4. The CFD may also pay in full all amounts necessary to eliminate any fixed special assessment liens or to pay, repay, or defease any obligation to pay or any indebtedness secured by any tax, fee, charge, or assessment levied within the area of the CFD or may pay debt service on that indebtedness. In addition, tax revenues of the CFD may be used to make lease or debt service payments on any lease, lease-purchase contract, or certificate of participation used to finance facilities authorized to be financed by the CFD.

EXHIBIT B

CITY AND COUNTY OF SAN FRANCISCO COMMUNITY FACILITIES DISTRICT NO. 2014-1 (TRANSBAY TRANSIT CENTER)

AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

A Special Tax applicable to each Taxable Parcel in the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) shall be levied and collected according to the tax liability determined by the Administrator through the application of the appropriate amount or rate for Square Footage within Taxable Buildings, as described below. All Taxable Parcels in the CFD shall be taxed for the purposes, to the extent, and in the manner herein provided, including property subsequently annexed to the CFD unless a separate Rate and Method of Apportionment of Special Tax is adopted for the annexation area.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

“Act” means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, (commencing with Section 53311), Division 2 of Title 5 of the California Government Code.

“Administrative Expenses” means any or all of the following: the fees and expenses of any fiscal agent or trustee (including any fees or expenses of its counsel) employed in connection with any Bonds, and the expenses of the City and TIPA carrying out duties with respect to CFD No. 2014-1 and the Bonds, including, but not limited to, levying and collecting the Special Tax, the fees and expenses of legal counsel, charges levied by the City Controller’s Office and/or the City Treasurer and Tax Collector’s Office, costs related to property owner inquiries regarding the Special Tax, costs associated with appeals or requests for interpretation associated with the Special Tax and this RMA, amounts needed to pay rebate to the federal government with respect to the Bonds, costs associated with complying with any continuing disclosure requirements for the Bonds and the Special Tax, costs associated with foreclosure and collection of delinquent Special Taxes, and all other costs and expenses of the City and TIPA in any way related to the establishment or administration of the CFD.

“Administrator” means the Director of the Office of Public Finance who shall be responsible for administering the Special Tax according to this RMA.

“Affordable Housing Project” means a residential or primarily residential project, as determined by the Zoning Authority, within which all Residential Units are Below Market Rate Units. All Land Uses within an Affordable Housing Project are exempt from the Special Tax, as provided in Section G and are subject to the limitations set forth in Section D.4 below.

“Airspace Parcel” means a parcel with an assigned Assessor’s Parcel number that constitutes vertical space of an underlying land parcel.

“Apartment Building” means a residential or mixed-use Building within which none of the Residential Units have been sold to individual homebuyers.

“Assessor’s Parcel” or **“Parcel”** means a lot or parcel, including an Airspace Parcel, shown on an Assessor’s Parcel Map with an assigned Assessor’s Parcel number.

“Assessor’s Parcel Map” means an official map of the County Assessor designating Parcels by Assessor’s Parcel number.

“Authorized Facilities” means those public facilities authorized to be funded by the CFD as set forth in the CFD formation proceedings.

“Base Special Tax” means the Special Tax per square foot that is used to calculate the Maximum Special Tax that applies to a Taxable Parcel pursuant to Sections C.1 and C.2 of this RMA. The Base Special Tax shall also be used to determine the Maximum Special Tax for any Net New Square Footage added to a Taxable Building in the CFD in future Fiscal Years.

“Below Market Rate Units” or **“BMR Units”** means all Residential Units within the CFD that have a deed restriction recorded on title of the property that (i) limits the rental price or sales price of the Residential Unit, (ii) limits the appreciation that can be realized by the owner of such unit, or (iii) in any other way restricts the current or future value of the unit.

“Board” means the Board of Supervisors of the City, acting as the legislative body of CFD No. 2014-1.

“Bonds” means bonds or other debt (as defined in the Act), whether in one or more series, issued, incurred, or assumed by the CFD related to the Authorized Facilities.

“Building” means a permanent enclosed structure that is, or is part of, a Conditioned Project.

“Building Height” means the number of Stories in a Taxable Building, which shall be determined based on the highest Story that is occupied by a Land Use. If only a portion of a Building is a Conditioned Project, the Building Height shall be determined based on the highest Story that is occupied by a Land Use regardless of where in the Building the Taxable Parcels are located. If there is any question as to the Building Height of any Taxable Building in the CFD, the Administrator shall coordinate with the Zoning Authority to make the determination.

“Certificate of Exemption” means a certificate issued to the then-current record owner of a Parcel that indicates that some or all of the Square Footage on the Parcel has prepaid the Special Tax obligation or has paid the Special Tax for thirty Fiscal Years and, therefore, such Square Footage shall, in all future Fiscal Years, be exempt from the levy of Special Taxes in the CFD. The Certificate of Exemption shall identify (i) the Assessor’s Parcel number(s) for the Parcel(s)

on which the Square Footage is located, (ii) the amount of Square Footage for which the exemption is being granted, (iii) the first and last Fiscal Year in which the Special Tax had been levied on the Square Footage, and (iv) the date of receipt of a prepayment of the Special Tax obligation, if applicable.

“Certificate of Occupancy” or **“COO”** means the first certificate, including any temporary certificate of occupancy, issued by the City to confirm that a Building or a portion of a Building has met all of the building codes and can be occupied for residential and/or non-residential use. For purposes of this RMA, “Certificate of Occupancy” shall not include any certificate of occupancy that was issued prior to January 1, 2013 for a Building within the CFD; however, any subsequent certificates of occupancy that are issued for new construction or expansion of the Building shall be deemed a Certificate of Occupancy and the associated Parcel(s) shall be categorized as Taxable Parcels if the Building is, or is part of, a Conditioned Project and a Tax Commencement Letter has been provided to the Administrator for the Building.

“CFD” or **“CFD No. 2014-1”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center).

“Child Care Square Footage” means, collectively, the Exempt Child Care Square Footage and Taxable Child Care Square Footage within a Taxable Building in the CFD.

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

“Conditioned Project” means a Development Project that is required to participate in funding Authorized Facilities through the CFD.

“Converted Apartment Building” means a Taxable Building that had been designated as an Apartment Building within which one or more Residential Units are subsequently sold to a buyer that is not a Landlord.

“Converted For-Sale Unit” means, in any Fiscal Year, an individual Market Rate Unit within a Converted Apartment Building for which an escrow has closed, on or prior to June 30 of the preceding Fiscal Year, in a sale to a buyer that is not a Landlord.

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

“CPC” means the Capital Planning Committee of the City and County of San Francisco, or if the Capital Planning Committee no longer exists, “CPC” shall mean the designated staff member(s) within the City and/or TJPA that will recommend issuance of Tax Commencement Authorizations for Conditioned Projects within the CFD.

“Development Project” means a residential, non-residential, or mixed-use development that includes one or more Buildings, or portions thereof, that are planned and entitled in a single application to the City.

“Exempt Child Care Square Footage” means Square Footage within a Taxable Building that, at the time of issuance of a COO, is determined by the Zoning Authority to be reserved for one or more licensed child care facilities. If a prepayment is made in association with any Taxable Child Care Square Footage, such Square Footage shall also be deemed Exempt Child Care Square Footage beginning in the Fiscal Year following receipt of the prepayment.

“Exempt Parking Square Footage” means the Square Footage of parking within a Taxable Building that, pursuant to Sections 151.1 and 204.5 of the Planning Code, is estimated to be needed to serve Land Uses within a building in the CFD, as determined by the Zoning Authority. If a prepayment is made in association with any Taxable Parking Square Footage, such Square Footage shall also be deemed Exempt Parking Square Footage beginning in the Fiscal Year following receipt of the prepayment.

“Fiscal Year” means the period starting July 1 and ending on the following June 30.

“For-Sale Residential Square Footage” or **“For-Sale Residential Square Foot”** means Square Footage that is or is expected to be part of a For-Sale Unit. The Zoning Authority shall make the determination as to the For-Sale Residential Square Footage within a Taxable Building in the CFD. For-Sale Residential Square Foot means a single square-foot unit of For-Sale Residential Square Footage.

“For-Sale Unit” means (i) in a Taxable Building that is not a Converted Apartment Building: a Market Rate Unit that has been, or is available or expected to be, sold, and (ii) in a Converted Apartment Building, a Converted For-Sale Unit. The Administrator shall make the final determination as to whether a Market Rate Unit is a For-Sale Unit or a Rental Unit.

“Indenture” means the indenture, fiscal agent agreement, resolution, or other instrument pursuant to which CFD No. 2014-1 Bonds are issued, as modified, amended, and/or supplemented from time to time, and any instrument replacing or supplementing the same.

“Initial Annual Adjustment Factor” means, as of July 1 of any Fiscal Year, the Annual Infrastructure Construction Cost Inflation Estimate published by the Office of the City Administrator’s Capital Planning Group and used to calculate the annual adjustment to the City’s development impact fees that took effect as of January 1 of the prior Fiscal Year pursuant to Section 409(b) of the Planning Code, as may be amended from time to time. If changes are made to the office responsible for calculating the annual adjustment, the name of the inflation index, or the date on which the development fee adjustment takes effect, the Administrator shall continue to rely on whatever annual adjustment factor is applied to the City’s development impact fees in order to calculate adjustments to the Base Special Taxes pursuant to Section D.1 below. Notwithstanding the foregoing, the Base Special Taxes shall, in no Fiscal Year, be increased or decreased by more than four percent (4%) of the amount in effect in the prior Fiscal Year.

“Initial Square Footage” means, for any Taxable Building in the CFD, the aggregate Square Footage of all Land Uses within the Building, as determined by the Zoning Authority upon issuance of the COO.

"IPIC" means the Interagency Plan Implementation Committee, or if the Interagency Plan Implementation Committee no longer exists, "IPIC" shall mean the designated staff member(s) within the City and/or TIPA that will recommend issuance of Tax Commencement Authorizations for Conditioned Projects within the CFD.

"Land Use" means residential, office, retail, hotel, parking, or child care use. For purposes of this RMA, the City shall have the final determination of the actual Land Use(s) on any Parcel within the CFD.

"Landlord" means an entity that owns at least twenty percent (20%) of the Rental Units within an Apartment Building or Converted Apartment Building.

"Market Rate Unit" means a Residential Unit that is not a Below Market Rate Unit.

"Maximum Special Tax" means the greatest amount of Special Tax that can be levied on a Taxable Parcel in the CFD in any Fiscal Year, as determined in accordance with Section C below.

"Net New Square Footage" means any Square Footage added to a Taxable Building after the Initial Square Footage in the Building has paid Special Taxes in one or more Fiscal Years.

"Office/Hotel Square Footage" or **"Office/Hotel Square Foot"** means Square Footage that is or is expected to be: (i) Square Footage of office space in which professional, banking, insurance, real estate, administrative, or in-office medical or dental activities are conducted, (ii) Square Footage that will be used by any organization, business, or institution for a Land Use that does not meet the definition of For-Sale Residential Square Footage Rental Residential Square Footage, or Retail Square Footage, including space used for cultural, educational, recreational, religious, or social service facilities, (iii) Taxable Child Care Square Footage, (iv) Square Footage in a residential care facility that is staffed by licensed medical professionals, and (v) any other Square Footage within a Taxable Building that does not fall within the definition provided for other Land Uses in this RMA. Notwithstanding the foregoing, street-level retail bank branches, real estate brokerage offices, and other such ground-level uses that are open to the public shall be categorized as Retail Square Footage pursuant to the Planning Code. Office/Hotel Square Foot means a single square-foot unit of Office/Hotel Square Footage.

For purposes of this RMA, "Office/Hotel Square Footage" shall also include Square Footage that is or is expected to be part of a non-residential structure that constitutes a place of lodging, providing temporary sleeping accommodations and related facilities. All Square Footage that shares an Assessor's Parcel number within such a non-residential structure, including Square Footage of restaurants, meeting and convention facilities, gift shops, spas, offices, and other related uses shall be categorized as Office/Hotel Square Footage. If there are separate Assessor's Parcel numbers for these other uses, the Administrator shall apply the Base Special Tax for Retail Square Footage to determine the Maximum Special Tax for Parcels on which a restaurant, gift shop, spa, or other retail use is located or anticipated, and the Base Special Tax for Office/Hotel Square Footage shall be used to determine the Maximum Special Tax for Parcels on

which other uses in the building are located. The Zoning Authority shall make the final determination as to the amount of Office/Hotel Square Footage within a building in the CFD.

“Planning Code” means the Planning Code of the City and County of San Francisco, as may be amended from time to time.

“Proportionately” means that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Special Tax authorized to be levied in that Fiscal Year is equal for all Taxable Parcels.

“Rental Residential Square Footage” or **“Rental Residential Square Foot”** means Square Footage that is or is expected to be used for one or more of the following uses: (i) Rental Units, (ii) any type of group or student housing which provides lodging for a week or more and may or may not have individual cooking facilities, including but not limited to boarding houses, dormitories, housing operated by medical institutions, and single room occupancy units, or (iii) a residential care facility that is not staffed by licensed medical professionals. The Zoning Authority shall make the determination as to the amount of Rental Residential Square Footage within a Taxable Building in the CFD. Rental Residential Square Foot means a single square-foot unit of Rental Residential Square Footage.

“Rental Unit” means (i) all Market Rate Units within an Apartment Building, and (ii) all Market Rate Units within a Converted Apartment Building that have yet to be sold to an individual homeowner or investor. “Rental Unit” shall not include any Residential Unit which has been purchased by a homeowner or investor and subsequently offered for rent to the general public. The Administrator shall make the final determination as to whether a Market Rate Unit is a For-Sale Unit or a Rental Unit.

“Retail Square Footage” or **“Retail Square Foot”** means Square Footage that is or, based on the Certificate of Occupancy, will be Square Footage of a commercial establishment that sells general merchandise, hard goods, food and beverage, personal services, and other items directly to consumers, including but not limited to restaurants, bars, entertainment venues, health clubs, laundromats, dry cleaners, repair shops, storage facilities, and parcel delivery shops. In addition, all Taxable Parking Square Footage in a Building, and all street-level retail bank branches, real estate brokerages, and other such ground-level uses that are open to the public, shall be categorized as Retail Square Footage for purposes of calculating the Maximum Special Tax pursuant to Section C below. The Zoning Authority shall make the final determination as to the amount of Retail Square Footage within a Taxable Building in the CFD. Retail Square Foot means a single square-foot unit of Retail Square Footage.

“Residential Unit” means an individual townhome, condominium, live/work unit, or apartment within a Building in the CFD.

“Residential Use” means (i) any and all Residential Units within a Taxable Building in the CFD, (ii) any type of group or student housing which provides lodging for a week or more and may or may not have individual cooking facilities, including but not limited to boarding houses,

dormitories, housing operated by medical institutions, and single room occupancy units, and (iii) a residential care facility that is not staffed by licensed medical professionals.

"RMA" means this Rate and Method of Apportionment of Special Tax.

"Special Tax" means a special tax levied in any Fiscal Year to pay the Special Tax Requirement.

"Special Tax Requirement" means the amount necessary in any Fiscal Year to: (i) pay principal and interest on Bonds that are due in the calendar year that begins in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement, liquidity support and rebate payments on the Bonds, (iii) create and/or replenish reserve funds for the Bonds to the extent such replenishment has not been included in the computation of the Special Tax Requirement in a previous Fiscal Year; (iv) cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year; (v) pay Administrative Expenses; and (vi) pay directly for Authorized Facilities. The amounts referred to in clauses (i) and (ii) of the preceding sentence may be reduced in any Fiscal Year by: (i) interest earnings on or surplus balances in funds and accounts for the Bonds to the extent that such earnings or balances are available to apply against such costs pursuant to the Indenture; (ii) in the sole and absolute discretion of the City, proceeds received by the CFD from the collection of penalties associated with delinquent Special Taxes; and (iii) any other revenues available to pay such costs as determined by the Administrator.

"Square Footage" means, for any Taxable Building in the CFD, the net salable or leasable square footage of each Land Use on each Taxable Parcel within the Building, as determined by the Zoning Authority. If a building permit is issued to increase the Square Footage on any Taxable Parcel, the Administrator shall, in the first Fiscal Year after the final building permit inspection has been conducted in association with such expansion, work with the Zoning Authority to recalculate (i) the Square Footage of each Land Use on each Taxable Parcel, and (ii) the Maximum Special Tax for each Taxable Parcel based on the increased Square Footage. The final determination of Square Footage for each Land Use on each Taxable Parcel shall be made by the Zoning Authority.

"Story" or **"Stories"** means a portion or portions of a Building, except a mezzanine as defined in the City Building Code, included between the surface of any floor and the surface of the next floor above it, or if there is no floor above it, then the space between the surface of the floor and the ceiling next above it.

"Taxable Building" means, in any Fiscal Year, any Building within the CFD that is, or is part of, a Conditioned Project, and for which a Certificate of Occupancy was issued and a Tax Commencement Authorization was received by the Administrator on or prior to June 30 of the preceding Fiscal Year. If only a portion of the Building is a Conditioned Project, as determined by the Zoning Authority, that portion of the Building shall be treated as a Taxable Building for purposes of this RMA.

“Tax Commencement Authorization” means a written authorization issued by the Administrator upon the recommendations of the IPIC and CFC in order to initiate the levy of the Special Tax on a Conditioned Project that has been issued a COO.

“Taxable Child Care Square Footage” means the amount of Square Footage determined by subtracting the Exempt Child Care Square Footage within a Taxable Building from the total net leasable square footage within a Building that is used for licensed child care facilities, as determined by the Zoning Authority.

“Taxable Parcel” means, within a Taxable Building, any Parcel that is not exempt from the Special Tax pursuant to law or Section G below. If, in any Fiscal Year, a Special Tax is levied on only Net New Square Footage in a Taxable Building, only the Parcel(s) on which the Net New Square Footage is located shall be Taxable Parcel(s) for purposes of calculating and levying the Special Tax pursuant to this RMA.

“Taxable Parking Square Footage” means Square Footage of parking in a Taxable Building that is determined by the Zoning Authority not to be Exempt Parking Square Footage.

“TJPA” means the Transbay Joint Powers Authority.

“Zoning Authority” means either the City Zoning Administrator, the Executive Director of the San Francisco Office of Community Investment and Infrastructure, or an alternate designee from the agency or department responsible for the approvals and entitlements of a project in the CFD. If there is any doubt as to the responsible party, the Administrator shall coordinate with the City Zoning Administrator to determine the appropriate party to serve as the Zoning Authority for purposes of this RMA.

B. DATA FOR CFD ADMINISTRATION

On or after July 1 of each Fiscal Year, the Administrator shall identify the current Assessor’s Parcel numbers for all Taxable Parcels in the CFD. In order to identify Taxable Parcels, the Administrator shall confirm which Buildings in the CFD have been issued both a Tax Commencement Authorization and a COO.

The Administrator shall also work with the Zoning Authority to confirm: (i) the Building Height for each Taxable Building, (ii) the For-Sale Residential Square Footage, Rental Residential Square Footage, Office/Hotel Square Footage, and Retail Square Footage on each Taxable Parcel, (iii) if applicable, the number of BMR Units and aggregate Square Footage of BMR Units within the Building, (iv) whether any of the Square Footage on a Parcel is subject to a Certificate of Exemption, and (v) the Special Tax Requirement for the Fiscal Year. In each Fiscal Year, the Administrator shall also keep track of how many Fiscal Years the Special Tax has been levied on each Parcel within the CFD. If there is Initial Square Footage and Net New Square Footage on a Parcel, the Administrator shall separately track the duration of the Special Tax levy in order to ensure compliance with Section F below.

In any Fiscal Year, if it is determined by the Administrator that (i) a parcel map or condominium plan for a portion of property in the CFD was recorded after January 1 of the prior Fiscal Year (or any other date after which the Assessor will not incorporate the newly-created parcels into the then current tax roll), and (ii) the Assessor does not yet recognize the newly-created parcels, the Administrator shall calculate the Special Tax that applies separately to each newly-created parcel, then applying the sum of the individual Special Taxes to the Assessor's Parcel that was subdivided by recordation of the parcel map or condominium plan.

C. DETERMINATION OF THE MAXIMUM SPECIAL TAX

I. Base Special Tax

Once the Building Height of, and Land Use(s) within, a Taxable Building have been identified, the Base Special Tax to be used for calculation of the Maximum Special Tax for each Taxable Parcel within the Building shall be determined based on reference to the applicable table(s) below:

FOR-SALE RESIDENTIAL SQUARE FOOTAGE

| <i>Building Height</i> | <i>Base Special Tax Fiscal Year 2013-14*</i> |
|------------------------|--------------------------------------------------|
| 1 – 5 Stories | \$4.71 per For-Sale Residential Square Foot |
| 6 – 10 Stories | \$5.02 per For-Sale Residential Square Foot |
| 11 – 15 Stories | \$6.13 per For-Sale Residential Square Foot |
| 16 – 20 Stories | \$6.40 per For-Sale Residential Square Foot |
| 21 – 25 Stories | \$6.61 per For-Sale Residential Square Foot |
| 26 – 30 Stories | \$6.76 per For-Sale Residential Square Foot |
| 31 – 35 Stories | \$6.88 per For-Sale Residential Square Foot |
| 36 – 40 Stories | \$7.00 per For-Sale Residential Square Foot |
| 41 – 45 Stories | \$7.11 per For Sale Residential Square Foot |
| 46 – 50 Stories | \$7.25 per For-Sale Residential Square Foot |
| More than 50 Stories | \$7.36 per For-Sale Residential Square Foot |

RENTAL RESIDENTIAL SQUARE FOOTAGE

| <i>Building Height</i> | <i>Base Special Tax Fiscal Year 2013-14*</i> |
|------------------------|--------------------------------------------------|
| 1 – 5 Stories | \$4.43 per Rental Residential Square Foot |
| 6 – 10 Stories | \$4.60 per Rental Residential Square Foot |
| 11 – 15 Stories | \$4.65 per Rental Residential Square Foot |
| 16 – 20 Stories | \$4.68 per Rental Residential Square Foot |
| 21 – 25 Stories | \$4.73 per Rental Residential Square Foot |
| 26 – 30 Stories | \$4.78 per Rental Residential Square Foot |
| 31 – 35 Stories | \$4.83 per Rental Residential Square Foot |
| 36 – 40 Stories | \$4.87 per Rental Residential Square Foot |
| 41 – 45 Stories | \$4.92 per Rental Residential Square Foot |
| 46 – 50 Stories | \$4.98 per Rental Residential Square Foot |
| More than 50 Stories | \$5.03 per Rental Residential Square Foot |

OFFICE/HOTEL SQUARE FOOTAGE

| <i>Building Height</i> | <i>Base Special Tax Fiscal Year 2013-14*</i> |
|------------------------|--------------------------------------------------|
| 1 – 5 Stories | \$3.45 per Office/Hotel Square Foot |
| 6 – 10 Stories | \$3.56 per Office/Hotel Square Foot |
| 11 – 15 Stories | \$4.03 per Office/Hotel Square Foot |
| 16 – 20 Stories | \$4.14 per Office/Hotel Square Foot |
| 21 – 25 Stories | \$4.25 per Office/Hotel Square Foot |
| 26 – 30 Stories | \$4.36 per Office/Hotel Square Foot |
| 31 – 35 Stories | \$4.47 per Office/Hotel Square Foot |
| 36 – 40 Stories | \$4.58 per Office/Hotel Square Foot |
| 41 – 45 Stories | \$4.69 per Office/Hotel Square Foot |
| 46 – 50 Stories | \$4.80 per Office/Hotel Square Foot |
| More than 50 Stories | \$4.91 per Office/Hotel Square Foot |

RETAIL SQUARE FOOTAGE

| <i>Building Height</i> | <i>Base Special Tax Fiscal Year 2013-14*</i> |
|------------------------|--------------------------------------------------|
| N/A | \$3.18 per Retail Square Foot |

* The Base Special Tax rates shown above for each Land Use shall escalate as set forth in Section D.1 below.

2. Determining the Maximum Special Tax for Taxable Parcels

Upon issuance of a Tax Commencement Authorization and the first Certificate of Occupancy for a Taxable Building within a Conditioned Project that is not an Affordable Housing Project, the

Administrator shall coordinate with the Zoning Authority to determine the Square Footage of each Land Use on each Taxable Parcel. The Administrator shall then apply the following steps to determine the Maximum Special Tax for the next succeeding Fiscal Year for each Taxable Parcel in the Taxable Building:

- Step 1.* Determine the Building Height for the Taxable Building for which a Certificate of Occupancy was issued.
- Step 2.* Determine the For-Sale Residential Square Footage and/or Rental Residential Square Footage for all Residential Units on each Taxable Parcel, as well as the Office/Hotel Square Footage and Retail Square Footage on each Taxable Parcel.
- Step 3.* **For each Taxable Parcel that includes only For-Sale Units**, multiply the For-Sale Residential Square Footage by the applicable Base Special Tax from Section C.1 to determine the Maximum Special Tax for the Taxable Parcel.
- Step 4.* **For each Taxable Parcel that includes only Rental Units**, multiply the Rental Residential Square Footage by the applicable Base Special Tax from Section C.1 to determine the Maximum Special Tax for the Taxable Parcel.
- Step 5.* **For each Taxable Parcel that includes only Residential Uses other than Market Rate Units**, net out the Square Footage associated with any BMR Units and multiply the remaining Rental Residential Square Footage (if any) by the applicable Base Special Tax from Section C.1 to determine the Maximum Special Tax for the Taxable Parcel.
- Step 6.* **For each Taxable Parcel that includes only Office/Hotel Square Footage**, multiply the Office/Hotel Square Footage on the Parcel by the applicable Base Special Tax from Section C.1 to determine the Maximum Special Tax for the Taxable Parcel.
- Step 7.* **For each Taxable Parcel that includes only Retail Square Footage**, multiply the Retail Square Footage on the Parcel by the applicable Base Special Tax from Section C.1 to determine the Maximum Special Tax for the Taxable Parcel.
- Step 8.* **For Taxable Parcels that include multiple Land Uses**, separately determine the For-Sale Residential Square Footage, Rental Residential Square Footage, Office/Hotel Square Footage, and/or Retail Square Footage. Multiply the Square Footage of each Land Use by the applicable Base Special Tax from Section C.1, and sum the individual amounts to determine the aggregate Maximum Special Tax for the Taxable Parcel for the first succeeding Fiscal Year.

D. CHANGES TO THE MAXIMUM SPECIAL TAX

1. *Annual Escalation of Base Special Tax*

The Base Special Tax rates identified in Section C.1 are applicable for fiscal year 2013-14. Beginning July 1, 2014 and each July 1 thereafter, the Base Special Taxes shall be adjusted by the Initial Annual Adjustment Factor. The Base Special Tax rates shall be used to calculate the Maximum Special Tax for each Taxable Parcel in a Taxable Building for the first Fiscal Year in which the Building is a Taxable Building, as set forth in Section C.2 and subject to the limitations set forth in Section D.3.

2. *Adjustment of the Maximum Special Tax*

After a Maximum Special Tax has been assigned to a Parcel for its first Fiscal Year as a Taxable Parcel pursuant to Section C.2 and Section D.1, the Maximum Special Tax shall escalate for subsequent Fiscal Years beginning July 1 of the Fiscal Year after the first Fiscal Year in which the Parcel was a Taxable Parcel, and each July 1 thereafter, by two percent (2%) of the amount in effect in the prior Fiscal Year. In addition to the foregoing, the Maximum Special Tax assigned to a Taxable Parcel shall be increased in any Fiscal Year in which the Administrator determines that Net New Square Footage was added to the Parcel in the prior Fiscal Year.

3. *Converted Apartment Buildings*

If an Apartment Building in the CFD becomes a Converted Apartment Building, the Administrator shall rely on information from the County Assessor, site visits to the sales office, data provided by the entity that is selling Residential Units within the Building, and any other available source of information to track sales of Residential Units. In the first Fiscal Year in which there is a Converted For-Sale Unit within the Building, the Administrator shall determine the applicable Base Maximum Special Tax for For-Sale Residential Units for that Fiscal Year. Such Base Maximum Special Tax shall be used to calculate the Maximum Special Tax for all Converted For-Sale Units in the Building in that Fiscal Year. In addition, this Base Maximum Special Tax, escalated each Fiscal Year by two percent (2%) of the amount in effect in the prior Fiscal Year, shall be used to calculate the Maximum Special Tax for all future Converted For-Sale Units within the Building. Solely for purposes of calculating Maximum Special Taxes for Converted For-Sale Units within the Converted Apartment Building, the adjustment of Base Maximum Special Taxes set forth in Section D.1 shall not apply. All Rental Residential Square Footage within the Converted Apartment Building shall continue to be subject to the Maximum Special Tax for Rental Residential Square Footage until such time as the units become Converted For-Sale Units. The Maximum Special Tax for all Taxable Parcels within the Building shall escalate each Fiscal Year by two percent (2%) of the amount in effect in the prior Fiscal Year.

4. *BMR Unit/Market Rate Unit Transfers*

If, in any Fiscal Year, the Administrator determines that a Residential Unit that had previously been designated as a BMR Unit no longer qualifies as such, the Maximum Special Tax on the

new Market Rate Unit shall be established pursuant to Section C.2 and adjusted, as applicable, by Sections D.1 and D.2. If a Market Rate Unit becomes a BMR Unit after it has been taxed in prior Fiscal Years as a Market Rate Unit, the Maximum Special Tax on such Residential Unit shall not be decreased unless: (i) a BMR Unit is simultaneously redesignated as a Market Rate Unit, and (ii) such redesignation results in a Maximum Special Tax on the new Market Rate Unit that is greater than or equal to the Maximum Special Tax that was levied on the Market Rate Unit prior to the swap of units. If, based on the Building Height or Square Footage, there would be a reduction in the Maximum Special Tax due to the swap, the Maximum Special Tax that applied to the former Market Rate Unit will be transferred to the new Market Rate Unit regardless of the Building Height and Square Footage associated with the new Market Rate Unit.

5. *Changes in Land Use on a Taxable Parcel*

If any Square Footage that had been taxed as For-Sale Residential Square Footage, Rental Residential Square Footage, Office/Hotel Square Footage, or Retail Square Footage in a prior Fiscal Year is rezoned or otherwise changes Land Use, the Administrator shall apply the applicable subsection in Section C.2 to calculate what the Maximum Special Tax would be for the Parcel based on the new Land Use(s). If the amount determined is greater than the Maximum Special Tax that applied to the Parcel prior to the Land Use change, the Administrator shall increase the Maximum Special Tax to the amount calculated for the new Land Uses. If the amount determined is less than the Maximum Special Tax that applied prior to the Land Use change, there will be no change to the Maximum Special Tax for the Parcel. Under no circumstances shall the Maximum Special Tax on any Taxable Parcel be reduced, regardless of changes in Land Use or Square Footage on the Parcel, including reductions in Square Footage that may occur due to demolition, fire, water damage, or acts of God. In addition, if a Taxable Building within the CFD that had been subject to the levy of Special Taxes in any prior Fiscal Year becomes all or part of an Affordable Housing Project, the Parcel(s) shall continue to be subject to the Maximum Special Tax that had applied to the Parcel(s) before they became part of the Affordable Housing Project. All Maximum Special Taxes determined pursuant to Section C.2 shall be adjusted, as applicable, by Sections D.1 and D.2.

6. *Prepayments*

If a Parcel makes a prepayment pursuant to Section H below, the Administrator shall issue the owner of the Parcel a Certificate of Exemption for the Square Footage that was used to determine the prepayment amount, and no Special Tax shall be levied on the Parcel in future Fiscal Years unless there is Net New Square Footage added to a Building on the Parcel. Thereafter, a Special Tax calculated based solely on the Net New Square Footage on the Parcel shall be levied for up to thirty Fiscal Years, subject to the limitations set forth in Section F below. Notwithstanding the foregoing, any Special Tax that had been levied against, but not yet collected from, the Parcel is still due and payable, and no Certificate of Exemption shall be issued until such amounts are fully paid. If a prepayment is made in order to exempt Taxable Child Care Square Footage on a Parcel on which there are multiple Land Uses, the Maximum Special Tax for the Parcel shall be recalculated based on the exemption of this Child Care Square Footage which shall, after such prepayment, be designated as Exempt Child Care Square Footage and remain exempt in all Fiscal Years after the prepayment has been received.

E. METHOD OF LEVY OF THE SPECIAL TAX

Each Fiscal Year, the Special Tax shall be levied Proportionately on each Taxable Parcel up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year until the amount levied on Taxable Parcels is equal to the Special Tax Requirement.

F. COLLECTION OF SPECIAL TAX

The Special Taxes for CFD No. 2014-1 shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that prepayments are permitted as set forth in Section H below and provided further that the City may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods.

The Special Tax shall be levied and collected from the first Fiscal Year in which a Parcel is designated as a Taxable Parcel until the principal and interest on all Bonds have been paid, the City's costs of constructing or acquiring Authorized Facilities from Special Tax proceeds have been paid, and all Administrative Expenses have been paid or reimbursed. Notwithstanding the foregoing, the Special Tax shall not be levied on any Square Footage in the CFD for more than thirty Fiscal Years, except that a Special Tax that was lawfully levied in or before the final Fiscal Year and that remains delinquent may be collected in subsequent Fiscal Years. After a Building or a particular block of Square Footage within a Building (i.e., Initial Square Footage vs. Net New Square Footage) has paid the Special Tax for thirty Fiscal Years, the then-current record owner of the Parcel(s) on which that Square Footage is located shall be issued a Certificate of Exemption for such Square Footage. Notwithstanding the foregoing, the Special Tax shall cease to be levied, and a Release of Special Tax Lien shall be recorded against all Parcels in the CFD that are still subject to the Special Tax, after the Special Tax has been levied in the CFD for seventy-five Fiscal Years.

Pursuant to Section 53321 (d) of the Act, the Special Tax levied against Residential Uses shall under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Parcel or Parcels and shall, in no event, exceed the Maximum Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

G. EXEMPTIONS

Notwithstanding any other provision of this RMA, no Special Tax shall be levied on: (i) Square Footage for which a prepayment has been received and a Certificate of Exemption issued, (ii) Below Market Rate Units except as otherwise provided in Sections D.3 and D.4, (iii) Affordable Housing Projects, including all Residential Units, Retail Square Footage, and Office Square Footage within buildings that are part of an Affordable Housing Project, except as otherwise provided in Section D.4, and (iv) Exempt Child Care Square Footage.

H. PREPAYMENT OF SPECIAL TAX

The Special Tax obligation applicable to Square Footage in a building may be fully prepaid as described herein, provided that a prepayment may be made only if (i) the Parcel is a Taxable Parcel, and (ii) there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. Any prepayment made by a Parcel owner must satisfy the Special Tax obligation associated with all Square Footage on the Parcel that is subject to the Special Tax at the time the prepayment is calculated. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the City with written notice of intent to prepay. Within 30 days of receipt of such written notice, the City or its designee shall notify such owner of the prepayment amount for the Square Footage on such Assessor's Parcel. Prepayment must be made not less than 75 days prior to any redemption date for Bonds to be redeemed with the proceeds of such prepaid Special Taxes. The Prepayment Amount for a Taxable Parcel shall be calculated as follows:

- Step 1:* Determine the Square Footage of each Land Use on the Parcel.
- Step 2:* Determine how many Fiscal Years the Square Footage on the Parcel has paid the Special Tax, which may be a separate total for Initial Square Footage and Net New Square Footage on the Parcel. If a Special Tax has been levied, but not yet paid, in the Fiscal Year in which the prepayment is being calculated, such Fiscal Year will be counted as a year in which the Special Tax was paid, but a Certificate of Exemption shall not be issued until such Special Taxes are received by the City's Office of the Treasurer and Tax Collector.
- Step 3:* Subtract the number of Fiscal Years for which the Special Tax has been paid (as determined in Step 2) from 30 to determine the remaining number of Fiscal Years for which Special Taxes are due from the Square Footage for which the prepayment is being made. This calculation would result in a different remainder for Initial Square Footage and Net New Square Footage within a building.
- Step 4:* Separately for Initial Square Footage and Net New Square Footage, and separately for each Land Use on the Parcel, multiply the amount of Square Footage by the applicable Maximum Special Tax that would apply to such Square Footage in each of the remaining Fiscal Years, taking into account the 2% escalator set forth in Section D.2, to determine the annual stream of Maximum Special Taxes that could be collected in future Fiscal Years.
- Step 5:* For each Parcel for which a prepayment is being made, sum the annual amounts calculated for each Land Use in Step 4 to determine the annual Maximum Special Tax that could have been levied on the Parcel in each of the remaining Fiscal Years.

Step 6. Calculate the net present value of the future annual Maximum Special Taxes that were determined in Step 5 using, as the discount rate for the net present value calculation, the true interest cost (TIC) on the Bonds as identified by the Office of Public Finance. If there is more than one series of Bonds outstanding at the time of the prepayment calculation, the Administrator shall determine the weighted average TIC based on the Bonds from each series that remain outstanding. The amount determined pursuant to this Step 6 is the required prepayment for each Parcel. Notwithstanding the foregoing, if at any point in time the Administrator determines that the Maximum Special Tax revenue that could be collected from Square Footage that remains subject to the Special Tax after the proposed prepayment is less than 110% of debt service on Bonds that will remain outstanding after defeasance or redemption of Bonds from proceeds of the estimated prepayment, the amount of the prepayment shall be increased until the amount of Bonds defeased or redeemed is sufficient to reduce remaining annual debt service to a point at which 110% debt service coverage is realized.

Once a prepayment has been received by the City, a Certificate of Exemption shall be issued to the owner of the Parcel indicating that all Square Footage that was the subject of such prepayment shall be exempt from Special Taxes.

I. INTERPRETATION OF SPECIAL TAX FORMULA

The City may interpret, clarify, and revise this RMA to correct any inconsistency, vagueness, or ambiguity, by resolution and/or ordinance, as long as such interpretation, clarification, or revision does not materially affect the levy and collection of the Special Taxes and any security for any Bonds.

J. SPECIAL TAX APPEALS

Any taxpayer who wishes to challenge the accuracy of computation of the Special Tax in any Fiscal Year may file an application with the Administrator. The Administrator, in consultation with the City Attorney, shall promptly review the taxpayer's application. If the Administrator concludes that the computation of the Special Tax was not correct, the Administrator shall correct the Special Tax levy and, if applicable in any case, a refund shall be granted. If the Administrator concludes that the computation of the Special Tax was correct, then such determination shall be final and conclusive, and the taxpayer shall have no appeal to the Board from the decision of the Administrator.

The filing of an application or an appeal shall not relieve the taxpayer of the obligation to pay the Special Tax when due.

Nothing in this Section J shall be interpreted to allow a taxpayer to bring a claim that would otherwise be barred by applicable statutes of limitation set forth in the Act or elsewhere in applicable law.

FISCAL AGENT AGREEMENT

by and between the

CITY AND COUNTY OF SAN FRANCISCO

and

**[FISCAL AGENT]
as Fiscal Agent**

Dated as of July 1, 2017

Relating to:

\$ _____
City and County of San Francisco
Community Facilities District 2014-1
(Transbay Transit Center)
Special Tax Bonds, Series 2017A

\$ _____
City and County of San Francisco
Community Facilities District 2014-1
(Transbay Transit Center)
Special Tax Bonds, Series 2017B
(Federally Taxable)

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ADMINISTRATIVE EXPENSE FUND

FISCAL AGENT AGREEMENT

THIS FISCAL AGENT AGREEMENT (the "Agreement") is made and entered into as of July 1 2017, by and between the CITY AND COUNTY OF SAN FRANCISCO, a chartered city organized and existing under and by virtue of the Constitution and laws of the State of California (the "City") for and on behalf of the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center)" (the "CFD"), and [FISCAL AGENT], a national banking association duly organized and existing under the laws of the United States of America with a corporate trust office located in San Francisco, California, as fiscal agent (the "Fiscal Agent").

WITNESSETH:

WHEREAS, the Board of Supervisors of the City has formed the CFD under the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (section 53311 *et seq.* of the California Government Code) (the "Act"); and

WHEREAS, the Board of Supervisors, as the legislative body with respect to the CFD, is authorized under the Act to levy special taxes to pay for the costs of facilities within the CFD and to authorize the issuance of bonds secured by said special taxes under the Act; and

WHEREAS, pursuant to Resolution No. 2-15, which was approved by the Board of Supervisors on January 13, 2015 and signed by the Mayor on January 20, 2015 (the "Original Resolution of Issuance"), the Board of Supervisors authorized the issuance of up to \$1,400,000,000 of bonded indebtedness and other debt on behalf of the CFD; and

WHEREAS, pursuant to Resolution No. _____ (the "Supplemental Resolution of Issuance"; together with the Original Resolution of Issuance, the "Resolution of Issuance"), which was approved by the Board of Supervisors on April 25, 2017 and signed by the Mayor on ____ 2017, the Board of Supervisors authorized the issuance of the following special tax bonds on behalf of the CFD:

- (i) \$_____ City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A (the "2017A Bonds"), and
- (ii) \$_____ City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017B (Federally Taxable) (the "2017B Bonds"); and

WHEREAS, proceeds of the 2017A Bonds are expected to be used to finance street and sidewalk improvements in the vicinity of the Transit Center; and

WHEREAS, proceeds of the 2017B Bonds are expected to be used to finance the following improvements (the "Transbay Facilities"): (i) the planning, design, engineering and construction of an extension of the Caltrain rail tracks to the Transbay Transit Center to accommodate Caltrain and California High Speed Rail, including the train components of the Transit Center building and associated systems and (ii) the planning, design, engineering and construction of open space on the roof of the Transbay Transit Center; and

WHEREAS, it is in the public interest and for the benefit of the City, the CFD and the persons responsible for the payment of special taxes that the City enter into this Agreement to provide for the issuance of the Bonds (as defined below) hereunder to finance the acquisition and construction of facilities for the CFD and to provide for the disbursement of proceeds of the Bonds, the disposition of the special taxes securing the Bonds and the administration and payment of the Bonds; and

WHEREAS, the City has determined that all things necessary to cause the 2017 Bonds, when authenticated by the Fiscal Agent and issued as provided in the Act, the Resolution (as defined in this Agreement) and this Agreement, to be legal, valid, binding and limited obligations in accordance with their terms, and all things necessary to cause the creation, authorization, execution and delivery of this Agreement and the creation, authorization, execution and issuance of the 2017 Bonds, subject to the terms hereof, have in all respects been duly authorized.

NOW, THEREFORE, in consideration of the covenants and provisions herein set forth and for other valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I

AUTHORITY AND DEFINITIONS

Section 1.01. Authority for this Agreement. This Agreement is entered into pursuant to the Act (as herein defined) and the Resolution.

Section 1.02. Agreement for Benefit of Owners of the Bonds. The provisions, covenants and agreements herein set forth to be performed by or on behalf of the City shall be for the equal benefit, protection and security of the Owners of the Bonds. All of the Bonds, without regard to the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as expressly provided in or permitted by this Agreement.

Section 1.03. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.03 shall, for all purposes of this Agreement, of any Supplemental Agreement, and of any certificate, opinion or other document herein mentioned, have the meanings herein specified. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being sections 53311 *et seq.* of the California Government Code.

"Administrative Expenses" means costs directly related to the administration of the CFD consisting of: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by a City employee or consultant or both) and the costs of collecting the Special Taxes (whether by the City or otherwise); the costs of remitting the Special Taxes to the Fiscal Agent; costs of the Fiscal Agent (including its legal counsel) in the discharge of its duties under this Agreement; the costs of the City or its designee of complying with the disclosure provisions of the Act and this Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Owners of the Bonds and the Original Purchaser; the costs of the City or its designee related to an appeal of the Special Tax; any amounts required to be rebated to the federal government; all costs and expenses of the City in any way related to the establishment or administration of the CFD; an allocable share of the salaries of the City staff directly related to the foregoing and a proportionate amount of City general administrative overhead related thereto. Administrative Expenses shall also include amounts advanced by the City for any administrative purpose of the CFD, including costs related to prepayments of Special Taxes, recordings related to such prepayments and satisfaction of Special Taxes, amounts advanced to ensure maintenance of tax exemption of interest on the Bonds, and the costs of prosecuting foreclosure of delinquent Special Taxes.

"Administrative Expense Fund" means the fund designated the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Administrative Expense Fund" established and administered under Section 4.06.

"Agreement" means this Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions hereof.

"Allocated Bond Proceeds Account" means the account designated "Allocated Bond Proceeds Account" within the Improvement Fund established under Section 4.07. The Allocated Bond Proceeds Account was required to be established by the City pursuant to the JCFA.

"Annual Debt Service" means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking payment due in such Bond Year).

"Auditor" means the tax collector of the City, or such other official at the City who is responsible for preparing property tax bills.

"Authorized Officer" means the Mayor, the Controller, the Director of the Office of Public Finance, the Clerk of the Board of Supervisors, or any other officer or employee authorized by the Board of Supervisors of the City or by an Authorized Officer to undertake the action referenced in this Agreement as required to be undertaken by an Authorized Officer.

"Board" means the Board of Supervisors of the City as the legislative body.

"Bond Counsel" means Jones Hall, A Professional Law Corporation or any other attorney or firm of attorneys acceptable to the City and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

"Bond" or "Bonds" means the 2017 Bonds and, if the context requires, any Parity Bonds, at any time Outstanding under this Agreement or any Supplemental Agreement.

"Bond Fund" means the fund designated the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Special Tax Bonds Bond Fund" established and administered under Section 4.04.

"Bond Year" means the one-year period beginning on September 2nd in each year and ending on September 1 in the following year, except that the first Bond Year shall begin on the related Closing Date and shall end on September 1, 20__.

"Business Day" means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the state in which the Fiscal Agent has its principal corporate trust office are authorized or obligated by law or executive order to be closed.

"CDIAC" means the California Debt and Investment Advisory Commission of the Office of the State Treasurer, or any successor agency, board or commission.

"CFD" means the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center)" formed under the Resolution of Formation.

"CFD Value" means the market value, as of the date of the appraisal described below and/or the date of the most recent County real property tax roll, as applicable, of all parcels of

real property in the CFD subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such nondelinquent parcels the value of the then existing improvements and any facilities to be constructed or acquired with any amounts then on deposit in the Improvement Fund and with the proceeds of any proposed series of Parity Bonds, as determined with respect to any parcel or group of parcels by reference to (i) an appraisal performed within six (6) months of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the "Appraiser") selected by the City, or (ii) in the alternative, the assessed value of all such nondelinquent parcels and improvements thereon as shown on the then current County real property tax roll available to the Finance Director. It is expressly acknowledged that, in determining the CFD Value, the City may rely on an appraisal to determine the value of some or all of the parcels in the CFD and/or the most recent County real property tax roll as to the value of some or all of the parcels in the CFD. Neither the City nor the Finance Director shall be liable to the Owners, the Original Purchaser or any other person or entity in respect of any appraisal provided for purposes of this definition or by reason of any exercise of discretion made by any Appraiser pursuant to this definition.

"City" means the City and County of San Francisco, and any successor thereto.

"City Attorney" means any attorney or firm of attorneys employed by the City in the capacity of city attorney.

"Closing Date" means the date upon which there is a physical delivery of the 2017 Bonds in exchange for the amount representing the purchase price of the 2017 Bonds by the Original Purchaser.

"Continuing Disclosure Certificate" shall mean that certain Continuing Disclosure Agreement executed by the City and the dissemination agent identified therein, dated as of ____ 1, 20__, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale, delivery and issuance of the 2017 Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, appraisal costs, filing and recording fees, fees and expenses of counsel to the City, initial fees and charges of the Fiscal Agent including its first annual administration fees and its legal fees and charges, including the allocated costs of in-house attorneys, expenses incurred by the City in connection with the issuance of the Bonds, Bond (underwriter's) discount, legal fees and charges, including bond counsel and disclosure counsel, financial consultant's fees, charges for execution, authentication, transportation and safekeeping of the 2017 Bonds and other costs, charges and fees in connection with the foregoing.

"Costs of Issuance Fund" means the fund designated the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Special Tax Bonds, Costs of Issuance Fund" established and administered under Section 4.02.

"Dated Date" means the dated date of the 2017 Bonds, which is the Closing Date.

"Debt Service" means the scheduled amount of interest and amortization of principal payable on the 2017 Bonds under Sections 2.02 and 2.03 and the scheduled amount of interest

and amortization of principal payable on any Parity Bonds during the period of computation, in each case excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository for book-entry under Section 2.10.

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

“Fair Market Value” means with respect to Permitted Investments, the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest if the return paid by such fund is without regard to the source of the investment.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“Finance Director” means the Director of the Office of Public Finance, or, in the event such office is eliminated, the official of the City that is responsible for the management of municipal bonds issued by the City.

“Fiscal Agent” means [Fiscal Agent], the Fiscal Agent appointed by the City and acting as an independent fiscal agent with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 7.01.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Improvement Fund” means the fund designated “City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center), Special Tax Bonds, Improvement Fund,” established under Section 4.07.

"Independent Financial Consultant" means any consultant or firm of such consultants appointed by the City or the Finance Director, and who, or each of whom: (i) is judged by the Finance Director to have experience in matters relating to the issuance and/or administration of bonds under the Act; (ii) is in fact independent and not under the domination of the City; (iii) does not have any substantial interest, direct or indirect, with or in the City, or any owner of real property in the CFD, or any real property in the CFD; and (iv) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

"Information Services" means (i) the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website and (ii) in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such services providing information with respect to called bonds as the City may designate in an Officer's Certificate delivered to the Fiscal Agent.

"Interest Payment Date" means each September 1 and March 1 of every calendar year, commencing with ____ 1, 20__.

"JCFA" means the Joint Community Facilities Agreement, dated _____, by and between the City and the Transbay Joint Powers Authority, as amended from time to time.

"Maximum Annual Debt Service" means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

"Officer's Certificate" means a written certificate of the City signed by an Authorized Officer of the City.

"Ordinance" means any ordinance of the Board of Supervisors of the City levying the Special Taxes, including but not limited to Ordinance No. 1-15 passed by the Board on January 13, 2015.

"Original Resolution of Issuance" means Resolution No. 2-15, which was approved by the Board of Supervisors on January 13, 2015 and signed by the Mayor on January 20, 2015, authorizing the issuance of the Bonds.

"Original Purchaser" means Stifel, Nicolaus & Company, Incorporated, the first purchaser of the 2017 Bonds from the City.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 8.04) all Bonds except (i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of Section 9.03; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City under this Agreement or any Supplemental Agreement.

"Owner" or "Bondowner" means any person who shall be the registered owner of any Outstanding Bond.

"Parity Bonds" means additional bonds issued by the City for the CFD and payable on a parity basis with any then Outstanding Bonds pursuant to Section 3.06.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means the following, but only to the extent that the same are acquired at Fair Market Value:

(a) Federal Securities;

(b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(c) interest-bearing demand or time deposits (including certificates of deposit) or deposit accounts in federal or state chartered savings and loan associations or in federal or State of California banks (including the Fiscal Agent, its parent, if any, and affiliates), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated in the highest short-term rating category by any Rating Agency, or (ii) such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated in the highest short-term rating category by any Rating Agency, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;

(e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank, including its parent (if any), affiliates and subsidiaries, whose short-term obligations are rated in the highest short-term rating category by any Rating Agency, or whose long-term obligations are rated A or better by any Rating Agency, which mature not more than 270 days following the date of investment therein;

(f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code and which are either (a) rated A or better by any Rating Agency, or (b) fully secured as to the payment of principal and interest by Federal Securities;

(g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of Five Hundred Million (\$500,000,000), which obligations are rated A or better by any Rating Agency;

(h) money market funds (including money market funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other

management services) which invest in Federal Securities or which are rated in the highest short-term rating category by any Rating Agency;

(i) any investment agreement representing general unsecured obligations of a financial institution rated A or better by any Rating Agency, by the terms of which the Fiscal Agent is permitted to withdraw all amounts invested therein in the event any such rating falls below A;

(j) the Local Agency Investment Fund established pursuant to Section 16429.1 of the Government Code of the State of California;

(k) the California Asset Management Program; and

(l) any other investment in which the City may invest its funds under California law.

"Principal Office" means such corporate trust office of the Fiscal Agent as may be designated from time to time by written notice from the Fiscal Agent to the City, initially being at the address set forth in Section 9.06, or such other office designated by the Fiscal Agent from time to time; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Fiscal Agent at which, at any particular time, its corporate trust agency business shall be conducted.

"Proceeds" when used with reference to the Bonds, means the face amount of the Bonds, plus any accrued interest and premium, less any original issue and/or underwriter's discount.

"Project" means those items described as the "Facilities" in the Resolution of Formation.

"Qualified Reserve Fund Credit Instrument" means an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Fiscal Agent, provided that all of the following requirements are met at the time of acceptance thereof by the Fiscal Agent: (a) in the case of a commercial bank, the long-term credit rating of such bank at the time of delivery of the irrevocable standby or direct-pay letter of credit is at least "A" from S&P or "A" from Moody's and, in the case of an insurance company, the claims paying ability of such insurance company at the time of delivery of the insurance policy or surety bond is at least "A" from S&P or "A" from Moody's or, if not rated by S&P or Moody's but is rated by A.M. Best & Company, is rated at the time of delivery in the highest rating category by A.M. Best & Company; (b) such letter of credit, insurance policy or surety bond has a stated term that extends at least to the final maturity date of the 2017 Bonds and any Related Parity Bonds; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Fiscal Agent is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payments with respect to all or a portion of the 2017 Bonds and any Related Parity Bonds.

"Rate and Method" means the amended and restated rate and method of apportionment of Special Tax for the CFD, adopted by the Board of Supervisors pursuant to the Resolution of Formation, and as it subsequently may be amended in compliance with the provisions of this Agreement and the Act.

“Rating Agency” means any nationally recognized rating agency.

“Record Date” means the fifteenth day of the calendar month next preceding the applicable Interest Payment Date, whether or not such day is a Business Day.

“Refunding Bonds” means bonds issued by the City for the CFD, the net proceeds of which are used to refund all or a portion of the then-Outstanding Bonds; provided that (i) the total interest cost to maturity on the refunding bonds plus the principal amount of the refunding bonds is less than the total interest cost to maturity on the Bonds to be refunded plus the principal amount of the Bonds to be refunded and (ii) the final maturity of the Refunding Bonds is not later than the final maturity of the Bonds being refunded.

“Related Parity Bonds” means any series of Parity Bonds for which (i) the Proceeds are deposited into the Reserve Fund so that the balance therein is equal to the Reserve Requirement following issuance of such Parity Bonds and (ii) the related Supplemental Agreement specifies that the Reserve Fund shall act as a reserve for the payment of the principal of, and interest and any premium on, such series of Parity Bonds.

“Reserve Fund” means the fund designated the “City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center), Special Tax Bonds, Reserve Fund” established and administered under Section 4.03.

“Reserve Requirement” means, as of the date of calculation, which shall be (A) the date of issuance of the 2017 Bonds and any Related Parity Bonds and (B) the date of defeasance or redemption of any of the 2017 Bonds or Related Parity Bonds, an amount equal to the lesser of (i) Maximum Annual Debt Service on the 2017 Bonds and any Related Parity Bonds between the date of such calculation and the final maturity of such Bonds or (ii) one hundred twenty-five percent (125%) of average Annual Debt Service on the 2017 Bonds and any Related Parity Bonds between the date of such calculation and the final maturity of such Bonds and (iii) 10% of the original principal amount of the 2017 Bonds and any Related Parity Bonds (or, if the 2017 Bonds and any Related Parity Bonds have more than a de minimis amount of original issue discount or premium, 10% of the issue price of the 2017 Bonds and any Related Parity Bonds); provided that, with respect to the issuance of any Related Parity Bonds, if the Reserve Fund would have to be increased by an amount greater than ten percent (10%) of the stated principal amount of the Related Parity Bonds (or, if the Related Parity Bonds have more than a de minimis amount of original issue discount or premium, of the issue price of such Related Parity Bonds), then the Reserve Requirement shall be such lesser amount as is determined by a deposit of such ten percent (10%); and provided that accrued interest on any Related Parity Bonds deposited with the Fiscal Agent upon delivery of such Related Parity Bonds shall be excluded for purposes of the calculation of the Reserve Requirement.

“Resolution” or “Resolution of Issuance” means the Original Resolution of Issuance as supplemented by the Supplemental Resolution of Issuance.

“Resolution of Formation” means Resolution No. 350-14, adopted by the Board on September 23, 2014 and signed by the Mayor on September 29, 2014, forming the CFD.

“Securities Depositories” means DTC and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

"Special Tax Fund" means the special fund designated "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center), Special Tax Fund" established and administered under Section 4.05.

"Special Tax Prepayments" means the proceeds of any Special Tax prepayments received by the City, as calculated pursuant to the Rate and Method, less any administrative fees or penalties collected as part of any such prepayment.

"Special Tax Prepayments Account" means the account by that name established within the Bond Fund by Section 4.04(A) hereof.

"Special Tax Revenues" means the proceeds of the Special Taxes received by the City, including any scheduled payments thereof and any Special Tax Prepayments, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon, but shall not include any interest in excess of the interest due on the Bonds or any penalties collected in connection with any such foreclosure.

"Special Taxes" means the special taxes levied by the Board of Supervisors within the CFD under the Act, the Ordinance and this Agreement

"State" means the State of California.

"Supplemental Agreement" means an agreement the execution of which is authorized by a resolution which has been duly adopted by the City under the Act and which agreement is amendatory of or supplemental to this Agreement, but only if and to the extent that such agreement is specifically authorized hereunder.

"Supplemental Resolution of Issuance" means Resolution No. ____, which was approved by the Board of Supervisors on ____ and signed by the Mayor on ____, supplementing the Original Resolution of Issuance and authorizing the issuance of the 2017 Bonds.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Tax Code.

"Term Bonds" means (i) the 2017A Bonds maturing on September 1, _____ and (ii) the 2017B Bonds maturing on September 1, _____.

"2017 Bonds" means the 2017A Bonds and the 2017B Bonds.

"2017A Bonds" means the Bonds so designated and authorized to be issued under Section 2.01 hereof.

"2017A Capitalized Interest Account" means the account of that name held by the Fiscal Agent in the Bond Fund.

"2017A Costs of Issuance Account" means the account of that name held by the Fiscal Agent in the Costs of Issuance Fund.

"2017A Improvement Account" means the account of that name held by the Fiscal Agent in the Improvement Fund.

"2017B Bonds" means the Bonds so designated and authorized to be issued under Section 2.01 hereof.

"2017B Capitalized Interest Account" means the account of that name held by the Fiscal Agent in the Bond Fund.

"2017B Costs of Issuance Account" means the account of that name held by the Fiscal Agent in the Costs of Issuance Fund.

ARTICLE II

THE BONDS

Section 2.01. Principal Amount; Designation. The 2017 Bonds in the aggregate principal amount of One Billion Four Hundred Million Dollars (\$1,400,000,000) are hereby authorized to be issued by the City for the CFD under and subject to the terms of the Act, the Resolution, this Agreement and other applicable laws of the State of California.

The 2017A Bonds shall be designated as the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A," and shall be in the initial principal amount of \$_____.

The 2017B Bonds shall be designated as the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017B (Federally Taxable)," and shall be in the initial principal amount of \$_____.

Section 2.02. Terms of the 2017 Bonds.

(A) Form; Denominations. The 2017 Bonds shall be issued as fully registered Bonds without coupons. The 2017 Bonds shall be lettered and numbered in a customary manner as determined by the Fiscal Agent. The 2017 Bonds shall be issued in the denominations of \$5,000 or any integral multiple in excess thereof.

(B) Date of 2017 Bonds. The 2017 Bonds shall be dated the Closing Date.

(C) CUSIP Identification Numbers. "CUSIP" identification numbers may, at the election of the Original Purchaser of the Bonds, be imprinted on the Bonds, but such numbers shall not constitute a part of the contract evidenced by the Bonds and any error or omission with respect thereto shall not constitute cause for refusal of any purchaser to accept delivery of and pay for the Bonds. In addition, failure on the part of the City or the Fiscal Agent to use such CUSIP numbers in any notice to Owners shall not constitute an event of default or any violation of the City's contract with such Owners and shall not impair the effectiveness of any such notice.

(D) **Maturities; Interest Rates.** The 2017 Bonds shall mature and become payable on each September 1 in the principal amounts, and shall bear interest at the rates per annum, indicated in the below tables.

2017A Bonds

| <u>Maturity</u> <u>(September 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> |
|-----------------------------------------|-----------------------------------|--------------------------------|
|-----------------------------------------|-----------------------------------|--------------------------------|

* Term Bond

2017B Bonds

| <u>Maturity</u> <u>(September 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> |
|-----------------------------------------|-----------------------------------|--------------------------------|
|-----------------------------------------|-----------------------------------|--------------------------------|

* Term Bond

(E) Interest. The 2017 Bonds shall bear interest at the rates set forth above payable on the Interest Payment Dates in each year. Interest on all Bonds shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each 2017 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Dated Date; provided, however, that if at the time of authentication of a 2017 Bond, interest is in default thereon, such 2017 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

(F) Method of Payment. Interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date, which instructions shall continue in effect until revoked in writing, or until such Bonds are transferred to a new Owner. The interest, principal of and any premium on the Bonds are payable in lawful money of the United States of America, with principal and

any premium payable upon surrender of the Bonds at the Principal Office of the Fiscal Agent. All Bonds paid by the Fiscal Agent pursuant this Section shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds and issue a certificate of destruction of such Bonds to the City.

Section 2.03. Redemption.

(A) Redemption Provisions.

(i) **Optional Redemption.** The 2017A Bonds maturing on or after September 1, ____ are subject to redemption prior to their stated maturities, on any date on and after September 1, _____, in whole or in part, at a redemption price equal to the principal amount of the 2017A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The 2017B Bonds maturing on or after September 1, ____ are subject to redemption prior to their stated maturities, on any date on and after September 1, _____, in whole or in part, at a redemption price equal to the principal amount of the 2017B Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium

(ii) **Mandatory Sinking Fund Redemption.** The Term Bonds are subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the redemption date, without premium, in the aggregate respective principal amounts all as set forth in the following table:

2017A Bonds

Sinking Fund
Redemption Date
(September 1)

Principal Amount
Subject to Redemption

2017B Bonds

Sinking Fund
Redemption Date
(September 1)

Principal Amount
Subject to Redemption

Provided, however, if some but not all of the Term Bonds have been redeemed under subsection (i) above or subsection (iii) below, the total amount of all future Sinking Fund Payments shall be reduced by the aggregate principal amount of Term Bonds so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$5,000 as determined by the Fiscal Agent, notice of which determination (which shall consist of a revised sinking fund schedule) shall be given by the City to the Fiscal Agent.

(iii) **Redemption from Special Tax Prepayments.** Special Tax Prepayments and any corresponding transfers from the Reserve Fund pursuant to Section 4.03(F) shall be used to redeem 2017 Bonds on the next Interest Payment Date for which notice of redemption can timely be given under Section 2.03(D), among series and maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the 2017 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

| <u>Redemption Date</u> | <u>Redemption Price</u> |
|---------------------------------------------------------------|-------------------------|
| Any Interest Payment Date on or before March 1, 20__ | 103% |
| On September 1, 20__ and March 1, 20__ | 102 |
| On September 1, 20__ and March 1, 20__ | 101 |
| On September 1, 20__ and any Interest Payment Date thereafter | 100 |

(B) Notice to Fiscal Agent. The City shall give the Fiscal Agent written notice of its intention to redeem Bonds under subsection (A)(i) and (A)(iii) not less than thirty (30) days prior to the applicable redemption date or such lesser number of days as shall be allowed by the Fiscal Agent.

(C) Purchase of Bonds in Lieu of Redemption. In lieu of redemption under Section 2.03(A), moneys in the Bond Fund or other funds provided by the City may be used and withdrawn by the Fiscal Agent for purchase of Outstanding 2017 Bonds, upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may 2017 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium

which would otherwise be due if such 2017 Bonds were to be redeemed in accordance with this Agreement. Any 2017 Bonds purchased pursuant to this Section 2.03(C) shall be treated as outstanding 2017 Bonds under this Fiscal Agent Agreement, except to the extent otherwise directed by the Finance Director.

(D) Redemption Procedure by Fiscal Agent.

(i) **Notices.** The Fiscal Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the Securities Depositories, to one or more Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books in the Principal Office of the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds.

(ii) **Contents of Notices.** Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption shall state as to any Bond called in part the principal amount thereof to be redeemed, and shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date. The cost of mailing any such redemption notice and any expenses incurred by the Fiscal Agent in connection therewith shall be paid by the City from amounts in the Administrative Expense Fund.

The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Fiscal Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute a default under this Agreement. The City and the Fiscal Agent have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Fiscal Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

(iii) **Partial Redemption.** Whenever provision is made in this Agreement for the redemption of less than all of the Bonds, the Fiscal Agent shall select the Bonds to be redeemed, from all Bonds or such given portion thereof not previously called for redemption, among maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption, and by lot within a maturity.

(iv) **New Bonds.** Upon surrender of Bonds redeemed in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the registered Owner, at the expense of the City, a new Bond or Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds of such registered Owner.

(E) Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the Bonds so

called for redemption shall have been deposited in the Bond Fund, such Bonds so called shall cease to be entitled to any benefit under this Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in the notice of redemption. All Bonds redeemed and purchased by the Fiscal Agent under this Section 2.03 shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds in accordance with the Fiscal Agent's retention policy then in effect.

Section 2.04. Form of Bonds. The 2017 Bonds, the Fiscal Agent's certificate of authentication and the assignment, to appear thereon, shall be substantially in the forms, respectively, set forth in Exhibits A-1 and A-2 attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Agreement, the Resolution and the Act.

Section 2.05. Execution and Authentication of Bonds.

(A) Execution. The Bonds shall be executed on behalf of the City by the manual or facsimile signatures of its Mayor and its City Clerk who are in office on the date of execution of this Agreement or at any time thereafter, and the seal of the City shall be impressed, imprinted or reproduced by facsimile thereon. If any officer whose signature appears on any Bond ceases to be such officer before delivery of the Bonds to the Owner, such signature shall nevertheless be as effective as if the officer had remained in office until the delivery of the Bonds to the Owner. Any Bond may be signed and attested on behalf of the City by such persons as at the actual date of the execution of such Bond shall be the proper officers of the City although at the nominal date of such Bond any such person shall not have been such officer of the City.

(B) Authentication. Only such Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A, executed and dated by the Fiscal Agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Agreement, and such certificate of authentication of the Fiscal Agent shall be conclusive evidence that the Bonds registered hereunder have been duly authenticated, registered and delivered hereunder and are entitled to the benefits of this Agreement.

Section 2.06. Transfer or Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept under the provisions of Section 2.07 by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form acceptable to the Fiscal Agent. Bonds may be exchanged at the Principal Office of the Fiscal Agent solely for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The cost for any services rendered or any expenses incurred by the Fiscal Agent in connection with any such transfer or exchange shall be paid by the City from amounts in the Administrative Expense Fund. The Fiscal Agent shall collect from the Owner requesting such transfer or exchange any tax or other governmental charge required to be paid with respect to such transfer or exchange. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the City shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds, for a like aggregate principal amount. No transfers or exchanges of Bonds shall be required to be made (i) fifteen days prior to the date established by the Fiscal Agent for selection of Bonds for redemption or (ii) with respect to a Bond after such Bond has been selected for redemption; or (iii) between a Record Date and the succeeding Interest Payment Date.

Section 2.07. Bond Register. The Fiscal Agent will keep, or cause to be kept, at its Principal Office sufficient books for the registration and transfer of the Bonds which books shall show the series number, date, amount, rate of interest and last known owner of each Bond and shall at all times be open to inspection by the City during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the ownership of the Bonds as hereinbefore provided. The City and the Fiscal Agent will treat the Owner of any Bond whose name appears on the Bond register as the absolute Owner of such Bond for any and all purposes, and the City and the Fiscal Agent shall not be affected by any notice to the contrary. The City and the Fiscal Agent may rely on the address of the Owner as it appears in the Bond register for any and all purposes.

Section 2.08. Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such authorized denominations as may be determined by the City, and may contain such reference to any of the provisions of this Agreement as may be appropriate. Every temporary Bond shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds, it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds shall be surrendered, for cancellation, in exchange for the definitive Bonds at the Principal Office of the Fiscal Agent or at such other location as the Fiscal Agent shall designate, and the Fiscal Agent shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Agreement as definitive Bonds authenticated and delivered hereunder.

Section 2.09. Bonds Mutilated, Lost, Destroyed or Stolen.

(A) Mutilated. If any Bond shall become mutilated, at the expense of the Owner of such Bond, the City shall execute and the Fiscal Agent shall authenticate and deliver a replacement Bond of like tenor and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be canceled by it and destroyed by the Fiscal Agent, in accordance with the Fiscal Agent's retention policy then in effect.

(B) Destroyed or Stolen. If any Bond shall be lost, destroyed or stolen, the City shall execute and the Fiscal Agent shall authenticate and deliver a replacement Bond of like tenor and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen, at the expense of the Owner, but only following provision by the Owner to the Fiscal Agent of indemnity for the City and the Fiscal Agent satisfactory to the Fiscal Agent. The City may require payment of a sum not exceeding the actual cost of preparing each a replacement Bond delivered under this Section and the City and the Fiscal Agent may require payment of the expenses which may be incurred by the City and the Fiscal Agent for the preparation, execution, authentication and delivery thereof. Any Bond delivered under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen is at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Agreement with all other Bonds issued under this Agreement.

(C) **Additional Stock.** If the Fiscal Agent has an insufficient stock of unauthenticated printed Bonds for such purpose, it shall communicate with the Finance Director with respect to the printing of an additional stock of Bonds, in such quantities and as otherwise approved in writing by the Finance Director.

Section 2.10. Book-Entry Only System. DTC shall act as the initial Depository for the Bonds. One Bond for each maturity of each series of the Bonds shall be initially executed, authenticated, and delivered as set forth herein with a separate fully registered certificate (in print or typewritten form). Upon initial execution, authentication, and delivery, the ownership of the Bonds shall be registered in the Bond register kept by the Fiscal Agent for the Bonds in the name of Cede & Co., as nominee of DTC or such other nominee as DTC shall appoint in writing.

The Authorized Officers of the City and the Fiscal Agent are hereby authorized to take any and all actions as may be necessary and not inconsistent with this Agreement to qualify the Bonds for the Depository's book-entry system, including the execution of the Depository's required representation letter.

With respect to Bonds registered in the Bond register in the name of Cede & Co., as nominee of DTC, neither the City nor the Fiscal Agent shall have any responsibility or obligation to any broker-dealer, bank, or other financial institution for which DTC holds Bonds as Depository from time to time (the "DTC Participants") or to any person for which a DTC Participant acquires an interest in the Bonds (the "Beneficial Owners"). Without limiting the immediately preceding sentence, neither the City nor the Fiscal Agent shall have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant, any Beneficial Owner, or any other person, other than DTC, of any notice with respect to the Bonds, including any Bonds to be redeemed in the event the City elects to redeem the Bonds, in part, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed in the event the City elects to redeem the Bonds in part, (iv) the payments to any DTC Participant, any Beneficial Owner, or any person, other than DTC, of any amount with respect to the principal of or interest or premium on the Bonds, or (v) any consent given or other action taken by the Depository as Owner of the Bonds.

Except as set forth above, the City and the Fiscal Agent may treat as and deem DTC to be the absolute Owner of each Bond, for which DTC is acting as Depository for the purpose of payment of the principal of and premium and interest on such Bonds, for the purpose of giving notices of redemption and other matters with respect to such Bonds, for the purpose of registering transfers with respect to such Bonds, and for all purposes whatsoever. The Fiscal Agent on behalf of the City shall pay all principal of and premium and interest on the Bonds only to or upon the order of the Owners as shown on the Bond register, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to the principal of and premium and interest on the Bonds to the extent of the sums or sums so paid.

No person other than an Owner, as shown on the Bond register, shall receive a physical Bond. Upon delivery by DTC to the City and the Fiscal Agent of written notice to the effect the DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the transfer provisions in Section 2.06 hereof, references to "Cede & Co." in this Section 2.10 shall refer to such new nominee of DTC.

DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice to the City and to the Fiscal Agent during any time that the

Bonds are Outstanding, and discharging its responsibilities with respect thereto under applicable law. The City may terminate the services of DTC with respect to the Bonds if it determines that DTC is unable to discharge its responsibilities with respect to the Bonds or that continuation of the system of book-entry transfer through DTC is not in the best interest of the Beneficial Owners, and the City shall mail notice of such termination to the Fiscal Agent.

Upon termination of the services of DTC as provided in the previous paragraph, and if no substitute Depository willing to undertake the functions hereunder can be found which is willing and able to undertake such functions upon reasonable or customary terms, or if the City determines that it is in the best interest of the Beneficial Owners of the Bonds that they be able to obtain certified Bonds, the Bonds shall no longer be restricted to being registered in the Bond register of the Fiscal Agent in the name of Cede & Co., as nominee of DTC, but may be registered in whatever name or names the Owners shall designate at that time, in accordance with Section 2.06.

To the extent that the Beneficial Owners are designated as the transferee by the Owners, in accordance with Section 2.06, the Bonds will be delivered to such Beneficial Owners.

ARTICLE III

ISSUANCE OF 2017 BONDS

Section 3.01. Issuance and Delivery of 2017 Bonds. At any time after the execution of this Agreement, the City may issue the 2017 Bonds for the CFD in the aggregate principal amount set forth in Section 2.01 and deliver the 2017 Bonds to the Fiscal Agent for authentication and delivery to the Original Purchaser.

The Authorized Officers of the City are hereby authorized and directed to execute and deliver any and all documents and instruments necessary to cause the issuance of the 2017 Bonds in accordance with the provisions of the Act, the Resolution and this Agreement, to authorize the payment of Costs of Issuance and costs of the Project by the Fiscal Agent from the proceeds of the 2017 Bonds and to do and cause to be done any and all acts and things necessary or convenient for the timely delivery of the 2017 Bonds to the Original Purchaser.

The Fiscal Agent is hereby authorized and directed to authenticate the 2017 Bonds and deliver them to the Original Purchaser, upon receipt of the purchase price for the 2017 Bonds.

Section 3.02. Pledge of Special Tax Revenues. The Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent herein provided) of all of the Special Tax Revenues and all moneys deposited in the Bond Fund (including the 2017A Capitalized Interest Account, the 2017B Capitalized Interest Account and the Special Tax Prepayments Account) and, until disbursed as provided herein, in the Special Tax Fund. The Special Tax Revenues and all moneys deposited into such funds (except as otherwise provided herein) are hereby dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided herein and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under Section 9.03.

The 2017 Bonds and all Related Parity Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent herein provided) of all moneys deposited in the Reserve Fund. The moneys in the Reserve Fund (except as otherwise provided herein) are hereby dedicated to the payment of the principal of, and interest and any premium on, the 2017 Bonds and all Related Parity Bonds as provided herein and in the Act until all of the 2017 Bonds and all related Parity Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under Section 9.03.

Amounts in the 2017A Improvement Account, the Allocated Bonds Account, the Administrative Expense Fund, the 2017A Costs of Issuance Account and the 2017B Costs of Issuance Account are not pledged to the repayment of the Bonds. The Project is not pledged to the repayment of the Bonds, nor are the proceeds of any condemnation or insurance award received by the City with respect to the Project.

Section 3.03. Limited Obligation. All obligations of the City under this Agreement and the Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefor hereunder. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth herein) or

of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Section 3.04. No Acceleration. The principal of the Bonds shall not be subject to acceleration hereunder. Nothing in this Section shall in any way prohibit the redemption of Bonds under Section 2.03, or the defeasance of the Bonds and discharge of this Agreement under Section 9.03.

Section 3.05. Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be dependent upon the completion of the acquisition of the Project or upon the performance by any person of his obligation with respect to the Project.

Section 3.06. Parity Bonds. In addition to the 2017 Bonds, the City may issue Parity Bonds in such principal amount as shall be determined by the City, under a Supplemental Agreement entered into by the City and the Fiscal Agent. Any such Parity Bonds shall constitute Bonds hereunder and shall be secured by a lien on the Special Tax Revenues)) and funds pledged for the payment of the Bonds hereunder on a parity with all other Bonds Outstanding hereunder. The City may issue such Parity Bonds subject to the following specific conditions precedent:

(A) **Compliance.** The City shall be in compliance with all covenants set forth in this Agreement and all Supplemental Agreements, and issuance of the Parity Bonds shall not cause the City to exceed the CFD's limitation on debt (as defined in the Act).

(B) **Same Payment Dates.** The Supplemental Agreement providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on Interest Payment Dates, and principal thereof shall be payable on September 1 in any year in which principal is payable on the Parity Bonds (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

(C) **Separate Funds; Reserve Fund or Reserve Account.** The Supplemental Agreement providing for the issuance of such Parity Bonds may provide for the establishment of separate funds and accounts.

The Supplemental Agreement providing for issuance of the Parity Bonds shall provide for (i) a deposit to the Reserve Fund in an amount necessary such that the amount deposited therein shall equal the Reserve Requirement following issuance of the Parity Bonds, (ii) a deposit to a reserve account for the Parity Bonds (and such other series of Parity Bonds identified by the City) in an amount defined in such Supplemental Agreement, as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to the Reserve Fund and that the Owners of the Bonds covered by the Reserve Fund will have no interest in or claim to such other reserve account or (iii) no deposit to either the Reserve Fund or another reserve account as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to the Reserve Fund or any other reserve account. The Supplemental Agreement may provide that the City may satisfy the reserve requirement for a series of Parity Bonds by the deposit into the reserve account established pursuant to such Supplemental Agreement an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company as described in the Supplemental Agreement.

(D) Value. The CFD Value shall be at least three (3) times the sum of: (i) the aggregate principal amount of all Bonds then Outstanding, plus (ii) the aggregate principal amount of the series of Parity Bonds proposed to be issued, plus (iii) the aggregate principal amount of any fixed assessment liens on the parcels in the CFD subject to the levy of Special Taxes, plus (iv) a portion of the aggregate principal amount of any and all other community facilities district bonds then outstanding and payable at least partially from special taxes to be levied on parcels of land within the CFD (the "Other District Bonds") equal to the aggregate outstanding principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on parcels of land within the CFD, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land against which the special taxes are levied to pay the Other District Bonds (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent available Fiscal Year.

(E) Coverage. For each Fiscal Year after issuance of the Parity Bonds, the maximum amount of the Special Taxes that, based on Taxable Parcels as of the date of issuance of such Parity Bonds, may be levied for such Fiscal Year under the Ordinance, the Agreement and any Supplemental Agreement for each respective Fiscal Year, shall be at least 110% of the total Annual Debt Service of the then Outstanding Bonds and the proposed Parity Bonds for each Bond Year that commences in each such Fiscal Year, and the aggregate Special Tax Prepayments that could occur after the issuance of the Parity Bonds shall be not less than the principal amount of the Outstanding Bonds and the proposed Parity Bonds.

(F) Certificates. The City shall deliver to the Fiscal Agent an Officer's Certificate certifying that the conditions precedent to the issuance of such Parity Bonds set forth in subsections (A), (B), (C), (D), and (E) of this Section 3.06 have been satisfied.

Notwithstanding the foregoing, the City may issue Refunding Bonds as Parity Bonds without the need to satisfy the requirements of clauses (D) or (E) above, and, in connection therewith, the Officer's Certificate in clause (F) above need not make reference to said clauses (D) and (E).

Nothing in this Section 3.06 shall prohibit the City from issuing any other bonds or otherwise incurring debt secured by a pledge of the Special Tax Revenues subordinate to the pledge thereof under Section 3.02 of this Agreement.

ARTICLE IV

PROCEEDS, FUNDS AND ACCOUNTS

Section 4.01. Application of 2017 Bond Proceeds.

(A) 2017A Bonds. The Proceeds of the 2017A Bonds received from the Original Purchaser in the amount of \$_____ shall be paid to the Fiscal Agent, which shall deposit the Proceeds on the Closing Date, as follows:

- (i) \$_____ into the 2017A Costs of Issuance Account;
- (ii) \$_____ into the Reserve Fund;
- (iii) \$_____ into the Bond Fund (which shall represent capitalized interest and be deposited into the 2017A Capitalized Interest Account);
- (iv) \$_____ into the 2017A Improvement Account; and
- (v) \$_____ into the Administrative Expense Fund.

(B) 2017B Bonds. The Proceeds of the 2017B Bonds received from the Original Purchaser in the amount of \$_____ shall be paid to the Fiscal Agent, which shall deposit the Proceeds on the Closing Date, as follows:

- (i) \$_____ into the 2017B Costs of Issuance Account;
- (ii) \$_____ into the Reserve Fund;
- (iii) \$_____ into the Bond Fund (which shall represent capitalized interest and be deposited into the 2017B Capitalized Interest Account);
- (iv) \$_____ into the Allocated Bond Proceeds Account; and
- (v) \$_____ into the Administrative Expense Fund.

(c) Temporary Funds and Accounts. The Fiscal Agent may, in its discretion, establish a temporary fund or account to facilitate the foregoing deposits.

Section 4.02. Costs of Issuance Fund and Related Accounts.

(A) Establishment of Costs of Issuance Fund. The Costs of Issuance Fund is hereby established as a separate fund to be held by the Fiscal Agent, and within the Costs of Issuance Fund there are hereby established a 2017A Costs of Issuance Account and a 2017B Costs of Issuance Account, to the credit of which deposit shall be made as required by Section 4.01. Moneys in the Costs of Issuance Fund shall be held by the Fiscal Agent for the benefit of

the City and shall be disbursed as provided in subsection (B) of this Section for the payment or reimbursement of Costs of Issuance.

(B) Disbursement. (i) Amounts in the 2017A Costs of Issuance Account shall be disbursed from time to time to pay Costs of Issuance attributable to the issuance of the 2017A Bonds, as set forth in a requisition substantially in the form of Exhibit C hereto, executed by the Finance Director, containing respective amounts to be paid to the designated payees and delivered to the Fiscal Agent. Each such requisition shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

(ii) Amounts in the 2017B Costs of Issuance Account shall be disbursed from time to time to pay Costs of Issuance attributable to the issuance of the 2017B Bonds, as set forth in a requisition substantially in the form of Exhibit C hereto, executed by the Finance Director, containing respective amounts to be paid to the designated payees and delivered to the Fiscal Agent. Each such requisition shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

(C) Investment. Moneys in the Costs of Issuance Fund shall be invested and deposited by the Fiscal Agent under Section 6.01. Interest earnings and profits resulting from such investment shall be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

(D) Closing of Fund. The Fiscal Agent shall maintain the 2017A Costs of Issuance Account for a period of 90 days from the Closing Date and then the Fiscal Agent shall deposit any moneys remaining therein, including any investment earnings thereon, into the 2017A Improvement Account.

The Fiscal Agent shall maintain the 2017B Costs of Issuance Account for a period of 90 days from the Closing Date and then the Fiscal Agent shall deposit any moneys remaining therein, including any investment earnings thereon, into the Allocated Bond Proceeds Account.

Section 4.03. Reserve Fund.

(A) Establishment of Fund. The Reserve Fund is hereby established as a separate fund to be held by the Fiscal Agent to the credit of which a deposit shall be made as required by Section 4.01, which deposit, as of the Closing Date, is equal to the initial Reserve Requirement with respect to the 2017 Bonds, and deposits shall be made as provided in Sections 3.06(C) and 4.05(A) and (B). Moneys in the Reserve Fund shall be held by the Fiscal Agent for the benefit of the Owners of the 2017 Bonds and any Related Parity Bonds as a reserve for the payment of the principal of, and interest and any premium on, the 2017 Bonds and any Related Parity Bonds and shall be subject to a lien in favor of the Owners of the 2017 Bonds and any Related Parity Bonds.

(B) Use of Reserve Fund. Except as otherwise provided in this Section, all amounts deposited in the Reserve Fund shall be used and withdrawn

by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the 2017 Bonds and any Related Parity Bonds or, in accordance with the provisions of this Section, for the purpose of redeeming 2017 Bonds and any Related Parity Bonds from the Bond Fund. Whenever a transfer is made from the Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund for payment of the principal of, and interest and any premium on, the 2017 Bonds and any Related Parity Bonds, the Fiscal Agent shall provide written notice thereof to the Finance Director, specifying the amount withdrawn.

(C) Transfer of Excess of Reserve Requirement. Whenever, on or before any Interest Payment Date, or on any other date at the request of the Finance Director, the amount in the Reserve Fund exceeds the Reserve Requirement, the Fiscal Agent shall transfer an amount equal to the excess from the Reserve Fund to the Bond Fund, to be used to pay interest on the 2017 Bonds and any Related Parity Bonds on the next Interest Payment Date.

(D) Transfer for Rebate Purposes. Amounts in the Reserve Fund shall be withdrawn for purposes of making payment to the federal government to comply with Section 5.11, upon receipt by the Fiscal Agent of an Officer's Certificate specifying the amount to be withdrawn and to the effect that such amount is needed for rebate purposes; *provided, however,* that no amounts in the Reserve Fund shall be used for rebate unless the amount in the Reserve Fund following such withdrawal equals the Reserve Requirement.

(E) Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding 2017 Bonds and all Outstanding Related Parity Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon the written request of the Finance Director, transfer any cash or Permitted Investments in the Reserve Fund to the Bond Fund to be applied, on the redemption date to the payment and redemption, in accordance with Section 4.04 or 2.03 and the provisions of the Supplemental Agreement related to the Related Parity Bonds, as applicable, of all of the Outstanding 2017 Bonds and Outstanding Related Parity Bonds. In the event that the amount so transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding 2017 Bonds and Outstanding Related Parity Bonds, the balance in the Reserve Fund shall be transferred to the Finance Director to be used by the City for any lawful purpose.

Notwithstanding the provisions of the first paragraph of this Section 4.03(E), no amounts shall be transferred from the Reserve Fund under this Section 4.03(E) until after: (i) the calculation of any amounts due to the federal government under Section 5.11 and withdrawal of any such amount under Section 4.03(D) for purposes of making such payment to the federal government; and (ii) payment of any fees and expenses due to the Fiscal Agent.

(F) Transfer Upon Special Tax Prepayment. Whenever Special Taxes are prepaid and 2017 Bonds or any Related Parity Bonds are to be

redeemed with the proceeds of such prepayment pursuant to Section 2.03(A)(iii) or a Supplemental Agreement related to any Related Parity Bonds, a proportionate amount in the Reserve Fund (determined on the basis of the principal of 2017 Bonds and Related Parity Bonds to be redeemed and the then-Outstanding principal of the 2017 Bonds and Related Parity Bonds, but in any event not in excess of the amount that will leave the balance in the Reserve Fund following the proposed redemption equal to the Reserve Requirement) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the 2017 Bonds pursuant to Section 2.03(A)(iii) or a Supplemental Agreement related to any Related Parity Bonds. The Finance Director shall deliver to the Fiscal Agent an Officer's Certificate specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer's Certificate.

(G) Investment. Moneys in the Reserve Fund shall be invested by the Fiscal Agent under Section 6.01.

(H) Qualified Reserve Fund Credit Instruments. The City shall have the right at any time to direct the Fiscal Agent to release funds from the Reserve Fund, in whole or in part, by tendering to the Fiscal Agent: (i) a Qualified Reserve Fund Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Fund Credit Instrument will cause interest on the 2017 Bonds or any Related Parity Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Fiscal Agent, and upon delivery by the City to the Fiscal Agent of written calculation of the amount permitted to be released from the Reserve Fund (upon which calculation the Fiscal Agent may conclusively rely), the Fiscal Agent shall transfer such funds from the Reserve Fund to the City to be deposited in the Improvement Fund and used for the purposes thereof. The Fiscal Agent shall comply with all documentation relating to a Qualified Reserve Fund Credit Instrument as shall be required to maintain such Qualified Reserve Fund Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under this Section 4.03. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Fund Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Bond Fund with respect to the 2017 Bonds and any Related Parity Bonds. If the Reserve Requirement is being maintained with two or more Qualified Reserve Fund Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Bond Fund with respect to the 2017 Bonds and any Related Parity Bonds shall be pro-rata with respect to each such instrument.

In the event that a Qualified Reserve Fund Credit Instrument is available to be drawn upon for only one or more particular series of Bonds, a separate subaccount in the Reserve Fund may be established for such series, and the calculation of the Reserve Requirement with respect to all other Bonds payable from the Reserve Fund shall exclude the debt service on such issue of Bonds.

The City shall have no obligation to replace the Qualified Reserve Fund Credit Instrument or to fund the Reserve Fund with cash if, at any time that the 2017 Bonds and any Related Parity Bonds are Outstanding, amounts are not available under the Qualified Reserve Fund Credit Instrument or if the rating of the claims-paying ability of the provider of the Qualified Reserve Fund Credit Instrument is downgraded.

Section 4.04. Bond Fund.

(A) Establishment of Bond Fund. The Bond Fund is hereby established as a separate fund to be held by the Fiscal Agent to the credit of which deposits shall be made as required by Section 4.03, Section 4.05 and 4.07 (D) as otherwise set forth in this Agreement. Moneys in the Bond Fund shall be held by the Fiscal Agent for the benefit of the Owners of the Bonds, and shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below.

Within the Bond Fund there is hereby established a separate account designated as the "2017A Capitalized Interest Account" to be held by the Fiscal Agent for the benefit of the City and the Owners of the 2017A Bonds into which shall be deposited the amount specified in Section 4.01. Amounts on deposit in the 2017A Capitalized Interest Account shall be used and withdrawn by the Fiscal Agent solely for the payment of interest on the 2017A Bonds as follows: \$_____ shall be used on March 1, ____, and the remainder shall be used on September 1, ____. When the amount in the Capitalized Interest Account is fully expended for the payment of interest, the account shall be closed.

Within the Bond Fund there is hereby established a separate account designated as the "2017B Capitalized Interest Account" to be held by the Fiscal Agent for the benefit of the City and the Owners of the 2017B Bonds into which shall be deposited the amount specified in Section 4.01. Amounts on deposit in the 2017B Capitalized Interest Account shall be used and withdrawn by the Fiscal Agent solely for the payment of interest on the 2017B Bonds as follows: \$_____ shall be used on March 1, ____, and the remainder shall be used on September 1, ____. When the amount in the Capitalized Interest Account is fully expended for the payment of interest, the account shall be closed.

There is also hereby created in the Bond Fund a separate account to be held by the Fiscal Agent, designated the Special Tax Prepayments Account, to the credit of which deposits shall be made as provided in clause (iii) of the second paragraph of Section 4.05(A).

(B) Disbursements. At least ten (10) Business Days before each Interest Payment Date, the Fiscal Agent shall notify the Finance Director in writing as to the principal and premium, if any, and interest due on the Bonds on the next Interest Payment Date (whether as a result of scheduled principal of and interest on the Bonds, optional redemption of the Bonds or a mandatory sinking fund redemption). On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds. Notwithstanding the foregoing, amounts in the Bond Fund as

a result of a transfer pursuant to clause (ii) of the second paragraph of Section 4.05(A) shall be immediately disbursed by the Fiscal Agent to pay past due amounts owing on the Bonds.

At least three (3) Business Days prior to each Interest Payment Date, the Fiscal Agent shall determine if the amounts then on deposit in the Bond Fund are sufficient to pay the debt service due on the Bonds on the next Interest Payment Date. In the event that amounts in the Bond Fund are insufficient for such purpose, the Fiscal Agent promptly shall notify the Finance Director by telephone (and confirm in writing) of the amount of the insufficiency.

In the event that amounts in the Bond Fund are insufficient for the purpose set forth in the preceding paragraph with respect to any Interest Payment Date, the Fiscal Agent shall do the following:

(i) Withdraw from the Reserve Fund, in accordance with the provisions of Section 4.03, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to the 2017 Bonds and any Related Parity Bonds. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund.

(ii) Withdraw from the reserve funds, if any, established under a Supplemental Agreement related to Parity Bonds that are not Related Parity Bonds, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to such Parity Bonds. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund.

If, after the foregoing transfers and application of such funds for their intended purposes, there are insufficient funds in the Bond Fund to make the payments provided for in the second sentence of the first paragraph of this Section 4.04(B), the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, if any, and then to payment of principal due on the Bonds by reason of sinking payments. Each such payment shall be made ratably to the Owners of the Bonds based on the then Outstanding principal amount of the Bonds, if there are insufficient funds to make the corresponding payment for all of the then Outstanding bonds. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

Any failure by the Fiscal Agent to provide the notices required by this Section 4.04(B) shall not alter the obligation of the City to make the scheduled payments from amounts in the Bond Fund.

(C) Disbursements from the Special Tax Prepayments Account. Moneys in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given under Section 2.03(A)(iii) and shall be used (together with any amounts transferred pursuant to Section 4.03(F)) to redeem Bonds on the redemption date selected in accordance with Section 2.03.

(D) Investment. Moneys in the Bond Fund, the 2017A Capitalized Interest Account, the 2017B Capitalized Interest Account and the Special Tax Prepayments Account shall be invested under Section 6.01. Interest earnings and profits resulting from such investment shall be retained in the Bond Fund.

(E) Deficiency. If at any time it appears to the Fiscal Agent that there is a danger of deficiency in the Bond Fund and that the Fiscal Agent may be unable to pay Debt Service on the Bonds in a timely manner, the Fiscal Agent shall report to the Finance Director such fact. The City covenants to increase the levy of the Special Taxes in the next Fiscal Year (subject to the maximum amount authorized by the Rate and Method) in accordance with the procedures set forth in the Act for the purpose of curing Bond Fund deficiencies.

(F) Excess. Any excess moneys remaining in the Bond Fund (not including moneys in the Capitalized Interest Account) following the payment of Debt Service on the Bonds on any September 1, shall be transferred to the Special Tax Fund.

Section 4.05. Special Tax Fund.

(A) Establishment of Special Tax Fund. The Special Tax Fund is hereby established as a separate fund to be held by the Fiscal Agent, to the credit of which the Fiscal Agent shall deposit amounts received from or on behalf of the City consisting of Special Tax Revenues and amounts transferred from the Administrative Expense Fund and the Bond Fund. The City shall promptly remit any Special Tax Revenues received by it to the Fiscal Agent for deposit by the Fiscal Agent to the Special Tax Fund.

Notwithstanding the foregoing,

(i) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be separately identified by the Finance Director and shall be disposed of by the Fiscal Agent first, for transfer to the Bond Fund to pay any past due debt service on the Bonds; second, for transfer to the Reserve Fund to the extent needed to increase the amount then on deposit in the Reserve Fund up to the then Reserve Requirement; and third, to be held in the Special Tax Fund for use as described in Section 4.05(B) below; and

(ii) any proceeds of Special Tax Prepayments shall be separately identified by the Finance Director and shall be deposited by the Fiscal Agent as follows (as directed in writing by the Finance Director): (a) that portion of any Special Tax Prepayment constituting a prepayment of costs of the Project shall be deposited by the Fiscal Agent to the Improvement Fund and (b) the remaining Special Tax Prepayment shall be deposited by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to Section 4.04(A).

Moneys in the Special Tax Fund shall be held by the Fiscal Agent for the benefit of the City and Owners of the Bonds, shall be disbursed as provided

below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

(B) Disbursements. On the third Business Day prior to each Interest Payment Date, the Fiscal Agent shall withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

(i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Improvement Fund, the Reserve Fund and any reserve account for Parity Bonds that are not Related Parity Bonds, the 2017A Capitalized Interest Account, the 2017B Capitalized Interest Account and the Special Tax Prepayments Account to the Bond Fund such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date and any past due principal or interest on the Bonds not theretofore paid from a transfer described in clause second of subparagraph (ii) of the second paragraph of Section 4.05(A), and

(ii) without preference or priority (a) to the Reserve Fund an amount, taking into account amounts then on deposit in the Reserve Fund, such that the amount in the Reserve Fund is equal to the Reserve Requirement, and (b) to the reserve account for any Parity Bonds that are not Related Parity Bonds, taking into account amounts then on deposit in the such reserve account, such that the amount in such reserve account is equal to the amount required to be on deposit therein (and in the event that amounts in the Special Tax Fund are not sufficient for the purposes of this paragraph, such amounts shall be applied to the Reserve Fund and any other reserve accounts ratably based on the then Outstanding principal amount of the Bonds).

Each calendar year, following the transfers pursuant to the preceding paragraph for the March 1 Interest Payment Date occurring in such calendar year, when amounts (including investment earnings) have been accumulated in the Special Tax Fund sufficient to make the transfers pursuant to the preceding paragraph for the September 1 Interest Payment Date occurring in such calendar year, the Finance Director, during the period up to but not including December 10 of such calendar year, may in his or her sole discretion direct the disposition of moneys in the Special Tax Fund in excess of the amounts needed for such September 1 Interest Payment Date as follows: (i) direct the Fiscal Agent to transfer money to the Improvement Fund (or the accounts therein) for payment or reimbursement of the costs of the Project, (ii) direct the Fiscal Agent to transfer money to the Administrative Expense Fund, in an amount not to exceed the amount included in the Special Tax levy for Administrative Expenses for such Fiscal Year and (iii) direct the Fiscal Agent to transfer money for any other lawful purpose.

(C) Investment. Moneys in the Special Tax Fund shall be invested and deposited by the Fiscal Agent under Section 6.01. Interest earnings and profits resulting from such investment and deposit shall be retained in the Special Tax Fund to be used for the purposes thereof.

Section 4.06. Administrative Expense Fund.

(A) Establishment of Administrative Expense Fund. The Administrative Expense Fund is hereby established as a separate fund to be held by the Fiscal Agent, to the credit of which deposits shall be made as required by Section 4.05(B). Moneys in the Administrative Expense Fund shall be held by the Fiscal Agent for the benefit of the City, and shall be disbursed as provided below.

(B) Disbursement. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the City or its order upon receipt by the Fiscal Agent of an Officer's Certificate, in substantially the form of Exhibit D hereto, stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense or a Cost of Issuance and the nature of such Administrative Expense or such Cost of Issuance. Amounts deposited to the Administrative Expense Fund pursuant to Section 4.01 shall be separately identified at all times, and shall be expended for purposes of the Administrative Expense Fund prior to the use of amounts transferred to the Administrative Expense Fund from the Special Tax Fund pursuant to Section 4.05.

Annually, on the last day of each Fiscal Year, the Fiscal Agent shall withdraw from the Administrative Expense Fund and transfer to the Special Tax Fund any amount in excess of that which is needed to pay any Administrative Expenses incurred but not yet paid, and which are not otherwise encumbered, as identified by the Finance Director in an Officer's Certificate.

(C) Investment. Moneys in the Administrative Expense Fund shall be invested by the Fiscal Agent under Section 6.01. Interest earnings and profits resulting from such investment shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes of such fund.

Section 4.07. Improvement Fund.

(A) Establishment of Improvement Fund. The Improvement Fund is hereby established as a separate fund, and within the Improvement Fund there is hereby established a 2017A Improvement Account and an Allocated Bond Proceeds Account, to be held by the Fiscal Agent and to the credit of which fund and accounts deposits shall be made as required herein. Moneys in the Improvement Fund shall be disbursed, except as otherwise provided in subsection (D) of this Section, for the payment or reimbursement of the costs of the Project.

(B) Procedure for Disbursement. Disbursements from the 2017A Improvement Account and the Allocated Bond Proceeds Account shall be made by the Fiscal Agent upon receipt of an Officer's Certificate substantially in the form of Exhibit B attached hereto which shall:

- (i) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made (which shall be for payment of a Project cost or to reimburse expenditures of the City or any other party for

Project costs previously paid), and the person to which the disbursement is to be paid;

(ii) certify that no portion of the amount then being requested to be disbursed was set forth in any Officers Certificate previously filed requesting disbursement; and

(iii) certify that all disbursements from the Improvement Fund are in compliance with the JCFA.

Each such requisition shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

(C) Investment. Moneys in the Improvement Fund, 2017 Improvement Account and the Allocated Bond Proceeds Account shall be invested in accordance with Section 6.01. Interest earnings and profits from such investment shall be retained in the related fund or accounts to be used for the purpose of such fund or accounts.

(D) Closing of Fund. Upon the filing of an Officer's Certificate stating that the Project has been completed and that all costs of the Project have been paid or are not required to be paid from the Improvement Fund (including the 2017A Improvement Account and the Allocated Bond Proceeds Account), the Fiscal Agent shall transfer the amount, if any, remaining in the 2017A Improvement Account and the Allocated Bond Proceeds Account to the Bond Fund for application to Debt Service payments on the Bonds specified in the Officer's Certificate.

ARTICLE V

COVENANTS

Section 5.01. Collection of Special Tax Revenues. The City shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

(A) Processing. On or within five (5) Business Days of each June 1, the Fiscal Agent shall provide the Finance Director with a notice stating (i) the amount then on deposit in the Bond Fund, the Reserve Fund and any reserve account for Parity Bonds that are not Related Parity Bonds that is held by the Fiscal Agent, and (ii) if the amount in the Reserve Fund is less than the Reserve Requirement or the amount in such other reserve account held by the Fiscal Agent is less than its required amount, informing the City that replenishment of the Reserve Fund or reserve account is necessary. The receipt of or failure to receive such notice by the Finance Director shall in no way affect the obligations of the Finance Director under the following two paragraphs and the Fiscal Agent shall not be liable for failure to provide such notices to the Finance Director. Upon receipt of such notice, the Finance Director shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits or combinations during the preceding and then current year.

(B) Levy. The Finance Director shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 1 that the Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within the CFD for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Finance Director shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

(C) Computation. The Finance Director shall fix and levy the amount of Special Taxes within the CFD required for the timely payment of principal of and interest on any outstanding Bonds of the CFD becoming due and payable during the ensuing calendar year, replenishment of the Reserve Fund or other reserve account and payment of Administrative Expenses, including amounts necessary to discharge any rebate obligation, during such year, taking into account the balances in the applicable funds established under this Agreement and in the Special Tax Fund. The Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings under the Rate and Method.

(D) Collection. Except as set forth in the Ordinance, Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest

after delinquency as do the ad valorem taxes on real property. The Finance Director is hereby authorized to employ consultants to assist in computing the levy of the Special Taxes hereunder and any reconciliation of amounts levied to amounts received. The fees and expenses of such consultants and the costs and expenses of the Finance Director (including a charge for City staff time) in conducting its duties hereunder shall be an Administrative Expense hereunder.

Section 5.02. Covenant to Foreclose. Under the Act, the City hereby covenants with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as hereinafter provided, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs. The Finance Director shall notify the City Attorney of any such delinquency of which the Finance Director is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

On or September 1 of each Fiscal Year, the Finance Director shall compare the amount of Special Taxes theretofore levied in the CFD to the amount of Special Tax Revenues theretofore received by the City, and:

(A) Individual Delinquencies. If the Finance Director determines that (i) any single parcel subject to the Special Tax in the CFD is delinquent in the payment of Special Taxes in the aggregate amount of \$40,000 or more or (ii) any single parcel subject to the Special Tax in the CFD is delinquent in the payment of three or more installments of Special Taxes, then the Finance Director shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the City within 90 days of such determination.

(B) Aggregate Delinquencies. If the Finance Director determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire CFD, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the Finance Director shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the CFD with a Special Tax delinquency.

The Finance Director and the City Attorney, as applicable, are hereby authorized to employ counsel to conduct any such foreclosure proceedings. The fees and expenses of any such counsel (including a charge for City staff time) in conducting foreclosure proceedings shall be an Administrative Expense hereunder.

Section 5.03. Punctual Payment. The City will punctually pay or cause to be paid the principal of, and interest and any premium on, the Bonds when and as due in strict conformity with the terms of this Agreement and any Supplemental Agreement, and it will faithfully observe and perform all of the conditions covenants and requirements of this Agreement and all Supplemental Agreements and of the Bonds.

Section 5.04. Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Section 5.05. Against Encumbrances. The City will not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien herein created for the benefit of the Bonds, or their Owners, except as permitted by this Agreement.

Section 5.06. Books and Records. The City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Special Tax Revenues. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Section 5.07. Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Section 5.08. Further Assurances. The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Agreement, and for the better assuring and confirming unto the Owners of the rights and benefits provided in this Agreement.

Section 5.09. Private Activity Bond Limitations. The City shall assure that the proceeds of the 2017A Bonds are not so used as to cause the 2017A Bonds to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Tax Code.

Section 5.10. Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the 2017A Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

Section 5.11. Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2017A Bonds. The Finance Director shall take note of any investment of monies hereunder in excess of the yield on the 2017A Bonds, and shall take such actions as are necessary to ensure compliance with this Section 5.11, such as increasing the portion of the Special Tax levy for Administration Expenses as appropriate to have funds available in the

Administrative Expense Fund to satisfy any rebate liability under this Section. If necessary to satisfy its obligations under this Section 5.11, the City may use:

- (A) Amounts in the Reserve Fund if the amount on deposit in the Reserve Fund, following the proposed transfer, is at least equal to the Reserve Requirement, and amounts in any other reserve account for Parity Bonds that are not Related Parity Bonds to the extent permitted by the Supplemental Agreement;
- (B) Amounts on deposit in the Administrative Expense Fund; and
- (C) Any other funds available to the CFD, including amounts advanced by the City, in its sole discretion, to be repaid by the CFD as soon as practicable from amounts described in the preceding clauses (A) and (B).

Section 5.12. No Arbitrage. The City shall not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the 2017A Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2017A Bonds would have caused the 2017A Bonds to be "arbitrage bonds" within the meaning of section 148 of the Tax Code.

Section 5.13. Yield of the 2017A Bonds. In determining the yield of the 2017A Bonds to comply with Sections 5.11 and 5.12, the City will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the City, as of the Closing Date, regarding prepayments of Special Taxes and use of prepayments for redemption of the 2017A Bonds, without regard to whether or not prepayments are received or 2017A Bonds redeemed.

Section 5.14. Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the 2017A Bonds from the gross income of the Owners of the 2017A Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the 2017A Bonds.

Section 5.15. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an event of default for the purposes of this Agreement. However, any Owner or Beneficial Owner of the 2017A Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

One or more owners of the real property in the CFD as of the Closing Date may also have executed a continuing disclosure agreement for the benefit of the holders and Beneficial Owners of the 2017A Bonds. Any Participating Underwriter or Holder or Beneficial Owner may take such actions as may be necessary and appropriate directly against any such landowner to compel performance by it of its obligations thereunder, including seeking mandate or specific performance by court order; however the City shall have no obligation whatsoever to enforce any obligations under any such agreement.

Section 5.16. Limits on Special Tax Waivers and Bond Tenders. The City covenants not to exercise its rights under the Act to waive delinquency and redemption penalties related to the Special Taxes or to declare Special Tax amnesty program if to do so would materially and adversely affect the interests of the owners of the Bonds.

The City covenants not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues, assuming the Special Taxes are levied and collected in the maximum amount permitted by the Rate and Method, to pay the principal of and interest when due on the Bonds remaining Outstanding following such tender. Subject to the foregoing, in the event Bonds are tendered to the Fiscal Agent, such Bonds shall be cancelled by the Fiscal Agent and shall cease to accrue interest from the date such Bonds are tendered. Upon surrender of a Bond to be tendered in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the tendering party a new Bond or Bonds the principal amount of which is equal to the untendered portion of the Bonds and the interest rate and maturity date of which shall be the same as the interest rate and maturity date of the tendered bond. To the extent applicable, the City shall deliver to the Fiscal Agent an Officer's Certificate setting forth any adjustments to the mandatory sinking fund schedule as a result of the tender, which Officer's Certificate must be accompanied by a certificate of an Independent Financial Consultant to the effect that it has reviewed the proposed adjustments in the mandatory sinking fund schedule and that the remaining Special Tax Revenues, if the Special Taxes are levied and collected in the maximum amount permitted by the Rate and Method, will be sufficient to pay principal of and interest on the Bonds when due following such adjustment.

Section 5.17. City Bid at Foreclosure Sale. The City will not bid at a foreclosure sale of property in respect of delinquent Special Taxes, unless it expressly agrees to take the property subject to the lien for Special Taxes imposed by the CFD and that the Special Taxes levied on the property are payable while the City owns the property.

Section 5.18. Limitation on Principal Amount of Parity Bonds. Following issuance of the 2017 Bonds, the City will not issue more than \$_____ initial principal amount of Parity Bonds (exclusive of any Refunding Bonds).

Section 5.19. Amendment of Rate and Method. The City shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the City shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

ARTICLE VI

INVESTMENTS; LIABILITY OF THE CITY

Section 6.01. Deposit and Investment of Moneys in Funds.

(A) **General.** Moneys in any fund or account created or established by this Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, which in any event by their terms mature prior to the date on which such moneys are required to be paid out hereunder, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate, the Fiscal Agent hold such funds uninvested. The Finance Director shall make note of any investment of funds hereunder in excess of the yield on the Bonds so that appropriate actions can be taken to assure compliance with Section 5.11.

(B) **Moneys in Funds.** Moneys in any fund or account created or established by this Agreement and held by the Finance Director shall be invested by the Finance Director in any Permitted Investment or in any other lawful investment for City funds, which in any event by its terms matures prior to the date on which such moneys are required to be paid out hereunder. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account, subject, however, to the requirements of this Agreement for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts. Whenever in this Agreement any moneys are required to be transferred by the City to the Fiscal Agent, such transfer may be accomplished by transferring a like amount of Permitted Investments.

(C) **Actions of Officials.** The Fiscal Agent and its affiliates or the Finance Director may act as sponsor, advisor, depository, principal or agent in the acquisition or disposition of any investment. Neither the Fiscal Agent nor the Finance Director shall incur any liability for losses arising from any investments made pursuant to this Section. The Fiscal Agent shall not be required to determine the legality of any investments.

(D) **Valuation of Investments.** Except as otherwise provided in the next sentence, all investments of amounts deposited in any fund or account created by or pursuant to this Agreement, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by this Agreement or the Tax Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under the applicable provisions of the Tax Code and (unless valuation is undertaken at least annually) investments of funds in the Reserve Fund shall be valued at their present value (within the meaning of section 148 of the Tax Code). The Fiscal Agent shall not be liable for verification of the application of such sections of the Tax Code or for any determination of Fair Market Value or present value and may conclusively rely upon an Officer's Certificate as to such valuations.

(E) **Commingled Money.** Investments in any and all funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent or the Finance

Director hereunder, provided that the Fiscal Agent or the Finance Director, as applicable, shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in this Agreement.

(F) Confirmations Waiver. The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The City understands that trade confirmations for securities transactions effected by the Fiscal Agent will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker. The Fiscal Agent will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent hereunder. Upon the City's election, such statements will be delivered via the Fiscal Agent's online service and upon electing such service, paper statements will be provided only upon request.

(G) Sale of Investments. The Fiscal Agent or the Finance Director, as applicable, shall sell at Fair Market Value, or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and neither the Fiscal Agent nor the Finance Director shall be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance herewith.

Section 6.02. Liability of City.

(A) General. The City shall not incur any responsibility in respect of the Bonds or this Agreement other than in connection with the duties or obligations explicitly herein or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent herein or of any of the documents executed by the Fiscal Agent in connection with the Bonds, or as to the existence of a default or event of default thereunder.

(B) Reliance. In the absence of bad faith, the City, including the Finance Director, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City by the Fiscal Agent or an Independent Financial Consultant and conforming to the requirements of this Agreement. The City, including the Finance Director, shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts. The City may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be the City Attorney, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

(C) No General Liability. No provision of this Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing

that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(D) Owner of Bonds. The City shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Section 6.03. Employment of Agents by City. In order to perform its duties and obligations hereunder, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

ARTICLE VII

THE FISCAL AGENT

Section 7.01. The Fiscal Agent.

(A) **Appointment.** The Fiscal Agent is hereby appointed as the fiscal, authentication, paying and transfer agent hereunder for the Bonds. The Fiscal Agent undertakes to perform such duties, and only such duties, as are specifically set forth in this Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Fiscal Agent.

(B) **Merger.** Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the following paragraph of this Section 7.01 shall be the successor to such Fiscal Agent without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding. The Fiscal Agent shall give the Finance Director written notice of any such succession hereunder.

(C) **Removal.** Upon 30 days written notice, the City may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank, national banking association or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 7.01, combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(D) **Resignation.** The Fiscal Agent may at any time resign by giving written notice to the City by certified mail return receipt requested, and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent.

(E) **No Successor.** If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of this Section 7.01 within forty-five (45) days after the Fiscal Agent shall have given to the City written notice or after a vacancy in the office of the Fiscal Agent shall have occurred by reason of its inability to act, the Fiscal Agent, or any Owner may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent.

(F) **Court Order.** If, by reason of the judgment of any court, the Fiscal Agent is rendered unable to perform its duties hereunder, all such duties and all of the rights and powers of the Fiscal Agent hereunder shall be assumed by and vest in the Finance Director in trust for

the benefit of the Owners. The City covenants for the direct benefit of the Owners that the Finance Director in such case shall be vested with all of the rights and powers of the Fiscal Agent hereunder, and shall assume all of the responsibilities and perform all of the duties of the Fiscal Agent hereunder, in trust for the benefit of the Owners of the Bonds.

Section 7.02. Liability of Fiscal Agent.

(A) General. The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the City, and the Fiscal Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of this Agreement or of the Bonds, nor shall the Fiscal Agent incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it. The Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds. All indemnifications and releases from liability granted to the Fiscal Agent hereunder shall extend to the directors, officers and employees of the Fiscal Agent.

The Fiscal Agent shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Fiscal Agent.

(B) Reliance. The Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, written instructions or opinions furnished to the Fiscal Agent and conforming to the requirements of this Agreement; but in the case of any such certificates, documents, written instructions or opinions by which any provision hereof are specifically required to be furnished to the Fiscal Agent, the Fiscal Agent shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement. Except as provided above in this paragraph, the Fiscal Agent shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in accordance with the terms of this Agreement, upon any resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, facsimile transmission, electronic mail, or other paper or document which it shall reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of this Agreement, and the Fiscal Agent shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

(C) No Duty to Inquire. The Fiscal Agent shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements

of the City or the CFD herein or of any of the documents executed by the City or the CFD in connection with the Bonds, or as to the existence of a default or event of default thereunder.

(D) Errors in Judgment. The Fiscal Agent shall not be liable for any error of judgment made in good faith by a responsible officer of the Fiscal Agent unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts.

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

(F) No Action. The Fiscal Agent shall be under no obligation to exercise any of the rights or powers vested in it by this Agreement at the request or direction of any of the Owners under this Agreement unless such Owners shall have offered to the Fiscal Agent reasonable security or indemnity satisfactory to the Fiscal Agent against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(G) Owner of Bonds. The Fiscal Agent may become the owner of the Bonds with the same rights it would have if it were not the Fiscal Agent.

Section 7.03. Information; Books and Accounts. The Fiscal Agent shall provide to the City such information relating to the Bonds and the funds and accounts maintained by the Fiscal Agent hereunder as the City shall reasonably request, including but not limited to monthly statements reporting funds held and transactions by the Fiscal Agent, including the value of any investments held by the Fiscal Agent. The Fiscal Agent will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the following funds and any accounts in such funds: Administrative Expense Fund, Bond Fund, Special Tax Fund, Reserve Fund, Improvement Fund (including the Allocated Bond Proceeds Account), and Cost of Issuance Fund. Such books of record and accounts shall, upon reasonable notice, during business hours be subject to the inspection of the City and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Section 7.04. Notice to Fiscal Agent. The Fiscal Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, facsimile transmission, electronic mail, written instructions, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Fiscal Agent may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in accordance therewith.

The Fiscal Agent shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under this Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the Fiscal Agent,

be deemed to be conclusively proved and established by an Officer's Certificate of the City, and such certificate shall be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of this Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable..

Section 7.05. Compensation, Indemnification. The City shall pay to the Fiscal Agent from time to time reasonable compensation for all services rendered as Fiscal Agent under this Agreement, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys (including the allocated costs of in-house attorneys), agents and employees, incurred in and about the performance of their powers and duties under this Agreement, but the Fiscal Agent shall not have a lien therefor on any funds at any time held by it under this Agreement. The City further agrees, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents harmless against any liabilities, costs, claims or expenses, including fees and expenses of its attorneys, which it may incur in the exercise and performance of its powers and duties hereunder which are not due to its negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Fiscal Agent under this Agreement, and payment of the Bonds and discharge of this Agreement, but any monetary obligation of the City arising under this Section shall be limited solely to amounts on deposit in the Administrative Expense Fund.

Section 7.06. Conflict of Interest. Through its execution of this Agreement, the Fiscal Agent acknowledges that it is familiar with the provision of Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California, and certifies that it does not know of any facts which constitutes a violation of said provisions and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Agreement.

Section 7.07. Proprietary or Confidential Information of City. The Fiscal Agent understands and agrees that, in the performance of the work or services under this Agreement or in contemplation thereof, the Fiscal Agent may have access to private or confidential information which may be owned or controlled by the City and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to the City. The Fiscal Agent agrees that all information disclosed by the City to the Fiscal Agent shall be held in confidence and used only in performance of the Agreement, provided that, notwithstanding anything herein to the contrary, the foregoing shall not be construed to prohibit (i) disclosure of any and all information that is or becomes publicly known, or information obtained by Fiscal Agent from sources other than the other parties hereto, (ii) disclosure of any and all information (A) if required to do so by any applicable rule or regulation, (B) to any government agency or regulatory body having or claiming authority to regulate or oversee any aspects of Fiscal Agent's business or that of its affiliates, (C) pursuant to any subpoena, civil investigative demand or similar demand or request of any court, regulatory authority, arbitrator or arbitration to which Fiscal Agent or any affiliate or an officer, director, employer or shareholder thereof is a party or (D) to any affiliate, independent or internal auditor, agent, employee or attorney of Fiscal Agent having a need to know the same, provided that Fiscal Agent advises such recipient of the confidential nature of the information being disclosed, or (iii) any other disclosure authorized by the City and this Agreement. The Fiscal Agent shall exercise the same standard of care to protect such information as a reasonably prudent Fiscal Agent would use to protect its own proprietary data.

Section 7.08. Ownership of Results. Any interest of the Fiscal Agent or its subcontractors, in drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by the Fiscal Agent or its subcontractors in connection with services to be performed under this Agreement, shall become the property of and will be transmitted to the City. However, the Fiscal Agent may retain and use copies for reference and as documentation of its experience and capabilities.

Section 7.09. Works for Hire. If, in connection with services performed under this Agreement, the Fiscal Agent or its subcontractors create artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes or any other original works of authorship, such works of authorship shall be works for hire as defined under Title 17 of the United States Code, and all copyrights in such works are the property of the City. If it is ever determined that any works created by the Fiscal Agent or its subcontractors under this Agreement are not works for hire under U.S. law, the Fiscal Agent hereby assigns all copyrights to such works to the City, and agrees to provide any material and execute any documents necessary to effectuate such assignment. With the approval of the City, the Fiscal Agent may retain and use copies of such works for reference and as documentation of its experience and capabilities.

Section 7.10. Audit and Inspection of Records. The Fiscal Agent agrees to maintain and make available to the City, during regular business hours, accurate books and accounting records relating to its work under this Agreement. The Fiscal Agent will permit the City to audit, examine and make excerpts and transcripts from such books and records, and to make audits of all invoices, materials, payrolls, records or personnel and other data related to all other matters covered by this Agreement, whether funded in whole or in part under this Agreement provided, however, that the Fiscal Agent shall not be required to disclose confidential or proprietary information. The Fiscal Agent shall maintain such data and records in an accessible location and condition for a period of not less than five years after final payment under this Agreement, until after final audit has been resolved, or for such longer period as required by its document retention policies and procedures, whichever is later. The State of California or any federal agency having an interest in the subject matter of this Agreement shall have the same rights conferred upon the City by this Section.

Section 7.11. Subcontracting. The Fiscal Agent is prohibited from subcontracting this Agreement or any part of it unless such subcontracting is first approved by the City in writing. Neither party shall, on the basis of this Agreement, contract on behalf of or in the name of the other party. An agreement made in violation of this provision shall confer no rights on any party and shall be null and void.

Section 7.12. Assignment. The services to be performed by the Fiscal Agent are personal in character and neither this Agreement nor any duties or obligations hereunder may be assigned or delegated by the Fiscal Agent unless first approved by the City (except pursuant to Section 7.01(E)) by written instrument executed and approved in the same manner as this Agreement provided, however, that no such approval is required for assignments pursuant to Section 7.01(E) hereof.

Section 7.13. Earned Income Credit (EIC) Forms. Administrative Code Section 120 requires that employers provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can

locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found.

(a) The Fiscal Agent shall provide EIC Forms to each Eligible Employee (i.e., any employee of the Fiscal Agent who is paid at a rate that, on an annualized basis, is not greater than the EIC Limit) at each of the following times: (i) within thirty days following the date on which this Agreement becomes effective (unless the Fiscal Agent has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by the Fiscal Agent; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Agreement.

(b) Failure to comply with any requirement contained in subparagraph (a) of this Section shall constitute a material breach by the Fiscal Agent of the terms of this Agreement. If, within thirty days after the Fiscal Agent receives written notice of such a breach, the Fiscal Agent fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty days, the Fiscal Agent fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Agreement or under applicable law.

(c) Any subcontract entered into by the Fiscal Agent shall require the subcontractor to comply, as to the subcontractor's Eligible Employees, with each of the terms of this Section.

(d) Capitalized terms used in this Section and not defined in this Agreement shall have the meanings assigned to such terms in Section 120 of the Administrative Code.

Section 7.14. Local Business Enterprise Utilization; Liquidated Damages.

(a) The LBE Ordinance. The Fiscal Agent, shall comply with all the requirements of the Local Business Enterprise and Non-Discrimination in Contracting Ordinance set forth in Chapter 14B of the Administrative Code as it now exists or as it may be amended in the future (collectively the "LBE Ordinance"), provided such amendments do not materially increase the Fiscal Agent's obligations or liabilities, or materially diminish the Fiscal Agent's rights, under this Agreement. Such provisions of the LBE Ordinance are incorporated by reference and made a part of this Agreement as though fully set forth in this Section. Fiscal Agent's willful failure to comply with any applicable provisions of the LBE Ordinance is a material breach of the Fiscal Agent's obligations under this Agreement and shall entitle the City, subject to any applicable notice and cure provisions set forth in this Agreement, to exercise any of the remedies provided for under this Agreement, under the LBE Ordinance or otherwise available at law or in equity, which remedies shall be cumulative unless this Agreement expressly provides that any remedy is exclusive. In addition, the Fiscal Agent shall comply fully with all other applicable local, state and federal laws prohibiting discrimination and requiring equal opportunity in contracting, including subcontracting.

(b) Compliance and Enforcement. If the Fiscal Agent willfully fails to comply with any of the provisions of the LBE Ordinance, the rules and regulations implementing the LBE Ordinance, or the provisions of this Agreement pertaining to LBE participation, the Fiscal Agent shall be liable for liquidated damages in an amount equal to the Fiscal Agent's net profit on this Agreement, or 10% of the total amount of this Agreement, or \$1,000, whichever is greatest. The Director of the City's Human Rights Commission or any other public official authorized to enforce the LBE Ordinance (separately and collectively, the "Director of HRC") may also impose other sanctions against the Fiscal Agent authorized in the LBE Ordinance, including declaring

the Fiscal Agent to be irresponsible and ineligible to contract with the City for a period of up to five years or revocation of the Fiscal Agent's LBE certification. The Director of HRC will determine the sanctions to be imposed, including the amount of liquidated damages, after investigation pursuant to Administrative Code Section 14B.17.

By entering into this Agreement, the Fiscal Agent acknowledges and agrees that any liquidated damages assessed by the Director of the HRC shall be payable to the City upon demand. The Fiscal Agent further acknowledges and agrees that any liquidated damages assessed may be withheld from any monies due to the Fiscal Agent on any contract with the City.

The Fiscal Agent agrees to maintain records necessary for monitoring its compliance with the LBE Ordinance for a period of three years following termination or expiration of this Agreement, and shall make such records available for audit and inspection by the Director of HRC or the Controller upon request.

Section 7.15. Nondiscrimination; Penalties.

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

(b) Subcontracts. The Fiscal Agent shall incorporate by reference in all subcontracts the provisions of Sections 12B.2(a), 12B.2(c)-(k), and 12C.3 of the Administrative Code (copies of which are available from Purchasing) and shall require all subcontractors to comply with such provisions. The Fiscal Agent's failure to comply with the obligations in this subsection shall constitute a material breach of this Agreement.

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

(d) Condition to Contract. As a condition to this Agreement, the Fiscal Agent shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (Form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

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

Section 7.16. MacBride Principles—Northern Ireland. Pursuant to Administrative Code Section 12F.5, the City urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing below, the person executing this Agreement on behalf of Fiscal Agent acknowledges and agrees that he or she has read and understood this Section.

Section 7.17. Tropical Hardwood Ban. Pursuant to Section 804(b) of the San Francisco Environment Code, the City urges Fiscal Agent not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

Section 7.18. Drug-Free Workplace Policy. The Fiscal Agent acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on the City premises. The Fiscal Agent agrees that any violation of this prohibition by the Fiscal Agent, its employees, agents or assigns will be deemed a material breach of this Agreement.

Section 7.19. Resource Conservation. Chapter 5 of the San Francisco Environment Code ("Resource Conservation") is incorporated herein by reference. Failure by Fiscal Agent to comply with any of the applicable requirements of Chapter 5 will be deemed a material breach of contract.

Section 7.20. Compliance with Americans with Disabilities Act. The Fiscal Agent acknowledges that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through a Fiscal Agent, must be accessible to the disabled public. The Fiscal Agent shall provide the services specified in this Agreement in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. The Fiscal Agent agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Agreement and further agrees that any violation of this prohibition on the part of Fiscal Agent, its employees, agents or assigns will constitute a material breach of this Agreement.

Section 7.21. Sunshine Ordinance. In accordance with Administrative Code Section 67.24(e), contracts, the Fiscal Agent's bids, responses to solicitations and all other records of communications between the City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person or organization's net worth or other proprietary financial data

submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

Section 7.22. Public Access to Meetings and Records. Only if the Fiscal Agent receives a cumulative total per year of at least \$250,000 in City funds or City-administered funds and is a non-profit organization as defined in Chapter 12L of the Administrative Code, the Fiscal Agent shall comply with and be bound by all the applicable provisions of that Chapter and this Section 11.26; otherwise it will not be required to comply with or be bound by Chapter 12L of the Administrative Code and this Section 11.26. By executing this Agreement, the Fiscal Agent agrees to open its meetings and records to the public in the manner set forth in Sections 12L.4 and 12L.5 of the Administrative Code. The Fiscal Agent further agrees to make good faith efforts to promote community membership on its Board of Directors in the manner set forth in Section 12L.6 of the Administrative Code. The Fiscal Agent acknowledges that its material failure to comply with any of the provisions of this paragraph shall constitute a material breach of this Agreement. The Fiscal Agent further acknowledges that such material breach of the Agreement shall be grounds for the City to terminate and/or not renew the Agreement, partially or in its entirety.

Section 7.23. Limitations on Contributions. Through execution of this Agreement, the Fiscal Agent acknowledges that it is familiar with Section 1.126 of the City's Campaign and Governmental Conduct Code ("Section 1.126"), which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (a) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or a board on which an appointee of that individual serves, (b) a candidate for the office held by such individual, or (c) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The Fiscal Agent acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. The Fiscal Agent further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of the Fiscal Agent's board of directors; the Fiscal Agent's chairperson, the chief executive officer, the chief financial officer and the chief operating officer; any person with an ownership interest of more than 20% in Fiscal Agent; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by the Fiscal Agent. Additionally, the Fiscal Agent acknowledges that the Fiscal Agent must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126.

Section 7.24. Requiring Minimum Compensation for Covered Employees.

(a) Unless the Fiscal Agent is exempt, the Fiscal Agent agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by reference and made a part of this Agreement as though fully set forth. The text of the MCO is available on the web at www.sfgov.org/olse/mco. A partial listing of some of Fiscal Agent's obligations under the MCO is set forth in this Section. Unless the Fiscal Agent is exempt from

such provisions under Section 11.28(j) hereof, the Fiscal Agent is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

(b) The MCO requires Fiscal Agent to pay Fiscal Agent's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and Fiscal Agent is obligated to keep informed of the then-current requirements. Any subcontract entered into by Fiscal Agent shall require the subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Section. It is Fiscal Agent's obligation to ensure that any subcontractors of any tier under this Agreement comply with the requirements of the MCO. If any subcontractor under this Agreement fails to comply, City may pursue any of the remedies set forth in this Section against Fiscal Agent.

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

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

(e) The City is authorized to inspect Fiscal Agent's job sites and conduct interviews with employees and conduct audits of Fiscal Agent.

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

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

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

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

Section 7.25. Requiring Health Benefits for Covered Employees. Unless the Fiscal Agent is exempt (in which event it shall not be required to comply with Chapter 12Q or this Section 11.29), the Fiscal Agent agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance ("HCAO"), as set forth in Administrative Code Chapter 12Q ("Chapter 12Q"), including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Chapter 12Q are incorporated by reference and made a part of this Agreement as though fully set forth herein. The text of the HCAO is available on the web at www.sfgov.org/olse. Capitalized terms used in this Section and not defined in this Agreement shall have the meanings assigned to such terms in Chapter 12Q.

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

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

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

(d) Any Subcontract entered into by the Fiscal Agent shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. The Fiscal Agent shall notify City's Office of Contract Administration when it enters into such a Subcontract and shall certify to the Office of Contract Administration that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. Each Fiscal Agent shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section against the Fiscal Agent based on the Subcontractor's failure to comply, provided that the City has first provided the Fiscal Agent with notice and an opportunity to obtain a cure of the violation.

(e) The Fiscal Agent shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying the City with regard to the Fiscal Agent's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing

any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

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

(g) The Fiscal Agent shall maintain employee and payroll records in compliance with the California Labor Code and Industrial Welfare Commission orders, including the number of hours each employee has worked on the City Contract.

(h) The Fiscal Agent shall keep itself informed of the current requirements of the HCAO.

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

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

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

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

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

Section 7.26. Prohibition on Political Activity with City Funds. In accordance with Administrative Code Chapter 12.G, the Fiscal Agent may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Fiscal Agent Agreement. The Fiscal Agent agrees to comply with Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event The Fiscal Agent violates the provisions of this Section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Agreement, and (ii) prohibit the Fiscal Agent from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider the Fiscal Agent's use of profit as a violation of this Section.

Section 7.27. Preservative-treated Wood Containing Arsenic. The Fiscal Agent may not purchase preservative-treated wood products containing arsenic in the performance of

this Fiscal Agent Agreement unless an exemption from the requirements of Chapter 13 of the San Francisco Environment Code is obtained from the Department of the Environment under Section 1304 of the Code. The term "preservative-treated wood containing arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniacal copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. The Fiscal Agent may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of the Environment. This provision does not preclude the Fiscal Agent from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

Section 7.28. Protection of Private Information. The Fiscal Agent has read and agrees, subject to the following sentence, to the terms set forth in Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. The Fiscal Agent agrees that any failure of Contactor to comply with the requirements of Section 12M.2 of this Chapter shall be a material breach of the Contract provided that, notwithstanding anything herein or in the Administrative Code to the contrary, the foregoing shall not be construed to prohibit (i) disclosure of any and all information that is or becomes publicly known, or information obtained by Fiscal Agent from sources other than the other parties hereto, (ii) disclosure of any and all information (A) if required to do so by any applicable rule or regulation, (B) to any government agency or regulatory body having or claiming authority to regulate or oversee any aspects of Fiscal Agent's business or that of its affiliates, (C) pursuant to any subpoena, civil investigative demand or similar demand or request of any court, regulatory authority, arbitrator or arbitration to which Fiscal Agent or any affiliate or an officer, director, employer or shareholder thereof is a party or (D) to any affiliate, independent or internal auditor, agent, employee or attorney of Fiscal Agent having a need to know the same, provided that Fiscal Agent advises such recipient of the confidential nature of the information being disclosed, or (iii) any other disclosure authorized by the City and this Agreement. In such an event, in addition to any other remedies available to it under equity or law, the City may terminate the Contract, bring a false claim action against the Fiscal Agent pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar the Fiscal Agent.

Section 7.29. Food Service Waste Reduction Requirements. Effective June 1, 2007, the Fiscal Agent agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance applicable to contractors with the City, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Fiscal Agent Agreement as though fully set forth. This provision is a material term of this Fiscal Agent Agreement. By entering into this Agreement, the Fiscal Agent agrees that if it breaches this provision, the City will suffer actual damages that will be impractical or extremely difficult to determine; further, the Fiscal Agent agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is reasonable estimate of the damage that the City will incur based on the violation, established in light of the circumstances existing at the time this Fiscal Agent Agreement was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by the City because of the Fiscal Agent's failure to comply with this provision.

Section 7.30. Graffiti Removal.

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

(B) The Fiscal Agent shall remove all graffiti from any real property owned or leased by the Fiscal Agent in the City within forty eight (48) hours of the earlier of the Fiscal Agent's (a) discovery or notification of the graffiti or (b) receipt of notification of the graffiti from the Department of Public Works. This section is not intended to require the Fiscal Agent to breach any lease or other agreement that it may have concerning its use of the real property. The term "graffiti" means any inscription, word, figure, marking or design that is affixed, marked, etched, scratched, drawn or painted on any building, structure, fixture or other improvement, whether permanent or temporary, including by way of example only and without limitation, signs, banners, billboards and fencing surrounding construction sites, whether public or private, without the consent of the owner of the property or the owner's authorized agent, and which is visible from the public right-of-way. "Graffiti" shall not include: (1) any sign or banner that is authorized by, and in compliance with, the applicable requirements of the San Francisco Public Works Code, the San Francisco Planning Code or the San Francisco Building Code; or (2) any mural or other painting or marking on the property that is protected as a work of fine art under the California Art Preservation Act (California Civil Code Sections 987 et seq.) or as a work of visual art under the Federal Visual Artists Rights Act of 1990 (17 U.S.C. §§ 101 et seq.).

Section 7.31. Slavery Era Disclosure.

(A) The Fiscal Agent acknowledges that this Agreement shall not be binding upon the City until the Director receives the affidavit required by the San Francisco Administrative Code's Chapter 12Y, "San Francisco Slavery Era Disclosure Ordinance."

(B) In the event the Director of Administrative Services finds that the Fiscal Agent has failed to file an affidavit as required by Section 12Y.4(a) and this Agreement, or has willfully filed a false affidavit, the Fiscal Agent shall be liable for liquidated damages in an amount equal to the Fiscal Agent's net profit on the Agreement, 10% of the total amount paid to the Fiscal Agent under the Agreement, or \$1,000, whichever is greatest as determined by the Director of Administrative Services. The Fiscal Agent acknowledges and agrees that the liquidated damages assessed shall be payable to the City upon demand and may be set off against any monies due to the Fiscal Agent from any agreement with the City.

(C) The Fiscal Agent shall maintain records necessary for monitoring its compliance with this provision.

Section 7.32. Qualified Personnel. The Fiscal Agent's work under this Agreement shall be performed only by competent personnel under the supervision of and in the

employment of the Fiscal Agent. The Fiscal Agent will comply with the City's reasonable requests regarding assignment of personnel, but all personnel, including those assigned at the City's request, must be supervised by the Fiscal Agent.

Section 7.33. Responsibility for Equipment. The City shall not be responsible for any damage to persons or property as a result of the use, misuse or failure of any equipment used by the Fiscal Agent, or by any of its employees, even though such equipment be furnished, rented or loaned to the Fiscal Agent by the City.

Section 7.34. Independent Contractor, Payment of Taxes and Other Expenses.

(A) Independent Contractor. The Fiscal Agent or any agent or employee of the Fiscal Agent shall be deemed at all times to be an independent contractor and is wholly responsible for the manner in which it performs the services and work requested by City under this Agreement. The Fiscal Agent or any agent or employee of the Fiscal Agent shall not have employee status with the City, nor be entitled to participate in any plans, arrangements, or distributions by the City pertaining to or in connection with any retirement, health or other benefits that the City may offer its employees. Contractor or any agent or employee of the Fiscal Agent is liable for the acts and omissions of itself, its employees and its agents. The Fiscal Agent shall be responsible for all obligations and payments, whether imposed by federal, state or local law, including, but not limited to, FICA, income tax withholdings, unemployment compensation, insurance, and other similar responsibilities related to the Fiscal Agent's performing services and work, or any agent or employee of the Fiscal Agent providing same. Nothing in this Agreement shall be construed as creating an employment or agency relationship between the City and the Fiscal Agent or any agent or employee of the Fiscal Agent. Any terms in this Agreement referring to direction from the City shall be construed as providing for direction as to policy and the result of the Fiscal Agent's work only, and not as to the means by which such a result is obtained. The City does not retain the right to control the means or the method by which Contractor performs work under this Agreement.

(B) Payment of Taxes and Other Expenses. Should the City, in its discretion, or a relevant taxing authority such as the Internal Revenue Service or the State Employment Development Division, or both, determine that the Fiscal Agent is an employee for purposes of collection of any employment taxes, the amounts payable under this Agreement shall be reduced by amounts equal to both the employee and employer portions of the tax due (and offsetting any credits for amounts already paid by the Fiscal Agent which can be applied against this liability). The City shall then forward those amounts to the relevant taxing authority. Should a relevant taxing authority determine a liability for past services performed by the Fiscal Agent for the City, upon notification of such fact by City, Contractor shall promptly remit such amount due or arrange with the City to have the amount due withheld from future payments to the Fiscal Agent under this Agreement (again, offsetting any amounts already paid by the Fiscal Agent which can be applied as a credit against such liability). A determination of employment status pursuant to the preceding two paragraphs shall be solely for the purposes of the particular tax in question, and for all other purposes of this Agreement, the Fiscal Agent shall not be considered an employee of the City. Notwithstanding the foregoing, should any court, arbitrator, or administrative authority determine that the Fiscal Agent is an employee for any other purpose, then the Fiscal Agent agrees to a reduction in City's financial liability so that City's total expenses under this Agreement are not greater than they would have been had the court, arbitrator, or administrative authority determined that Contractor was not an employee.

Section 7.35. Submitting False Claims; Monetary Penalties. Pursuant to San Francisco Administrative Code §21.35, any contractor, subcontractor or consultant who submits a false claim shall be liable to the City for the statutory penalties set forth in that section. The text of Section 21.35, along with the entire San Francisco Administrative Code is available on the web at <http://www.municode.com/Library/clientCodePage.aspx?clientID=4201>.

A contractor, subcontractor or consultant will be deemed to have submitted a false claim to the City if the contractor, subcontractor or consultant: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City; (c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

Section 7.36. Repeal of Administrative Code Provisions. To the extent that the City repeals any provision of the Administrative Code incorporated, set forth or referenced in Sections 7.06 through 7.35 hereof, other than pursuant to a restatement or amendment of any such provision, such provision, as incorporated, set forth or referenced herein, shall no longer apply to this Agreement or the Fiscal Agent.

Section 7.37. Non-Waiver of Rights. The omission by the City at any time to enforce any default or right reserved to it under this Article VII, or to require performance of any of the terms, covenants, or provisions set forth in this Article VIII, shall not be a waiver of any such default or right to which the City is entitled, nor shall it in any way affect the right of the City to enforce such provisions thereafter.

ARTICLE VIII

MODIFICATION OR AMENDMENT

Section 8.01. Amendments Permitted.

(A) With Consent. This Agreement and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 8.04. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the City of any pledge or lien upon the Special Taxes superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or this Agreement), or reduce the percentage of Bonds required for the amendment hereof.

(B) Without Consent. This Agreement and the rights and obligations of the City and of the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City herein, other covenants and agreements thereafter to be observed, or (b) to limit or surrender any right or power herein reserved to or conferred upon the City;

(ii) to make modifications not adversely affecting any Outstanding Bonds in any material respect, including, but not limited to, amending the Rate and Method, so long as the amendment does not result in debt service coverage less than that set forth in Section 3.06(E);

(iii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Agreement, or in regard to questions arising under this Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with this Agreement, and which shall not adversely affect the rights of the Owners of the Bonds;

(iv) to make such additions, deletions or modifications as may be necessary or desirable to assure exclusion from gross income for federal income tax purposes of interest on the Bonds;

(v) in connection with the issuance of any Parity Bonds under and pursuant to Section 3.06.

(C) Fiscal Agent's Consent. Any amendment of this Agreement may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent shall be furnished an opinion of counsel that any such Supplemental Agreement entered into by the

City and the Fiscal Agent complies with the provisions of this Section 8.01 and the Fiscal Agent may conclusively rely on such opinion and shall be absolutely protected in so relying.

Section 8.02. Owners' Meetings. The City may at any time call a meeting of the Owners. In such event the City is authorized to fix the time and place of said meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of said meeting.

Section 8.03. Procedure for Amendment with Written Consent of Owners. The City and the Fiscal Agent may at any time adopt a Supplemental Agreement amending the provisions of the Bonds or of this Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by Section 8.01(A), to take effect when and as provided in this Section 8.03. A copy of such Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, by the Fiscal Agent, at the expense of the City), to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in this Section 8.03 provided.

Such Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in Section 8.04) and a notice shall have been mailed as hereinafter in this Section 8.03 provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 9.04. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice hereinafter in this Section 8.03 provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner hereinbefore provided in this Section 8.03 for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section 8.03 (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Fiscal Agent. A record, consisting of the papers required by this Section 8.03 to be filed with the Fiscal Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in this Article) upon the City and the Owners of all Bonds at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty-day period.

Section 8.04. Disqualified Bonds. Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in this Article VIII, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Article VIII. Upon request of the Fiscal Agent, the City shall specify in a certificate to

the Fiscal Agent those Bonds disqualified pursuant to this Section and the Fiscal Agent may conclusively rely on such certificate.

Section 8.05. Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective under this Article VIII, this Agreement shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations under this Agreement of the City, the Fiscal Agent and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments; and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of this Agreement for any and all purposes.

Section 8.06. Endorsement or Replacement of Bonds Issued After Amendments. The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in this Article VIII shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his Bond for that purpose at the Principal Office of the Fiscal Agent or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such Owners' action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Fiscal Agent without cost to any Owner, for Bonds then Outstanding, upon surrender of such Bonds.

Section 8.07. Amendatory Endorsement of Bonds. The provisions of this Article VIII shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Benefits of Agreement Limited to Parties. Nothing in this Agreement, expressed or implied, is intended to give to any person other than the City, the Fiscal Agent and the Owners, any right, remedy, claim under or by reason of this Agreement. Any covenants, stipulations, promises or agreements in this Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Fiscal Agent.

Section 9.02. Successor and Predecessor. Whenever in this Agreement or any Supplemental Agreement either the City or the Fiscal Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Agreement contained by or on behalf of the City or the Fiscal Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 9.03. Discharge of Agreement. If the City shall pay and discharge the entire indebtedness on all or any portion of Bonds Outstanding in any one or more of the following ways:

(A) by paying or causing to be paid the principal of, and interest and any premium on, all Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds and accounts provided for in the Bond Fund and the Reserve Fund hereof, is fully sufficient to pay all Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Fiscal Agent, in trust, cash and/or Federal Securities in such amount as the City shall determine, as confirmed by an independent certified public accountant, will, together with the interest to accrue thereon and moneys then on deposit in the fund and accounts provided for in the Bond Fund and the Reserve Fund (to the extent invested in Federal Securities), be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City shall have taken any of the actions specified in (A), (B) or (C) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in this Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the Special Taxes and other funds provided for in this Agreement and all other obligations of the City under this Agreement with respect to such Bonds shall cease and terminate. Notice of such election shall be filed with the Fiscal Agent.

Notwithstanding the foregoing, the following obligations and pledges of the City shall continue in any event: (i) the obligation of the City to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, (ii) the obligation of the City to pay amounts owing to the Fiscal Agent pursuant to Section 7.05, and (iii) the obligation of the City to assure that no action is taken or failed to be taken if such action or failure adversely affects the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Upon compliance by the City with the foregoing with respect to all Bonds Outstanding, any funds held by the Fiscal Agent after payment of all fees and expenses of the Fiscal Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the City and any Special Taxes thereafter received by the City shall not be remitted to the Fiscal Agent but shall be retained by the City to be used for any purpose permitted under the Act.

Section 9.04. Execution of Documents and Proof of Ownership by Owners. Any request, declaration, consent or other instrument which this Agreement may require or permit to be executed by Owners may be in one or more instruments of similar tenor, and shall be executed by Owners in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, declaration, consent or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the ownership of registered Bonds and the amount, maturity, number and date of holding the same shall be proved by the registration books maintained by the Fiscal Agent under Section 2.07.

Any request, declaration, consent or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Fiscal Agent in good faith and in accordance therewith.

Section 9.05. Waiver of Personal Liability. No Board member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of or interest or any premium on the Bonds; but nothing herein contained shall relieve any such Board member, officer, agent or employee from the performance of any official duty provided by law.

Section 9.06. Notices to and Demands on City and Fiscal Agent. Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the Fiscal Agent to or on the City may be given or served by facsimile transmission receipt of which has been confirmed or by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the City with the Fiscal Agent) as follows:

City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
City Hall, Room 336
San Francisco, CA 94102
Attn: Controller

Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the City to or on the Fiscal Agent may be given or served by facsimile transmission receipt of which has been confirmed or by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the Fiscal Agent with the City) as follows:

[Fiscal Agent]
Corporate Trust Department
[address to come]
Fax: [to come]

Section 9.07. Partial Invalidity. If any Section, paragraph, sentence, clause or phrase of this Agreement shall for any reason be held by a court of competent jurisdiction to be illegal or unenforceable, such holding shall not affect the validity of the remaining portions of this Agreement. The City hereby declares that it would have adopted this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of this Agreement may be held illegal, invalid or unenforceable.

Section 9.08. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Fiscal Agent for the payment and discharge of the principal of, and the interest and any premium on, the Bonds which remains unclaimed for two (2) years after the date when the payment of such principal, interest and premium have become payable, if such moneys were held by the Fiscal Agent at such date, shall be repaid by the Fiscal Agent to the City as its absolute property free from any trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners of such Bonds shall look only to the City for the payment of the principal of, and interest and any premium on, such Bonds. Any right of any Owner to look to the City for such payment shall survive only so long as required under applicable law.

Section 9.09. Applicable Law. This Agreement shall be governed by and enforced in accordance with the laws of the State applicable to contracts made and performed in the State.

Section 9.10. Conflict with Act. In the event of a conflict between any provision of this Agreement with any provision of the Act as in effect on the Closing Date, the provision of the Act shall prevail over the conflicting provision of this Agreement.

Section 9.11. Conclusive Evidence of Regularity. Bonds issued under this Agreement shall constitute conclusive evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Section 9.12. Payment on Business Day. In any case where the date of the maturity of interest or of principal (and premium, if any) of the Bonds, or the date fixed for redemption of

any Bonds, or the date any action is to be taken under this Agreement, is other than a Business Day, the payment of interest or principal (and premium, if any) or the action shall be made on the next succeeding day which is a Business Day with the same force and effect as if made on the date required and no interest shall accrue for the period from and after such date.

Section 9.13. State Reporting Requirements. In addition to Section 5.15, the following requirements shall apply to the Bonds:

(A) Annual Reporting. Not later than October 30 of each calendar year, beginning with the October 30 first succeeding the date of the 2017 Bonds, and in each calendar year thereafter until the October 30 following the final maturity of the Bonds, the Finance Director shall cause the information required by Government Code Section 53359.5(b) to be supplied to CDIAC. The annual reporting shall be made using such form or forms as may be prescribed by CDIAC.

(B) Other Reporting. If at any time the Fiscal Agent fails to pay principal and interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal and interest on the Bonds so as to reduce the amount in the Reserve Fund to less than the Reserve Requirement, the Fiscal Agent shall notify the Finance Director of such failure or withdrawal in writing. The Finance Director shall notify CDIAC and the Original Purchasers of such failure or withdrawal within 10 days of such failure or withdrawal.

(C) Special Tax Reporting. The Finance Director shall file a report with the City no later than January 1, 2018, and at least once a year thereafter, which annual report shall contain: (i) the amount of Special Taxes collected and expended with respect to the CFD, (ii) the amount of Bond proceeds collected and expended with respect to the CFD, and (iii) the status of the Project. It is acknowledged that the Special Tax Fund and the Special Tax Prepayments Account are the accounts into which Special Taxes collected on the City will be deposited for purposes of Section 50075.1(c) of the California Government Code, and the funds and accounts listed in Section 4.01 are the funds and accounts into which Bond proceeds will be deposited for purposes of Section 53410(c) of the California Government Code, and the annual report described in the preceding sentence is intended to satisfy the requirements of Sections 50075.1(d), 50075.3(d) and 53411 of the California Government Code.

(D) Compliance with Section 53343.2. The City shall comply with the provisions of Section 53343.2, which require the City, within seven months after the last day of each fiscal year of the CFD, to display prominently on its Internet Web site all of the following information:

(a) A copy of an annual report for that fiscal year if requested pursuant to Section 53343.1.

(b) A copy of the report provided to the California Debt and Investment Advisory Commission pursuant to Section 53359.5.

(c) A copy of the report provided to the Controller's office pursuant to Section 12463.2.

(E) Amendment. The reporting requirements of this Section 9.13 shall be amended from time to time, without action by the City or the Fiscal Agent (i) with respect to subparagraphs (A) and (B) above, to reflect any amendments to Section 53359.5(b) or Section

53359.5(c) of the Act, (ii) with respect to subparagraph (C) above, to reflect any amendments to Section 50075.1, 50075.3, 53410 or 53411 of the California Government Code and (iii) with respect to subparagraph (D) above, to reflect any amendments to Section 53343.2. Notwithstanding the foregoing, any such amendment shall not, in itself, affect the City's obligations under the Continuing Disclosure Certificate. The City shall notify the Fiscal Agent in writing of any such amendments which affect the reporting obligations of the Fiscal Agent under this Agreement.

(E) No Liability. None of the City and its officers, agents and employees, the Finance Director or the Fiscal Agent shall be liable for any inadvertent error in reporting the information required by this Section 9.13.

The Finance Director shall provide copies of any such reports to any Bondowner upon the written request of a Bondowner and payment by the person requesting the information of the cost of the City to photocopy and pay any postage or other delivery cost to provide the same, as determined by the Finance Director. The term "Bondowner" for purposes of this Section 9.13 shall include any Beneficial Owner of the Bonds as described in Section 2.13.

Section 9.14. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the City and the Fiscal Agent have caused this Agreement to be executed as of the date first written above.

CITY AND COUNTY OF SAN FRANCISCO,
for and on behalf of
COMMUNITY FACILITIES DISTRICT
2014-1 (Transbay Transit Center)

By: _____
Director of the Office of Public Finance

[FISCAL AGENT],
as Fiscal Agent

By: _____
Authorized Officer

EXHIBIT A-1

FORM OF 2017A BOND

No. ____

\$_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

CITY AND COUNTY OF SAN FRANCISCO
Community Facilities CFD 2014-1
(Transbay Transit Center)
Special Tax Bond, Series 2017A

INTEREST RATE

MATURITY DATE

DATED DATE

____%

September 1, _____

REGISTERED OWNER:

PRINCIPAL AMOUNT:

*****DOLLARS

The City and County of San Francisco (the "City") for and on behalf of the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center)" (the "CFD"), for value received, hereby promises to pay solely from the Special Tax (as hereinafter defined) to be collected in the CFD or amounts in certain funds and accounts held under the Agreement (as hereinafter defined), to the registered owner named above, or registered assigns, on the maturity date set forth above, unless redeemed prior thereto as hereinafter provided, the principal amount set forth above, and to pay interest on such principal amount from Dated Date set forth above, or from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for (unless this Bond is authenticated on or before an Interest Payment Date (as hereinafter defined) and after the close of business on the Record Date (as hereinafter defined) preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or prior to August 15, 20__, in which event it shall bear interest from the Dated Date identified above, payable semiannually on each September 1 and March 1, commencing ____ 1, 20__ (each an "Interest Payment Date"), at the interest rate set forth above, until the principal amount hereof is paid or made available for payment provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment.

Principal of and interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent (defined below) mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date. The principal of the Bonds and any premium on the Bonds are

payable in lawful money of the United States of America upon surrender of the Bonds at the Principal Office of the Fiscal Agent or such other place as designated by the Fiscal Agent.

This Bond is one of a duly authorized issue of bonds in the aggregate principal amount of \$_____ approved by Resolution No. 2-15 of the Board of Supervisors of the City, as supplemented by Resolution No. ___ of the Board of Supervisors of the City (together, the "Resolution"), under the Mello-Roos Community Facilities Act of 1982, as amended, sections 53311, *et seq.*, of the California Government Code (the "Act") for the purpose of funding certain facilities for the CFD, and is one of the series of bonds designated "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A" (the "Bonds"). The issuance of the Bonds and the terms and conditions thereof are provided for by a Fiscal Agent Agreement, dated as of _____, 20__ (the "Agreement"), between the City and the [Fiscal Agent] (the "Fiscal Agent") and this reference incorporates the Agreement herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. The Agreement is authorized under, this Bond is issued under and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act, the Resolution and the Agreement, the principal of and interest on this Bond are payable solely from the annual special tax authorized under the Act to be collected within the CFD (the "Special Tax") and certain funds held under the Agreement. Any tax for the payment hereof shall be limited to the Special Tax, except to the extent that provision for payment has been made by the City, as may be permitted by law. The Bonds do not constitute obligations of the City for which the City is obligated to levy or pledge, or has levied or pledged, general or special taxation other than described hereinabove. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Agreement) or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Optional Redemption. The Bonds maturing on or after September 1, _____ are subject to redemption prior to their stated maturities, on any date on and after September 1, _____, in whole or in part, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Term Bond maturing on September 1, _____ is subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts all as set forth in the following table:

Sinking Fund
Redemption Date
(September 1)

Principal Amount
Subject to Redemption

Provided, however, if some but not all of the Term Bonds have been redeemed as a result of an optional redemption or a mandatory redemption, the total amount of all future Sinking Fund Payments shall be reduced by the aggregate principal amount of Term Bonds so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$5,000 as determined by the Fiscal Agent, notice of which determination shall be given by the Fiscal Agent to the City.

Redemption From Special Tax Prepayments. The Bonds are also subject to redemption from the proceeds of Special Tax Prepayments and any corresponding transfers from the Reserve Fund pursuant to the Agreement on any Interest Payment Date, among maturities so as to maintain substantially the same debt service profile as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

| <u>Redemption Date</u> | <u>Redemption Price</u> |
|------------------------------------------------|-------------------------|
| On or before September 1, 20__ | ___% |
| On September 2, 20__ through September 1, 20__ | ___ |
| On September 2, 20__ and thereafter | ___ |

Under the terms of the Agreement, in the event the City pays and discharges the entire indebtedness on all or any portion on the Bonds Outstanding (as such term is defined therein) in one or more of the ways specified therein, the pledge of the Special Taxes and other funds provided for in the Agreement and all other obligations of the City under the Agreement with respect to such Bonds shall cease and terminate.

Notice of redemption with respect to the Bonds to be redeemed shall be given to the registered owners thereof, in the manner, to the extent and subject to the provisions of the Agreement. The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Fiscal Agent on or prior to the date fixed for redemption as further described in the Agreement.

This Bond shall be registered in the name of the owner hereof, as to both principal and interest. Each registration and transfer of registration of this Bond shall be entered by the Fiscal Agent in books kept by it for this purpose and authenticated by its manual signature upon the certificate of authentication endorsed hereon.

No transfer or exchange hereof shall be valid for any purpose unless made by the registered owner, by execution of the form of assignment endorsed hereon, and authenticated as herein provided, and the principal hereof, interest hereon and any redemption premium shall be payable only to the registered owner or to such owner's order. The Fiscal Agent shall require the registered owner requesting transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange. No transfer or exchange hereof shall be required to be made in the circumstances set forth in the Fiscal Agent Agreement.

The Agreement and the rights and obligations of the City thereunder may be modified or amended as set forth therein. The principal of the Bonds is not subject to acceleration upon a default under the Agreement or any other document.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Fiscal Agent.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED by the City that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond have existed, happened and been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Fiscal Agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

IN WITNESS WHEREOF, City and County of San Francisco has caused this Bond to be to be signed by the facsimile signature of its Mayor and countersigned by the facsimile signature of the Clerk of the Board of Supervisors with the seal of the City imprinted hereon.

[S E A L]

Clerk of the Board of Supervisors

Mayor

[FORM OF FISCAL AGENT'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the Agreement which has been authenticated on _____, 20__.

[FISCAL AGENT],
as Fiscal Agent

By: _____
Authorized Signatory

FORM OF ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto

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

the within Bond and do(es) hereby irrevocably constitute and appoint _____
_____, attorney, to transfer the same on the registration books of the Fiscal Agent, with
full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Fiscal Agent.

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

EXHIBIT A-2

FORM OF 2017B BOND

No. ____

\$_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

CITY AND COUNTY OF SAN FRANCISCO
Community Facilities CFD 2014-1
(Transbay Transit Center)
Special Tax Bond, Series 2017B (Federally Taxable)

INTEREST RATE

MATURITY DATE

DATED DATE

____%

September 1, _____

REGISTERED OWNER:

PRINCIPAL AMOUNT:

*****DOLLARS

The City and County of San Francisco (the "City") for and on behalf of the "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center)" (the "CFD"), for value received, hereby promises to pay solely from the Special Tax (as hereinafter defined) to be collected in the CFD or amounts in certain funds and accounts held under the Agreement (as hereinafter defined), to the registered owner named above, or registered assigns, on the maturity date set forth above, unless redeemed prior thereto as hereinafter provided, the principal amount set forth above, and to pay interest on such principal amount from Dated Date set forth above, or from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for (unless this Bond is authenticated on or before an Interest Payment Date (as hereinafter defined) and after the close of business on the Record Date (as hereinafter defined) preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or prior to August 15, 20__, in which event it shall bear interest from the Dated Date identified above, payable semiannually on each September 1 and March 1, commencing ____ 1, 20__ (each an "Interest Payment Date"), at the interest rate set forth above, until the principal amount hereof is paid or made available for payment provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment.

Principal of and interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent (defined below) mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior

to the applicable Record Date. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America upon surrender of the Bonds at the Principal Office of the Fiscal Agent or such other place as designated by the Fiscal Agent.

This Bond is one of a duly authorized issue of bonds in the aggregate principal amount of \$_____ approved by Resolution No. 2-15 of the Board of Supervisors of the City, as supplemented by Resolution No. ___ of the Board of Supervisors of the City (together, the "Resolution"), under the Mello-Roos Community Facilities Act of 1982, as amended, sections 53311, *et seq.*, of the California Government Code (the "Act") for the purpose of funding certain facilities for the CFD, and is one of the series of bonds designated "City and County of San Francisco Community Facilities District 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017B (Federally Taxable)" (the "Bonds"). The issuance of the Bonds and the terms and conditions thereof are provided for by a Fiscal Agent Agreement, dated as of _____, 20__ (the "Agreement"), between the City and the [Fiscal Agent] (the "Fiscal Agent") and this reference incorporates the Agreement herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. The Agreement is authorized under, this Bond is issued under and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act, the Resolution and the Agreement, the principal of and interest on this Bond are payable solely from the annual special tax authorized under the Act to be collected within the CFD (the "Special Tax") and certain funds held under the Agreement. Any tax for the payment hereof shall be limited to the Special Tax, except to the extent that provision for payment has been made by the City, as may be permitted by law. The Bonds do not constitute obligations of the City for which the City is obligated to levy or pledge, or has levied or pledged, general or special taxation other than described hereinabove. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Agreement) or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Optional Redemption. The Bonds maturing on or after September 1, _____ are subject to redemption prior to their stated maturities, on any date on and after September 1, _____, in whole or in part, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Term Bond maturing on September 1, _____ is subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts all as set forth in the following table:

Sinking Fund
Redemption Date
(September 1)

Principal Amount
Subject to Redemption

Provided, however, if some but not all of the Term Bonds have been redeemed as a result of an optional redemption or a mandatory redemption, the total amount of all future Sinking Fund Payments shall be reduced by the aggregate principal amount of Term Bonds so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$5,000 as determined by the Fiscal Agent, notice of which determination shall be given by the Fiscal Agent to the City.

Redemption From Special Tax Prepayments. The Bonds are also subject to redemption from the proceeds of Special Tax Prepayments and any corresponding transfers from the Reserve Fund pursuant to the Agreement on any Interest Payment Date, among maturities so as to maintain substantially the same debt service profile as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

| <u>Redemption Date</u> | <u>Redemption Price</u> |
|------------------------------------------------|-------------------------|
| On or before September 1, 20__ | ___% |
| On September 2, 20__ through September 1, 20__ | ___ |
| On September 2, 20__ and thereafter | ___ |

Under the terms of the Agreement, in the event the City pays and discharges the entire indebtedness on all or any portion on the Bonds Outstanding (as such term is defined therein) in one or more of the ways specified therein, the pledge of the Special Taxes and other funds provided for in the Agreement and all other obligations of the City under the Agreement with respect to such Bonds shall cease and terminate.

Notice of redemption with respect to the Bonds to be redeemed shall be given to the registered owners thereof, in the manner, to the extent and subject to the provisions of the Agreement. The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Fiscal Agent on or prior to the date fixed for redemption as further described in the Agreement.

This Bond shall be registered in the name of the owner hereof, as to both principal and interest. Each registration and transfer of registration of this Bond shall be entered by the Fiscal Agent in books kept by it for this purpose and authenticated by its manual signature upon the certificate of authentication endorsed hereon.

No transfer or exchange hereof shall be valid for any purpose unless made by the registered owner, by execution of the form of assignment endorsed hereon, and authenticated as herein provided, and the principal hereof, interest hereon and any redemption premium shall be payable only to the registered owner or to such owner's order. The Fiscal Agent shall require the registered owner requesting transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange. No transfer or exchange hereof shall be required to be made in the circumstances set forth in the Fiscal Agent Agreement.

The Agreement and the rights and obligations of the City thereunder may be modified or amended as set forth therein. The principal of the Bonds is not subject to acceleration upon a default under the Agreement or any other document.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Fiscal Agent.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED by the City that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond have existed, happened and been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Fiscal Agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

IN WITNESS WHEREOF, City and County of San Francisco has caused this Bond to be to be signed by the facsimile signature of its Mayor and countersigned by the facsimile signature of the Clerk of the Board of Supervisors with the seal of the City imprinted hereon.

[S E A L]

Clerk of the Board of Supervisors

Mayor

[FORM OF FISCAL AGENT'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the Agreement which has been authenticated on _____, 20__.

[FISCAL AGENT],
as Fiscal Agent

By: _____
Authorized Signatory

FORM OF ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto

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

the within Bond and do(es) hereby irrevocably constitute and appoint _____
_____, attorney, to transfer the same on the registration books of the Fiscal Agent, with
full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Fiscal Agent.

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

EXHIBIT B

\$ _____
City and County of San Francisco
Community Facilities District 2014-1
(Transbay Transit Center)
Special Tax Bonds, Series 2017A

\$ _____
City and County of San Francisco
Community Facilities District 2014-1
(Transbay Transit Center)
Special Tax Bonds, Series 2017B
(Federally Taxable)

OFFICER'S CERTIFICATE REQUESTING DISBURSEMENT FROM IMPROVEMENT FUND

REQUISITION NO. _____

The undersigned hereby states and certifies that:

(i) I am the duly appointed, qualified and acting Director of the Office of Public Finance of the City and County of San Francisco, a chartered city duly organized and existing under the Constitution and the laws of the State of California (the "City") and as such, am familiar with the facts herein certified and am authorized to certify the same.

(ii) I am an "Authorized Officer," as such term is defined in that certain Fiscal Agent Agreement, dated as of _____, 20__ (the "Fiscal Agent Agreement"), by and between the City and [Fiscal Agent], as fiscal agent (the "Fiscal Agent");

(iii) Under Section 4.07(B) of the Fiscal Agent Agreement, the undersigned hereby requests and authorizes the Fiscal Agent to disburse from the Improvement Fund established under the Fiscal Agent Agreement to each payee designated on Schedule A attached hereto and by this reference incorporated herein, the amount set forth opposite such payee, for payment or reimbursement of previous payment of a Project cost (as Project is defined in the Fiscal Agent Agreement) as described on attached Schedule A. Payments shall be made by check or wire transfer in accordance with the payment instructions set forth on Schedule A (or the invoice attached thereto) and the Fiscal Agent shall rely on such payment instructions as though given by the City with no duty to investigate or inquire as to the authenticity of the invoice or the payment instructions contained therein or the authority under which they were given.

(iv) The proposed requisition from the Improvement Fund and expenditure of such moneys complies with the JCFA (as defined in the Fiscal Agent Agreement).

(v) No portion of the amount herein requested to be disbursed was set forth in any Officers Certificate previously filed requesting disbursement.

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Director of the Office of Public Finance

SCHEDULE A

| Payee Name and Address | Purpose of Obligation | Amount from 2017A Improvement Account | Amount from Allocated Bond Proceeds Account |
|-------------------------------|------------------------------|----------------------------------------------|----------------------------------------------------|
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EXHIBIT C

\$ _____
City and County of San Francisco
Community Facilities District 2014-1
(Transbay Transit Center)
Special Tax Bonds, Series 2017A

\$ _____
City and County of San Francisco
Community Facilities District 2014-1
(Transbay Transit Center)
Special Tax Bonds, Series 2017B
(Federally Taxable)

**OFFICER'S CERTIFICATE REQUESTING DISBURSEMENT
FROM COSTS OF ISSUANCE FUND**

REQUISITION NO. _____

The undersigned hereby states and certifies that:

(i) I am the duly appointed, qualified and acting Director of the Office of Public Finance of the City and County of San Francisco, a chartered duly organized and existing under the Constitution and the laws of the State of California (the "City") and as such, am familiar with the facts herein certified and am authorized to certify the same;

(ii) I am an "Authorized Officer," as such term is defined in that certain Fiscal Agent Agreement, dated as of _____, 20__ (the "Fiscal Agent Agreement"), by and between the City and [Fiscal Agent], as fiscal agent (the "Fiscal Agent");

(iii) Under Section 4.02 of the Fiscal Agent Agreement, the undersigned hereby requests and authorizes the Fiscal Agent to disburse from the 2017A Costs of Issuance Account and/or the 2017B Costs of Issuance Account established under the Fiscal Agent Agreement to each payee designated on Schedule A attached hereto and by this reference incorporated herein, the amount set forth in an invoice submitted by each such payee but no more than the amount set forth opposite such payee, for payment or reimbursement of previous payment of Costs of Issuance (as that term is defined in the Fiscal Agent Agreement) as described on attached Schedule A. Payments shall be made by check or wire transfer in accordance with the payment instructions set forth on Schedule A (or the invoice attached thereto) and the Fiscal Agent shall rely on such payment instructions as though given by the City with no duty to investigate or inquire as to the authenticity of the invoice or the payment instructions contained therein or the authority under which they were given.

(iv) The disbursements described on the attached Schedule A constitute Costs of Issuance, and are properly chargeable to the 2017A Costs of Issuance Account and/or the 2017B Costs of Issuance Account.

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Director of the Office of Public Finance

SCHEDULE A

| Payee Name and Address | Purpose of Obligation | Amount – 2017A Costs of Issuance Account | Amount – 2017B Costs of Issuance Account |
|-------------------------------|------------------------------|---------------------------------------------------------|---------------------------------------------------------|
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EXHIBIT D

\$ _____
City and County of San Francisco
Community Facilities District 2014-1
(Transbay Transit Center)
Special Tax Bonds, Series 2017A

\$ _____
City and County of San Francisco
Community Facilities District 2014-1
(Transbay Transit Center)
Special Tax Bonds, Series 2017B
(Federally Taxable)

**OFFICER'S CERTIFICATE REQUESTING DISBURSEMENT
FROM ADMINISTRATIVE EXPENSE FUND**

REQUISITION NO. _____

The undersigned hereby states and certifies that:

(i) I am the duly appointed, qualified and acting Director of the Office of Public Finance of the City and County of San Francisco, a chartered duly organized and existing under the Constitution and the laws of the State of California (the "City") and as such, am familiar with the facts herein certified and am authorized to certify the same;

(ii) I am an "Authorized Officer," as such term is defined in that certain Fiscal Agent Agreement, dated as of _____, 20__ (the "Fiscal Agent Agreement"), by and between the City and [Fiscal Agent], as fiscal agent (the "Fiscal Agent").

(iii) Under Section 4.06(B) of the Fiscal Agent Agreement, the undersigned hereby requests and authorizes the Fiscal Agent to disburse from the Administrative Expense Fund established under the Fiscal Agent Agreement to each payee designated on Schedule A attached hereto and by this reference incorporated herein, the amount set forth opposite such payee, for payment or reimbursement of previous payment of an Administrative Expense or Costs of Issuance (as those terms are defined in the Fiscal Agent Agreement) as described on attached Schedule A. Payments shall be made by check or wire transfer in accordance with the payment instructions set forth on Schedule A (or the invoice attached thereto).

(iv) The disbursements described on the attached Schedule A constitute Administrative Expenses or Costs of Issuance, and are properly chargeable to the Administrative Expense Fund.

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Director of the Office of Public Finance

SCHEDULE A

| Payee Name and Address | Purpose of Obligation | Amount |
|-----------------------------------|----------------------------------|---------------|
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**CITY AND COUNTY OF SAN FRANCISCO
COMMUNITY FACILITIES DISTRICT NO. 2014-1
(TRANSBAY TRANSIT CENTER)**

\$ _____
Special Tax Bonds, Series 2017A

\$ _____
Special Tax Bonds, Series 2017B
(Federally Taxable)

BOND PURCHASE AGREEMENT

_____, 2017

City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 336
San Francisco, California 94102

Ladies and Gentlemen:

The undersigned, Stifel, Nicolaus & Co. Incorporated (the "Underwriter"), hereby offers to enter into this agreement (this "Purchase Agreement") with the City and County of San Francisco (the "City") in connection with the sale by the City on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "District") of the Bonds (defined below). This offer is made subject to the acceptance by the City and execution and delivery of this Purchase Agreement on or before 11:59 p.m., California time, on the date hereof and, if not so accepted by the City, will be subject to withdrawal by the Underwriter upon written notice (by e-mail or otherwise) from the Underwriter delivered to the City at any time prior to the acceptance of this Purchase Agreement by the City. If the Underwriter withdraws this offer, or the Underwriter's obligation to purchase the Bonds (defined below) is otherwise terminated pursuant to Section 10 hereof, then the City shall be without any further obligation to the Underwriter, including the payment of any costs set forth under Section 13(a) hereof, and the City shall be free to sell the Bonds to any other party. Capitalized terms used in this Purchase Agreement and not otherwise defined herein shall have the respective meanings set forth in the Official Statement (defined below) or in the Fiscal Agent Agreement (defined below).

The Underwriter represents and warrants that this Purchase Agreement, assuming due and legal execution and delivery thereof by, and validity against, the City, when executed by the Underwriter, will be a legal, valid and binding obligation of the Underwriter enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally.

The City acknowledges and agrees that (a) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm's-length, commercial transaction between the City and the Underwriter in which the Underwriter is acting solely as a principal and is not acting as a municipal advisor (within the meaning of Section 15B of the Securities Exchange Act of 1934, as amended), financial advisor, fiscal consultant or fiduciary of the City or the District; (b) the Underwriter has not assumed any advisory or fiduciary responsibility to the City or the District with respect to the Purchase Agreement, the offering of the Bonds and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of an Underwriter, has provided other services or is currently providing other services to the City or the District on other matters); (c) the Underwriter has financial and other interests that differ from those of the City or the District; and (d) the City and the District have consulted with their own legal, accounting, tax, financial and other advisors, as applicable, to the extent they have deemed appropriate.

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth in this Purchase Agreement, the Underwriter hereby agrees to purchase from the City, and the City agrees to sell and deliver on behalf of the District to the Underwriter, all (but not less than all) of the \$_____ aggregate principal amount of Special Tax Bonds, Series 2017A (the "2017A Bonds") and \$_____ aggregate principal amount of Special Tax Bonds, Series 2017B (Federally Taxable) (the "2017B Bonds" and, together with the 2017A Bonds, the "Bonds").

Section 2. The purchase price for the 2017A Bonds shall be \$_____ (calculated as the aggregate principal amount of the 2017A Bonds \$_____ [plus/minus] a [net] original issue [premium/discount] in the amount of \$_____ and less underwriter's discount in the amount of \$_____). The purchase price for the 2017B Bonds shall be \$_____ (calculated as the aggregate principal amount of the 2017B Bonds \$_____, less original issue discount in the amount of \$_____, less underwriter's discount in the amount of \$_____). The "Net Purchase Price" due at Closing shall be \$_____ which is the aggregate purchase price for the 2017A Bonds and the 2017B Bonds, [less the amount of the Good Faith Deposit of \$_____ required per Section 12 hereof.]

The Bonds will be dated their date of delivery and will mature, subject to prior redemption, on September 1 in each year, in the amounts as set forth in Schedule I attached hereto. The Bonds will be subject to redemption prior to maturity as shown on Schedule I. The Bonds will bear interest at the interest rates set forth in Schedule I. Interest shall be payable on each March 1 and September 1, commencing _____, 201____ until maturity or earlier redemption.

Interest on the 2017A Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and the Bonds will be exempt from State of California (the "State") personal income taxes, all as further described in the Official Statement, dated the date hereof, and relating to the Bonds, as further defined below.

Section 3. Preliminary Official Statement and Official Statement. The City ratifies, approves and confirms the distribution of the Preliminary Official Statement with respect to the Bonds, dated _____, 2017 (together with the appendices thereto, any documents incorporated therein by reference, and any supplements or amendments thereto, the "Preliminary Official Statement"), in connection with the offering and sale of the Bonds by the Underwriter prior to the availability of the Official Statement. The City represents that the Preliminary Official Statement was deemed final as of its date for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the omission of offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity date, delivery date, ratings and other terms of the Bonds permitted to be excluded from the Preliminary Official Statement by Rule 15c2-12 (the "Excluded Information"). The City shall provide the Underwriter, within seven business days from the date hereof (but in any event at least three business days prior to the Closing Date (as defined herein)) whichever occurs first), of the Official Statement, dated the date hereof in the form of the Preliminary Official Statement (including all information previously permitted to have been omitted by Rule 15c2-12 and any supplements to such Official Statement as have been approved by the City and the Underwriter (which approval shall not be unreasonably withheld), in sufficient quantities and/or in a designated electronic format (as defined in Municipal Securities Rulemaking Board Rule G-32) to enable the Underwriter to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board (the "MSRB"). The City authorizes and approves the distribution by the Underwriter of the Official Statement in connection with the offering and sale of the Bonds. The City authorizes the Underwriter to file, and the Underwriter hereby agrees to file at or prior to the Closing Date, the Official Statement with the MSRB, or its designees in accordance with MSRB Rule G-32. The Official Statement, including the appendices thereto, any documents incorporated therein by reference, and any supplements or amendments thereto on or prior to the Closing Date is herein referred to as the "Official Statement."

Section 4. Authorization of the Bonds. The Bonds will be issued by the City on behalf of the District pursuant to the provisions of a Fiscal Agent Agreement, dated as of _____, 2017 (the "Fiscal Agent Agreement"), by and between the District and [Fiscal Agent], as fiscal agent (the "Fiscal Agent"), pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Act") and Resolution No. ___ adopted by the Board of Supervisors of the City on _____, 2017 and executed by the Mayor on _____, 2017 (the "City Resolution").

Section 5. The Bonds. The 2017A Bonds are being issued to make deposits into the following funds and accounts to be held under the Fiscal Agent Agreement: (i) 2017A Improvement Account, (ii) Reserve Fund, (iii) Bond Fund (which shall represent capitalized interest and be deposited into the 2017A Capitalized Interest Account), (iv) Administrative Expense Fund, and (v) 2017A Costs of Issuance Account. The 2017B Bonds are being issued to make deposits into the following: (i) Allocated Bond Proceeds Account, (ii) Reserve Fund, (iii) Bond Fund (which shall represent capitalized interest

and be deposited into the 2017B Capitalized Interest Account), (iv) Administrative Expense Fund, and (v) 2017B Costs of Issuance Account.

Section 6. City Representations, Covenants and Agreements. The City represents and covenants and agrees with the Underwriter that as of the date hereof:

(a) The City has full legal right, power and authority to enter into the Fiscal Agent Agreement, this Purchase Agreement and the Continuing Disclosure Certificate (as hereinafter defined) (the Fiscal Agent Agreement, this Purchase Agreement and the Continuing Disclosure Certificate are collectively referred to herein as the "City Documents") and to observe and perform the covenants and agreements in the City Documents; by all necessary official action of the City, the City has duly adopted the City Resolution prior to or concurrently with the acceptance hereof; the City Resolution and the resolutions and ordinance listed on Exhibit F (together with the City Resolution, the "Resolutions and Ordinance") are in full force and effect and have not been amended, modified, rescinded or challenged by referendum; the City has recorded the notice of special tax lien (the "Notice of Special Tax Lien") on the real property records of the City which established a continuing lien on the land within the District securing the payment of the Special Tax; the City has duly authorized and approved the execution and delivery of, and the performance by the City of its obligations contained in, the City Documents; the City has duly authorized and approved the delivery of the Preliminary Official Statement and the execution and delivery of the Official Statement; and the City is in compliance in all material respects with the obligations in connection with the execution and delivery of the Bonds on its part contained in the Fiscal Agent Agreement.

(b) The District is a community facilities district duly organized and validly existing under the laws of the State.

(c) As of the date thereof and as of the date hereof, the Preliminary Official Statement (except for information regarding The Depository Trust Company ("DTC") and its book-entry-only system, information under the caption "UNDERWRITING," and the Excluded Information) did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(d) From the date of delivery of the Official Statement up to and including the end of the underwriting period (as such term is defined in Rule 15c2-12), the Official Statement (except for information regarding DTC and its book-entry only system and information provided by the Underwriter for inclusion therein, including without limitation the information under the caption "UNDERWRITING" and the CUSIP numbers) does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. For purposes of this Purchase

Agreement, the end of the underwriting period shall be deemed to be the Closing Date, unless the Underwriter shall have notified the City to the contrary on or prior to such date.

(e) If the Official Statement is supplemented or amended, at the time of each supplement or amendment thereto and at all times subsequent thereto up to and including the Closing Date or the end of the underwriting period, as the case may be, the Official Statement as so supplemented or amended (except for information regarding DTC and its book-entry-only system and information provided by the Underwriter for inclusion therein, including without limitation the information under the caption "UNDERWRITING" and the CUSIP numbers, prices and yields on the Bonds) will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(f) If between the date of delivery of the Official Statement and the date that is 25 days after the end of the underwriting period (i) any event shall occur or any fact or condition shall become known to the City that would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the City shall notify the Underwriter thereof; and (ii) if in the reasonable opinion of the City or the Underwriter such event, fact or condition requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its expense supplement or amend the Official Statement in a form and in a manner approved by the Underwriter, which approval shall not be unreasonably withheld.

(g) The City is not in material violation of, or in material breach of or in material default under, any applicable constitutional provision, charter provision, law or administrative regulation or order of the State or the United States of America or any applicable judgment or court decree or any loan agreement, indenture, bond, note, resolution, or other agreement or instrument to which the City is a party or to which the City or any of its properties is otherwise subject which violation, breach or default would have a material adverse effect on the City's financial condition or its ability to collect and pledge the Special Tax, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute such a violation, breach or default under any such instrument; and the execution and delivery of the City Documents, and compliance with the provisions of the City Documents will not materially conflict with or constitute a material breach of or material default under any applicable constitutional provision, charter provision, law, administrative regulation, order, judgment, court decree, loan agreement, indenture, bond, note, resolution, or other agreement or instrument to which the City is subject, or by which it or any of its properties is bound which conflict, breach or default would

have a material adverse effect on the City's financial condition or its ability to collect and pledge the Special Tax.

(h) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending, with service of process having been accomplished, or to the best knowledge of the City Attorney after due inquiry, threatened by a prospective party or their counsel in writing addressed to the City Attorney, (i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (ii) in any way contesting, affecting or seeking to prohibit, restrain or enjoin the levy or collection of Special Tax Revenues pledged under the Fiscal Agent Agreement, the issuance of any of the Bonds or the City Documents, or the payment of the principal of and interest on the Bonds, or the application of the proceeds of the Bonds; (iii) in any way contesting or affecting the validity of the Bonds, the City Documents, the District, the Resolutions or Ordinance, the tax-exempt status of the interest on the Bonds, as applicable, or contesting the powers of the City or any authority for the execution and delivery of the Bonds, the approval of the City Documents or the execution and delivery by the City of the City Documents, the delivery of the Preliminary Official Statement or the execution and delivery of the Official Statement; (iv) which would likely result in any material adverse change relating to the financial condition of the City; or (v) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(i) The City will furnish such information, execute such instruments and take such other action not inconsistent with law or established policy of the City in cooperation with the Underwriter as may be reasonably requested (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Underwriter, and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions; provided, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(j) The City Documents when executed or adopted by the City, will be legal, valid and binding obligations of the City enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, other laws affecting creditors' rights generally, and to limitations on remedies against cities and counties under California law.

(k) All material authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, court, agency

or commission having jurisdiction of the matter which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the due performance by the City of, its respective obligations under City Documents have been duly obtained or when required for future performance are expected to be obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

(l) The City will undertake, pursuant to the Fiscal Agent Agreement and a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events, pursuant to paragraph (b)(5) of Rule 15c2-12. An accurate description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

(m) Except as described in the Official Statement, the City has complied with all previous continuing disclosure undertakings required pursuant to Rule 15c2-12 for the past five years.

(n) Between the date hereof and the Closing Date, the City will not supplement or amend the City Documents, the Resolutions and the Ordinance or the Official Statement in any respect that is material to the obligations of the City under this Purchase Agreement without the prior written consent of the Underwriter, which consent shall not be unreasonably withheld.

(o) The Bonds will be paid from Special Tax Revenues (as defined in the Fiscal Agent Agreement) received by the City and moneys held in certain funds and accounts established under the Fiscal Agent Agreement.

(p) The Special Taxes have been duly and lawfully authorized and may lawfully be levied in accordance with the Amended and Restated Rate and Method of Apportionment of the Special Tax relating to the District (the "Rate and Method") and the Resolutions and Ordinance, and, when levied, will constitute a valid and legally binding continuing lien on the property on which they are levied.

Section 7. Underwriter's Representations, Covenants and Agreements.

The representations, covenants and agreements of the Underwriter attached hereto as Exhibit A are incorporated by reference as though fully set forth herein. The Underwriter further represents and covenants and agrees with the City that:

(a) The Underwriter has been duly authorized to enter into this Purchase Agreement and to act hereunder.

(b) The Underwriter is not in material violation of, or in material breach of or in material default under, any applicable law, regulation, order or agreement to which such Underwriter is a party or by which such Underwriter is bound, which violation or breach would have a material adverse effect on such Underwriter's ability to execute, deliver and perform this Purchase Agreement.

Section 8. Offering. It shall be a condition to the City's obligations to sell and to deliver the Bonds on behalf of the District to the Underwriter and to the Underwriter's obligations to purchase and to accept delivery of the Bonds that the entire \$ _____ aggregate principal amount of the Bonds shall be executed, issued and delivered by or at the direction of the City and purchased, accepted and paid for by the Underwriter at the Closing. On or prior to the Closing, the Underwriter will provide the City with information regarding the reoffering prices and yields on the Bonds, in such form as the City may reasonably request.

The Underwriter agrees, subject to the terms and conditions hereof, to make a *bona fide* public offering of all the Bonds initially at prices not in excess of the initial public offering prices as set forth in Schedule I hereto. Subsequent to the establishment of initial public offering prices for federal tax purposes as determined by Bond Counsel the Underwriter reserves the right to change the public offering prices as it deems necessary in connection with the marketing of the Bonds. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering price set forth in Schedule I hereto.

The Underwriter will provide, consistent with the requirements of MSRB, for the delivery of a copy of the Official Statement to each customer who purchases a Bond during the underwriting period. The Underwriter further agrees that it will comply with applicable laws and regulations, including without limitation Rule 15c2-12, in connection with the offering and sale of the Bonds.

Section 9. Closing. At 8:30 a.m., California time, on _____, 2017, or at such other time as shall have been mutually agreed upon by the City and the Underwriter (the "Closing Date" or the "Closing"), the City will deliver or cause to be delivered to the account of the Underwriter, under the Fast Automated Securities Transfer System of DTC, the Bonds, in the form of a separate single fully registered bond for each Series, maturity date and interest rate of the Bonds duly executed by the City and authenticated by the Fiscal Agent, together with the opinions and documents set forth in Section 9 hereof. The Underwriter will, subject to the terms and conditions hereof, accept delivery of the Bonds and pay the Net Purchase Price of the Bonds as set forth in Section 2 hereof by wire transfer in immediately available funds on the Closing Date. The Bonds shall be made available to the Fiscal Agent not later than one business day before the Closing Date. Upon initial issuance, the ownership of such Bonds shall be registered in the registration books kept by the Fiscal Agent in the name of Cede & Co., as the nominee of DTC.

Payment for the delivery of the Bonds shall be coordinated at the offices of Jones Hall, APLC, in San Francisco, California, or at such other place as shall have been mutually agreed upon by the City and the Underwriter. Such payment and delivery is called the "Closing." The Underwriter shall order CUSIP identification numbers and the City shall cause such CUSIP identification numbers to be printed on the Bonds, but neither the failure to print any such number on any Bond nor any error with respect

thereto shall constitute cause for failure or refusal by the Underwriter to accept delivery of and pay for the Bonds in accordance with the terms of this Purchase Agreement.

Section 10. Closing Conditions. The obligation of the Underwriter under this Purchase Agreement is subject to the performance by the City of its obligations hereunder and are also subject to the following conditions:

(a) the representations of the City herein shall be true, complete and correct on the date thereof and on and as of the Closing Date, as if made on the Closing Date;

(b) at the time of the Closing, the City Documents and the City Resolutions and Ordinance shall be in full force and effect and shall not have been amended, modified or supplemented, and the Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to by the Underwriter; and

(c) at or prior to the Closing, the Underwriter shall have received each of the following documents:

(i) the Official Statement, together with any supplements or amendments thereto if the Official Statement has been supplemented or amended, with the Official Statement and each supplement or amendment, if any, signed on behalf of the City by its authorized officer;

(ii) the Fiscal Agent Agreement, signed on behalf of the City and the Fiscal Agent by their respective authorized officers;

(iii) a conformed map of proposed boundaries of District, recorded in the real property records of the City;

(iv) certified copies of the Resolutions and Ordinance;

(v) a conformed copy of Notice of Special Tax Lien, recorded in the real property records of the City;

(vi) a certificate of the City dated the Closing Date and executed by its authorized officer(s), substantially in the form attached hereto as Exhibit B;

(vii) an opinion of the City Attorney ("Issuer Counsel"), addressed solely to the City and the Underwriter, dated the Closing Date and in substantially the form attached hereto as Exhibit C;

(viii) unqualified opinions of Jones Hall, APLC ("Bond Counsel"), dated the Closing Date and in substantially the form set forth in Appendix D to the Official Statement;

(ix) a supplemental opinion of Bond Counsel, addressed to the City and the Underwriter, dated the Closing Date and in substantially the form attached hereto as Exhibit D;

(x) an opinion of Norton Rose Fulbright US LLP (“Disclosure Counsel”), addressed to the City and the Underwriter, dated the Closing Date and in substantially the form attached hereto as Exhibit E;

(xi) an opinion of Stradling Yocca Carlson & Rauth, Underwriter’s Counsel (“Underwriter’s Counsel”), addressed to the Underwriter, dated the Closing Date, in form and substance acceptable to the Underwriter;

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

(xiii) an opinion of counsel to the Fiscal Agent, addressed to the City and the Underwriter, dated the Closing Date and in form and substance acceptable to the City and the Underwriter;

(xiv) a certificate of the Fiscal Agent, dated the Closing Date, to the effect that: (A) it is a national banking association duly organized and existing under the laws of the United States of America; (B) it has full corporate trust powers and authority to serve as Fiscal Agent under the Fiscal Agent Agreement; (C) it acknowledges and accepts its obligations under the Fiscal Agent Agreement and it has duly authorized, executed and delivered the Fiscal Agent Agreement and that such acceptance and execution and delivery is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which it is a party or any administrative or judicial decision by which it is bound; and (D) it has duly authenticated the Bonds in accordance with the terms of the Fiscal Agent Agreement;

(xv) a Certificate Regarding Use of Funds and Certificate of No Arbitrage of the City in form and substance acceptable to Bond Counsel and evidence of the preparation for filing of IRS Form 8038-G with respect to the 2017A Bonds;

(xvi) [evidence satisfactory to the Underwriter that _____ has assigned ratings of “___” to the Bonds;]

(xvii) the Continuing Disclosure Certificate duly executed by the City;

(xviii) a certificate from Goodwin Consulting Group, Inc. (“Special Tax Consultant”) to the effect that (i) the Special Tax if applied in accordance with the terms as set forth in the rate and method of

apportionment of special taxes (the "Special Tax Formula"), will annually yield sufficient revenue to make timely payments of debt service on the Bonds, provided that information and other data supplied by the District, the Co-Municipal Advisors, the Underwriter or by any of their agents, which has been relied upon by the Special Tax Consultant is true and correct, (ii) the net Special Taxes, if collected in the maximum amounts permitted pursuant to the Special Tax Formula on the Closing Date, would generate at least 110% of the maximum debt service payable with respect to the Bonds payable from such Special Tax during each fiscal year, based on a debt service schedule supplied by the Underwriter and relied upon by the Special Tax Consultant, (iii) the information supplied by the Special Tax Consultant for use in the Official Statement is true and correct as of the date of the Official Statement and as of the Closing Date, and (iv) the description of the Special Tax Formula contained in the Official Statement is correctly presented in all material respects; and

(xix) such additional legal opinions, Bonds, instruments or other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date of this Purchase Agreement and as of the Closing Date, of the City's representations contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the City on or prior to the Closing Date of all agreements then to be performed and all conditions then to be satisfied by the City.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Agreement or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Underwriter nor the City shall be under further obligations hereunder, except that the respective obligations of the City and the Underwriter set forth in Section 11 of this Purchase Agreement shall continue in full force and effect.

Section 11. Termination. The Underwriter shall have the right to cancel its obligation to purchase the Bonds by written notification from the Underwriter to the City if at any time after the date of this Purchase Agreement and prior to the Closing:

(a) any event shall have occurred or any fact or condition shall have become known which, in the reasonable judgment of the Underwriter upon consultation with the City, Bond Counsel and Disclosure Counsel (both as hereinafter defined), either (i) makes untrue or incorrect in any material respect any statement or information contained in the Official Statement; or (ii) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein not misleading in any material respect and, in either such event, the City refuses to permit the Official Statement to be supplemented to supply such statement or information, or the effect of the

Official Statement as so supplemented is to materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or

(b) Legislation shall be enacted, or a decision by a court of the United States shall be rendered, or any action shall be taken by, or on behalf of, the Securities and Exchange Commission which in the reasonable opinion of the Underwriter has the effect of requiring the Bonds to be registered under the Securities Act of 1933, as amended, or requires the qualification of the Fiscal Agent Agreement under the Trust Indenture Act of 1939, as amended; or

(c) any of the following occurs and is continuing as of the Closing Date which, in the reasonable judgment of the Underwriter (set forth in a written notice from the Underwriter to the City terminating the obligation of the Underwriter to accept delivery of and make payment for the Bonds), has a material adverse effect on the marketability or market price of the Bonds, at the initial offering prices set forth in the Schedule I attached hereto, or the Underwriter's ability to process and settle transactions:

(i) new Legislation shall have been enacted by the Congress of the United States, or passed by either House of the Congress, or recommended to the Congress for passage by the President of the United States, or favorably reported for passage to either House of the Congress of the United States by any committee of either House to which such legislation has been referred for consideration, or a new decision shall have been rendered by a court of the United States, or the United States Tax Court, or new order, ruling, regulation (final, temporary or proposed) or official statement shall have been made by the Treasury Department of the United States, including the Internal Revenue Service, the effect of which would be to cause interest on the 2017A Bonds or on securities of the general character of the 2017A Bonds to cease to be excludable from gross income for federal income tax purposes; or

(ii) an amendment to the Constitution of the State of California shall have been passed or legislation shall have been enacted by the California legislature, or a decision shall have been rendered by a court of the State, in each case which may have the purpose or effect of subjecting interest on the Bonds to State income tax; or

(iii) (A) The declaration of war by the United States of America, any major new outbreak or escalation of armed hostilities, an act of terrorism or any other major national calamity or crisis, (B) the sovereign debt rating of the United States is downgraded by any major credit rating agency or a payment default occurs on United States Treasury obligations; or

(iv) the declaration of a general banking moratorium by any federal, New York or California authorities; or

(v) a general suspension of trading or other material restrictions on the New York Stock Exchange or other national securities exchange not in effect as of the date hereof; or

(vi) an order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the delivery, offering or sale of obligations of the general character of the Bonds, or the delivery, offering or sale of the Bonds, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect; or

(vii) the New York Stock Exchange or other national securities exchange or any governmental authority, shall impose, as to the Bonds or as to obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, Underwriter; or

(viii) the ratings on the Bonds or bonds on parity with the Bonds, is reduced or withdrawn or placed on credit watch with negative outlook by any one or more of the rating agencies rating the Bonds or bonds on parity with the Bonds;

(ix) litigation challenging the validity of the Bonds or levy of the Special Tax; or

(x) a material disruption in municipal bond market securities settlement, payment or clearance services affecting the Bonds.

Section 12. Good Faith Deposit. To secure the City from any loss resulting from the failure of the Underwriter to comply with the terms of this Purchase Agreement, the Underwriter has sent to the Fiscal Agent a wire transfer (in immediately available funds) payable to the order of the Fiscal Agent, for the benefit of the City, in the amount of \$_____ (the "Good Faith Deposit"), the receipt of which is hereby acknowledged by the City. The Good Faith Deposit will, immediately upon the City's acceptance of this offer, become the property of the City. The Good Faith Deposit will be held and invested for the exclusive benefit of the City. At the Closing, the Underwriter shall pay or cause to be paid the Net Purchase Price of the Bonds (as specified in Section 2 of this Purchase Agreement) which takes into account the Good Faith Deposit. If the Underwriter fails to pay the Net Purchase Price in full upon tender of the Bonds (other than as a result of the City's failure to deliver or cause the delivery of all of

the documents and opinions set forth in Section 10 hereof or for a reason expressly set forth in Section 11 hereof), the Underwriter will have no right to recover the Good Faith Deposit or to any allowance or credit therefor, and the Good Faith Deposit, together with any interest thereon, will be retained by the City as and for liquidated damages for such failure by the Underwriter. Retention of the Good Faith Deposit shall constitute the City's sole and exclusive remedy and full liquidated damages for the Underwriter's failure (other than for a reason expressly set forth herein) to purchase and accept delivery of the Bonds pursuant to the terms of this Purchase Agreement. Upon such retention, the Underwriter shall be released and discharged from any and all claims for damages by the City against the Underwriter related to such failure and any other defaults by Underwriter hereunder. The Underwriter and the City hereby acknowledge and agree that the amount fixed pursuant to this Section for liquidated damages does not constitute a penalty and is a reasonable estimate of the damages that the City would sustain in the event of the Underwriter's failure to purchase and to accept delivery of the Bonds pursuant to the terms of this Purchase Agreement. The amount is agreed upon and fixed as liquidated damages because of the difficulty of ascertaining as of the date hereof the amount of damages that would be sustained in such event. The Underwriter waives any right to claim that actual damages resulting from such failure are less than the amount of such liquidated damages.

If the City does not accept this offer, or upon its failure to deliver the Bonds at the Closing, or if it shall be unable to satisfy the conditions to the obligations of the Underwriter contained in this Purchase Agreement, or if such obligations shall be terminated for any reason permitted by this Purchase Agreement, the Good Faith Deposit shall be immediately returned to the Underwriter.

Section 13. Expenses.

(a) Except for those expenses assigned to the Underwriter pursuant to Section 13(b) hereof, the Underwriter shall be under no obligation to pay, and the City shall pay, any expenses incident to the performance of the City's obligations under this Purchase Agreement and the fulfillment of the conditions imposed hereunder, including but not limited to: (i) the fees and disbursements of Issuer's Counsel, Bond Counsel, and Disclosure Counsel; (ii) the fees and disbursements of Backstrom McCarley Berry & Co., LLC, San Francisco, California and Public Financial Management Inc., San Francisco, California (the "Co-Financial Advisors"); (iii) the fees and disbursements of any counsel, auditors, engineers, consultants or others retained by the City in connection with the transactions contemplated herein; (iv) the costs of preparing and printing the Bonds; (v) the costs of the printing of the Official Statement (and any amendment or supplement prepared pursuant to Section 6(e) hereof); and (vi) any fees charged by investment rating agencies for the rating of the Bonds.

(b) The Underwriter shall pay all expenses incurred by the Underwriter in connection with the offering and distribution of the Bonds, including but not limited to: (i) all advertising expenses in connection with the offering of the Bonds; (ii) the costs of printing the Blue Sky memorandum used by the

Underwriter; (iii) all out of pocket disbursements and expenses incurred by the Underwriter in connection with the offering and distribution of the Bonds, including the fees of the CUSIP Service Bureau for the assignment of CUSIP numbers; and (iv) all other expenses incurred by the Underwriter in connection with the offering and distribution of the Bonds, including the fees and disbursements of Underwriter's Counsel.

Section 14. Notices. Any notice or other communication to be given to the City under this Purchase Agreement may be given by delivering the same in writing to the City at the address set forth above and any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to the Underwriter: Stifel, Nicolaus & Incorporated, One Montgomery Street, 35th Floor, San Francisco, California 94104, Attention: Ana Van Degna.

Section 15. Parties in Interest. This Purchase Agreement is made solely for the benefit of the City and the Underwriter (including the successors or assigns of the Underwriter), and no other person shall acquire or have any right hereunder or by virtue of this Purchase Agreement. All of the representations and agreements of the City contained in this Purchase Agreement shall remain operative and in full force and effect, regardless of: (a) any investigations made by or on behalf of the Underwriter; (b) delivery of and payment for the Bonds, pursuant to this Purchase Agreement; and (c) any termination of this Purchase Agreement.

Section 16. Invalid or Unenforceable Provisions. If any provision of this Purchase Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Purchase Agreement.

Section 17. Counterparts. This Purchase Agreement may be executed by facsimile transmission and in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute the Purchase Agreement by signing any such counterpart.

Section 18. Governing Law; Venue. This Purchase Agreement shall be governed by and interpreted under the laws of the State of California. Venue for all litigation and other disputes relative arising from or related to this Purchase Agreement shall be in the City.

Section 19. City Contracting Requirements. The provisions for the City Contracting Requirements attached hereto as Exhibit A are hereby incorporated herein by reference as though fully set forth herein.

Section 20. Entire Agreement. This Purchase Agreement is the sole agreement of the parties relating to the subject matter hereof and supersedes all prior understandings, writings, proposals, representations or communications, oral or written. This Purchase Agreement may only be amended by a writing executed by the authorized representatives of the parties.

Section 21. Headings. The section headings in this Purchase Agreement are inserted for convenience only and shall not be deemed to be a part hereof.

Section 22. Effectiveness. This Purchase Agreement shall become effective upon execution of the acceptance of this Purchase Agreement by the City and shall be valid and enforceable as of the time of such acceptance.

[Remainder of page intentionally left blank.]

Very truly yours,

STIFEL, NICOLAUS & CO. INCORPORATED

By _____

CITY AND COUNTY OF SAN FRANCISCO

By _____

APPROVED AS TO FORM:

Dennis J. Herrera
City Attorney

By _____
Mark D. Blake, Deputy City Attorney

[Signature Page to Bond Purchase Agreement]

SCHEDULE I

Maturity Schedules

\$ _____
CITY AND COUNTY OF SAN FRANCISCO
COMMUNITY FACILITIES DISTRICT NO. 2014-1
(TRANSBAY TRANSIT CENTER)
SPECIAL TAX BONDS, SERIES 2017A

| <u>Maturity Date</u> <u>(September 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> |
|----------------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|
|----------------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|

\$ _____ % Term Bonds due September 1, 20__ – Yield: _____ % Price: _____ %

\$ _____
CITY AND COUNTY OF SAN FRANCISCO
COMMUNITY FACILITIES DISTRICT NO. 2014-1
(TRANSBAY TRANSIT CENTER)
SPECIAL TAX BONDS, SERIES 2017B (FEDERALLY TAXABLE)

| <u>Maturity Date</u> <u>(September 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> |
|----------------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|
|----------------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|

\$ _____ % Term Bonds due September 1, 20__ – Yield: _____ % Price: _____ %

Redemption Provisions

Optional Redemption. The 2017A Bonds maturing on or after September 1, 20____ are subject to redemption prior to their stated maturities, on any date on and after September 1, 20____, in whole or in part, at a redemption price equal to the principal amount of the 2017A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The 2017B Bonds maturing on or after September 1, 20____ are subject to redemption prior to their stated maturities, on any date on and after September 1, 20____, in whole or in part, at a redemption price equal to the principal amount of the 2017B Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium

Mandatory Sinking Fund Redemption. The Term Bonds are subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the redemption date, without premium, in the aggregate respective principal amounts all as set forth in the following table:

2017A Bonds

Sinking Fund
Redemption Date
(September 1)

Principal Amount
Subject to Redemption

2017B Bonds

Sinking Fund
Redemption Date
(September 1)

Principal Amount
Subject to Redemption

Provided, however, if some but not all of the Term Bonds have been redeemed pursuant to optional redemption or Redemption from Special Tax Prepayments, the total amount of all future Sinking Fund Payments shall be reduced by the aggregate principal amount of Term Bonds so redeemed, to be allocated among such Sinking Fund Payments on a *pro rata* basis in integral multiples of \$5,000 as determined by the Fiscal Agent, notice of which determination (which shall consist of a revised sinking fund schedule) shall be given by the City to the Fiscal Agent.

Redemption from Special Tax Prepayments. Special Tax Prepayments and any corresponding transfers from the Reserve Fund shall be used to redeem 2017 Bonds on the next Interest Payment Date for which notice of redemption can timely be given, among series and maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the 2017 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

| <u>Redemption Date</u> | <u>Redemption Price</u> |
|---------------------------------------------------------------|-------------------------|
| Any Interest Payment Date on or before March 1, 20__ | 103% |
| On September 1, 20__ and March 1, 20__ | 102 |
| On September 1, 20__ and March 1, 20__ | 101 |
| On September 1, 20__ and any Interest Payment Date thereafter | 100 |

EXHIBIT A

UNDERWRITER'S REPRESENTATIONS, COVENANTS AND AGREEMENTS AND CITY CONTRACTING REQUIREMENTS

Section 1. Underwriter's Representations, Covenants and Agreements. The Underwriter, on its own behalf and not on behalf of any other Underwriter, represents and covenants and agrees with the City that:

(a) It shall comply with the San Francisco Business Tax Resolution and shall, if not otherwise exempt from such resolution, provide to the City a Business Tax Registration Certificate on or prior to the date hereof.

(b) It shall comply with Chapter 12B of the San Francisco Administrative Code, entitled "Nondiscrimination in Contracts," which is incorporated herein by this reference.

(c) It represents and warrants to the City that the Underwriter has been duly authorized to enter into this Purchase Agreement and to act hereunder by and on behalf of it.

Section 2. City Contracting Requirement. Additionally, the Underwriter represents and covenants and agrees, as applicable that:

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

(b) ***Subcontracts.*** The Underwriter shall incorporate by reference in all subcontracts made in fulfillment of its obligations hereunder the provisions of Section 12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from purchasing) and shall require all subcontractors to comply with such provisions. The Underwriter's failure to comply with the obligations in this subsection shall constitute a material breach of this Purchase Agreement.

(c) ***Non-Discrimination in Benefits.*** The Underwriter does not as of the date of this Purchase Agreement and will not during the term of this Purchase

Agreement, in any of its operations in San Francisco, California, or on real property owned by San Francisco, California, or where the work is being performed for the City and/or City elsewhere within the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in Section 12B.2(b) of the San Francisco Administrative Code.

(d) **HRC Form.** The Underwriter shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (Form HRC 12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

(e) **Incorporation of Administrative Code Provisions by Reference.** The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Exhibit A by reference and made a part of this Purchase Agreement as though fully set forth herein. The Underwriter shall comply fully with and be bound by all of the provisions that apply to this Purchase Agreement under such Chapters of the Administrative Code, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, the Underwriter understands that pursuant to Section 12B.2(h) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Purchase Agreement may be assessed against such Underwriter and/or deducted from any payments due such Underwriter; provided, however that such damages shall not be set off against the payment of rental or other contract related to the Bonds, certificates of participation or other debt obligation of the City or the City.

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

(g) **Compliance With Americans with Disabilities Act.** Without limiting any other provisions of this Purchase Agreement the Underwriter shall provide the services specified in this Purchase Agreement in a manner that complies with the Americans with Disabilities Act ("ADA") Title 24, and any and all other applicable federal, state and local disability rights legislation. The Underwriter agrees not to discriminate against disabled persons in the provision

of services, benefits or activities provided under this Purchase Agreement and further agrees that any violation of this prohibition on the part of such Underwriter, its employees, agents or assigns shall constitute a material breach of this Purchase Agreement.

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

(i) ***Prohibition on Political Activity With City Funds.*** In accordance with San Francisco Administrative Code Chapter 12.G, an Underwriter may not participate in, support or attempt to influence any political campaign for a candidate or for a ballot measure in the performance of the services provided under this Purchase Agreement. The Underwriter agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. If the Underwriter violates the provisions of this section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Purchase Agreement, and (ii) prohibit such Underwriter from bidding on or receiving any new City and/or City contract for a period of two years.

(j) ***MacBride Principles—Northern Ireland.*** The City and the District urge companies doing business in Northern Ireland to move towards resolving employment inequities, and encourage such companies to abide by the MacBride Principles as expressed in San Francisco Administrative Code Section 12F.1, et seq. The City and the District urge San Francisco companies to do business with corporations that abide by the MacBride Principles.

(k) ***Tropical Hardwood and Virgin Redwood Ban.*** The City and the District urge companies not to import, purchase, obtain or use for any purpose, any tropical hardwood or tropical hardwood product or any virgin redwood or virgin redwood product.

(l) ***Repeal of Administrative Code Provisions.*** To the extent that the City repeals any provision of the Administrative Code incorporated, set forth or referenced in this Exhibit A, other than pursuant to a restatement or amendment of any such provision, such provision, as incorporated, set forth or referenced herein, shall no longer apply to this Purchase Agreement or the Underwriter.

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

(n) **Requiring Minimum Compensation for Covered Employees.** The Underwriter agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance ("MCO"), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by reference and made a part of this Purchase Agreement as though fully set forth. The text of the MCO is available on the web at www.sfgov.org/olse/mco. A partial listing of some of the Underwriter's obligations under the MCO is set forth in this Exhibit A. The Underwriter is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Exhibit A. Capitalized terms used in this Exhibit A and not defined in this Purchase Agreement shall have the meanings assigned to such terms in Chapter 12P. Consistent with the requirements of the MCO, the Underwriter agrees to all of the following:

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

to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Exhibit A. It is the Underwriter's obligation to ensure that any subcontractors of any tier under this Purchase Agreement comply with the requirements of the MCO. If any subcontractor under this Purchase Agreement fails to comply, the City may pursue any of the remedies set forth in this Exhibit A against such Underwriter. Nothing in this Exhibit A shall be deemed to grant any Underwriter the right to subcontract.

(ii) No Underwriter shall take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

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

(iv) The City is authorized to inspect the Underwriter's job sites and conduct interviews with employees and conduct audits of such Underwriter.

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

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

12P.6(c) of Chapter 12P. Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City.

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

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

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

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

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

(iii) An Underwriter's failure to comply with the HCAO shall constitute a material breach of this Purchase Agreement. The City shall notify such Underwriter if such a breach has occurred. If, within 30 days after receiving City's written notice of a breach of this Purchase Agreement for violating the HCAO, such Underwriter fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, such Underwriter fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, the

City or the City shall have the right to pursue the remedies set forth in 12Q.5.1 and 12Q.5 (f) (1-6). Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City or the City.

(iv) Any subcontract entered into by an Underwriter shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Exhibit A. Such Underwriter shall notify City's Office of Contract Administration when it enters into such a subcontract and shall certify to the Office of Contract Administration that it has notified the subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on subcontractor through the subcontract. The Underwriter shall be responsible for its subcontractors' compliance with this Chapter. If a subcontractor fails to comply, the City may pursue the remedies set forth in this Exhibit A against the applicable Underwriter based on the subcontractor's failure to comply, provided that the City or the City has first provided such Underwriter with notice and an opportunity to obtain a cure of the violation.

(v) No Underwriter shall discharge, reduce in compensation, or otherwise discriminate against any employee for notifying the City or the City with regard to such Underwriter's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

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

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

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

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

(x) The Underwriter shall provide the City with access to records pertaining to compliance with HCAO after receiving a written request from

the City to do so and being provided at least ten business days to respond.

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

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

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

(p) ***Prohibition on Political Activity With City or City Funds.*** In accordance with San Francisco Administrative Code Chapter 12.G, no Underwriter may participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Purchase Agreement. The Underwriter agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. If the Underwriter violates the provisions of this Exhibit A, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Purchase Agreement, and (ii) prohibit such Underwriter from bidding on or receiving any new City contract for a period of two years. The Controller will not consider an Underwriter's use of profit as a violation of this Exhibit A.

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

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

As to Exhibit A of this Purchase Agreement:

Stifel, Nicolaus & Co. Incorporated, as
Underwriter

By _____
Name _____
Title _____

EXHIBIT B

FORM OF CERTIFICATE OF THE CITY

The undersigned _____, _____ and _____, respectively, of the City and County of San Francisco (the "City"), acting in their official capacities, hereby certify as follows in connection with the issuance of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "District's") \$_____ aggregate principal amount of Special Tax Bonds, Series 2017A (the "2017A Bonds") and the District's \$_____ aggregate principal amount of Special Tax Bonds, Series 2017B (Federally Taxable) (the "2017B Bonds" and, together with the 2017A Bonds, the "Bonds"):

1. The persons named below are now, and at all times from and after _____, 2017, have been duly appointed and qualified officers of the City holding the offices of the City set forth opposite their respective names, and each of the undersigned certifies that the signature affixed following the other of the undersigned's name and office is the genuine signature of such person.

2. The representations of the City contained in the Bond Purchase Agreement, dated _____, 2017 (the "Purchase Agreement"), between Stifel, Nicolaus & Co. Incorporated, as the underwriter of the Bonds, and the City, are true, complete and correct as of the date hereof as if made on the date hereof.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands.

Dated: _____, 2017.

Name

Office

Signature

EXHIBIT C

FORM OF OPINION OF ISSUER COUNSEL

[LETTERHEAD OF CITY ATTORNEY]

_____, 2017

City and County of San Francisco
San Francisco, California

Stifel, Nicolaus & Co. Incorporated
San Francisco, California

Re: \$_____ San Francisco Community Facilities District No. 2014-1
(Transbay Transit Center) Special Tax Bonds, Series 2017A and San
Francisco Community Facilities District No. 2014-1 (Transbay Transit
Center) Special Tax Bonds, Series 2017B (Federally Taxable)

Ladies and Gentlemen:

In connection with the issuance of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "District's") \$_____ aggregate principal amount of Special Tax Bonds, Series 2017A (the "2017A Bonds") and the District's \$_____ aggregate principal amount of Special Tax Bonds, Series 2017B (Federally Taxable) (the "2017B Bonds" and, together with the 2017A Bonds, the "Bonds"), I have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, public records and other instruments and have conducted such other investigations of fact and law as I deemed necessary for the purpose of this opinion.

I am of the opinion that:

1. The City and County of San Francisco (the "City") is a charter city, with full legal right, power and authority to enter into and perform its obligations under: (a) the Fiscal Agent Agreement, dated as of _____ 1, 2017 (the "Fiscal Agent Agreement"), by and between the City and _____; (b) the Bond Purchase Agreement, dated _____, 2017 (the "Purchase Agreement"), by and between Stifel, Nicolaus & Co. Incorporated, as the underwriter of the Bonds, and the City; and (c) the Continuing Disclosure Certificate, dated _____, 2017 (the "Continuing Disclosure Certificate") of the City. The Fiscal Agent Agreement, the Purchase Agreement and the Continuing Disclosure Certificate are collectively referred to herein as the "City Documents."

2. The Resolutions and Ordinance were each duly adopted at a meeting of the Board of Supervisors of the City. The meeting during which each of the Resolutions and Ordinance were adopted was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

3. The City Documents have been duly authorized, executed and delivered by the City and assuming that such documents are valid and binding upon each of the other respective parties thereto, if any, each is valid and binding upon and enforceable against the City in accordance with its respective terms, except that enforceability may be limited by bankruptcy, insolvency and other laws affecting the enforcement of creditors' rights in general, by the application of equitable principles if equitable remedies are sought and by the limitations on legal remedies against public agencies in the State of California.

4. The execution and delivery of the City Documents and compliance with the provisions thereof do not and will not conflict with or constitute on the part of the City a breach or default under any existing law, regulation, court order or consent decree to which the City is subject or, to the best of my knowledge after due inquiry, any agreement or instrument to which the City is a party or by which the City is bound.

5. All actions on the part of the City necessary for the making and performance of the City Documents have been duly and effectively taken and no consent, authorization or approval of or filing or registration with, any governmental or regulatory officer or body not already obtained or not obtainable in due course by the City is required for the making and performance of the City Documents.

6. Except as disclosed in the Official Statement, dated _____, 2017 with respect to the Bonds (the "Official Statement"), no litigation, action, suit or proceeding is known to be pending (with service of process having been accomplished) or threatened (a) restraining or enjoining the execution or delivery of the Bonds or the City Documents, or the collection of the Special Tax Revenues pledged under the Fiscal Agent Agreement; or (b) in any way contesting or affecting the validity of the Resolutions or the Ordinance, the Bonds, the City Documents or any proceedings of the City taken with respect to the foregoing; or (c) which if determined adversely to the City would have a material adverse effect on its operations or finances.

Very truly yours,

By _____

EXHIBIT D

FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL

[LETTERHEAD OF BOND COUNSEL]

EXHIBIT E

FORM OF OPINION OF DISCLOSURE COUNSEL

[LETTERHEAD OF DISCLOSURE COUNSEL]

EXHIBIT E

RESOLUTIONS AND ORDINANCE

1. Resolution No. 14-143, entitled "Resolution adopting amended and restated Local Goals and Policies to provide financial flexibility in connection with the formation of Special Tax Districts, pursuant to Administrative Code, Chapter 43, Article X", adopted by the Board of Supervisors of the City (the "Board of Supervisors") on November 26, 2013.
2. City Resolution No. 247-14, entitled "Resolution of Intention to Establish City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) and determining other matters in connection therewith", adopted by the Board of Supervisors on July 15, 2014.
3. City Resolution No. 246-14 entitled "Resolution of intention to incur bonded indebtedness in an amount not to exceed \$1,400,000,000 for the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center); and other matters related thereto", adopted by the Board of Supervisors on July 15, 2014.
4. City Resolution No. 350-14, entitled "Resolution of formation of City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) and determining other matters in connection therewith," adopted by the Board of Supervisors on September 23, 2014.
5. City Resolution No. 351-14, entitled "Resolution determining necessity to incur bonded indebtedness for City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) and determining other matters in connection therewith", adopted by the Board of Supervisors on September 23, 2014.
6. City Resolution No. 352-14 entitled "Resolution calling special election in City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center)", adopted by the Board of Supervisors on September 23, 2014.
7. City Resolution No. 1-15 entitled "Resolution declaring results of Special Election that was approved by the qualified electors, and directing recording of notice of special tax lien for the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) and determining other matters in connection therewith", adopted by the Board of Supervisors on January 13, 2015.
8. Ordinance No. 1-15 entitled "Ordinance authorizing the levy and collection of special taxes within City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center)", introduced on December 16, 2014 and adopted by the Board of Supervisors on January 13, 2015.
9. Resolution No. 2-15 entitled "Resolution repealing Resolution No. 468-14, and authorizing the issuance and sale of not to exceed \$1,400,000,000 Special Tax Bonds for City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) and determining other matters in connection therewith," adopted by the Board of Supervisors on January 13, 2015.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

**CITY AND COUNTY OF SAN FRANCISCO
COMMUNITY FACILITIES DISTRICT NO. 2014-1
(TRANSBAY TRANSIT CENTER)**

\$ _____
Special Tax Bonds, Series 2017A

\$ _____
**Special Tax Bonds, Series 2017B
(Federally Taxable)**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") with respect to the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "District") in connection with the issuance of the above captioned respective series of bonds (together, the "Bonds"). The Bonds are issued pursuant to Resolution No. _____, adopted by the Board of Supervisors of the City on _____, 2017, and duly approved by the Mayor of the City on _____, 2017 (together, the "Resolution"). The City covenants and agrees as follows:

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

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

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

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

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

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

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

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

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

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

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City’s fiscal year (which is June 30), commencing with the report for the 2016-17 Fiscal Year (which is due not later than March 31, 2018), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to such date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

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

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

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

(a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities. The financial statements required by this subsection (a) shall be accompanied by the following statement:

THE CITY’S ANNUAL FINANCIAL STATEMENT IS PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF’S INTERPRETATION OF RULE 15C2-12. NO FUNDS OR ASSETS OF THE CITY ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS, AND THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE CITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE BONDS.

(b) the principal amount of the Bonds of each series outstanding as of June 30 next preceding the date of the Annual Report.

(c) the balances in the 2017A Improvement Fund and the Allocated Bond Proceeds Account as of June 30 next preceding the date of the Annual Report.

(d) the balance in the Reserve Fund for the Bonds as of June 30 next preceding the date of the Annual Report.

(e) the total assessed value of all parcels subject to the Special Taxes and the current year's assessed value for the District.

(f) concerning delinquent parcels:

- number of parcels delinquent in payment of Special Tax,
- amount of total delinquency and as a percentage of total Special Tax levy, and
- status of the District's actions on covenants to pursue foreclosure proceedings upon

delinquent properties.

(g) identity of any delinquent taxpayer obligated for more than 10% of the annual Special Tax levy, together with the assessed value of the applicable properties and a summary of the results of any foreclosure sales, if available.

(h) significant amendments to land use entitlements for property in the District since the last Annual Report which are known to the City's _____, including but not limited to any rezoning of the property or the adoption of any amendment or other change to the specific plan for the area that includes the District.

(i) status of any significant legislative, administrative, and judicial challenges to the construction of the development in the District since the last Annual Report which are known to the City's _____, without independent inquiry, but only for Annual Reports for years in which construction activity has occurred in the District; such as any lawsuit challenging the land use entitlements for the District, or any voter or legislative initiative to curtail or impede development in the District.

(j) for the Fiscal Year for which the Annual Report is being issued, identify any Certificate of Occupancy or Tax Commencement Authorization that has been issued on a parcel subject to the Special Taxes.

(k) to the extent not otherwise provided pursuant to the preceding items a-j, annual information required to be filed with respect to the District since the last Annual Report with the California Debt and Investment Advisory Commission pursuant to Sections 50075.1, 50075.3, 53359.5(b), 53410(d) or 53411 of the California Government Code.

(l) in addition to any of the information expressly required to be provided under paragraphs (a) through (k) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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

SECTION 5. Reporting of Significant Events.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: _____, 2017.

CITY AND COUNTY OF SAN FRANCISCO

Benjamin Rosenfield
Controller

Approved as to form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

AGREED AND ACCEPTED:

DIGITAL ASSURANCE CERTIFICATION, LLC, as Dissemination Agent

By: _____
Name: _____
Title: _____

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO

Name of Bond Issue: CITY AND COUNTY OF SAN FRANCISCO SPECIAL TAX BONDS, SERIES 2017A AND SPECIAL TAX BONDS, SERIES 2017B (FEDERALLY TAXABLE)

Date of Issuance: _____, 2017

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated _____, 2017. The City anticipates that the Annual Report will be filed by _____.

Dated: _____, 20__

CITY AND COUNTY OF SAN FRANCISCO

By: _____ [to be signed only if filed]

Title: _____

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES

This Appendix contains information that is current as April 3, 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 2013. The Assessor-Recorder administers the property tax assessment system of the City. Before becoming Assessor-Recorder, Ms. Chu was elected in November 2008 and November 2010 to the Board of Supervisors, representing the Sunset/Parkside District 4 after being appointed by then-Mayor Newsom in September 2007.

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

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

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

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

CITY BUDGET

Overview

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

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. In July 2016, the City adopted a full two-year budget. The City's fiscal year 2016-17 adopted budget appropriates annual revenues, fund balance, transfers and reserves of approximately \$9.59 billion, of which the City's General Fund accounts for approximately \$4.86 billion. In fiscal year 2017-18 appropriated revenues, fund balance, transfers and reserves total approximately \$9.72 billion and \$5.09 billion of General Fund budget. For a further discussion of the fiscal years 2016-17 and 2017-18 adopted budgets, see "City Budget Adopted for fiscal years 2016-17 and 2017-18" herein.

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

Budget Process

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

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

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

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

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

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

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

Proposition A requires four significant changes:

1. Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets are currently approved by the Board of Supervisors for five departments: the Airport, Child Support Services, the Port, the Public Utilities Commission and MTA. All other departments prepared balanced, rolling two-year budgets.
2. Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office on December 16, 2016, for fiscal year 2017-18 through fiscal year 2021-22, to be considered by the Board of Supervisors. See "Five Year Financial Plan" below. 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 year the City's current practice of maintaining an annual General Reserve for current year fiscal pressures not anticipated in the budget and roughly double the size of the General Reserve by fiscal year 2015-16, and 2) create a new Budget Stabilization Reserve funded by excess receipts from volatile revenue streams to augment the existing Rainy Day Reserve to help the City mitigate the impact of multi-year downturns. On November 8 and 22, 2011, the Board of Supervisors unanimously adopted additional financial policies limiting the future approval of Certificates of Participation and other long-term obligations to 3.25% of discretionary revenue, and specifying that selected nonrecurring revenues may only be spent on nonrecurring expenditures. On December 16, 2014, the Board of Supervisors unanimously adopted financial policies to implement voter-approved changes to the City's Rainy Day Reserve, as well as changes to the General Reserve which would increase the cap from 2% to 3% of revenues and reduce deposit requirements during a recession. These policies are described in further detail below under "Budgetary Reserves." The Controller's Office may propose additional financial policies by October 1 of any year.

Role of Controller; Budgetary Analysis and Projections

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

In addition to the five year planning responsibilities established in Proposition A of November 2009 and discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the most recent of these reports, the fiscal year 2016-17 Six Month Budget Status Report (the "Six Month Report"), on February 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 15, 2016 the Controller released the Discussion of the Mayor's fiscal year 2016-17 and fiscal year 2017-18 Proposed Budget (the "Revenue Letter" as described in "Budget Process" above). All of these reports are available from the Controller's website: www.sfcontroller.org. The information from said website is not incorporated herein by reference.

General Fund Results: Audited Financial Statements

The General Fund portions of the fiscal years 2016-17 and 2017-18 Original Budgets total \$4.86 billion and \$5.09 billion, respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2012-13 through 2015-16 and the Original Budgets for fiscal years 2016-17 and 2017-18. See "PROPERTY TAXATION -Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

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

TABLE A-2

| CITY AND COUNTY OF SAN FRANCISCO | | | | | | |
|--------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
| Budgeted General Fund Revenues and Appropriations for | | | | | | |
| Fiscal Years 2012-13 through 2017-18 | | | | | | |
| | (000s) | | | | | |
| | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 |
| | Final Revised | Final Revised | Final Revised | Final Revised | Original | Original |
| | Budget | Budget | Budget | Budget | Budget ² | Budget ³ |
| Prior-Year Budgetary Fund Balance & Reserves | \$557,097 | \$674,637 | \$941,702 | \$1,236,090 | \$178,109 | \$195,221 |
| Budgeted Revenues | | | | | | |
| Property Taxes | \$1,078,083 | \$1,153,417 | \$1,232,927 | \$1,291,000 | \$1,412,000 | \$1,468,000 |
| Business Taxes | 452,853 | 532,988 | 572,385 | 634,460 | 669,450 | 697,887 |
| Other Local Taxes | 733,295 | 846,924 | 910,430 | 1,062,535 | 1,117,245 | 1,262,875 |
| Licenses, Permits and Franchises | 25,378 | 25,533 | 27,129 | 27,163 | 28,876 | 29,187 |
| Fines, Forfeitures and Penalties | 7,194 | 4,994 | 4,242 | 4,550 | 4,580 | 4,578 |
| Interest and Investment Earnings | 6,817 | 10,946 | 6,853 | 10,680 | 13,970 | 14,353 |
| Rents and Concessions | 21,424 | 23,060 | 22,692 | 15,432 | 16,140 | 15,828 |
| Grants and Subventions | 721,837 | 799,188 | 856,336 | 900,997 | 959,099 | 978,866 |
| Charges for Services | 169,058 | 177,081 | 210,020 | 219,628 | 236,102 | 236,786 |
| Other | 13,384 | 14,321 | 21,532 | 31,084 | 61,334 | 27,821 |
| Total Budgeted Revenues | \$3,229,323 | \$3,588,452 | \$3,864,545 | \$4,197,529 | \$4,518,796 | \$4,736,181 |
| Bond Proceeds & Repayment of Loans | 627 | 1,105 | 1,026 | 918 | 881 | 881 |
| Expenditure Appropriations | | | | | | |
| Public Protection | \$1,058,324 | \$1,102,667 | \$1,158,771 | \$1,211,007 | \$1,298,185 | \$1,323,268 |
| Public Works, Transportation & Commerce | 68,351 | 79,635 | 89,270 | 138,288 | 176,768 | 165,498 |
| Human Welfare & Neighborhood Development | 670,958 | 745,277 | 828,555 | 892,069 | 970,679 | 1,009,995 |
| Community Health | 635,960 | 703,092 | 703,569 | 751,416 | 786,218 | 824,100 |
| Culture and Recreation | 105,580 | 112,624 | 119,051 | 125,253 | 158,954 | 158,979 |
| General Administration & Finance | 190,151 | 199,709 | 214,958 | 235,647 | 349,308 | 333,291 |
| General City Responsibilities ¹ | 86,527 | 86,516 | 116,322 | 113,672 | 154,344 | 164,895 |
| Total Expenditure Appropriations | \$2,815,852 | \$3,029,520 | \$3,230,496 | \$3,467,352 | \$3,894,456 | \$3,980,026 |
| Budgetary reserves and designations, net | \$4,191 | \$0 | \$39,966 | \$9,907 | \$58,469 | \$61,014 |
| Transfers In | \$195,388 | \$242,958 | \$199,175 | \$235,416 | \$161,995 | \$159,211 |
| Transfers Out | (646,018) | (720,806) | (873,592) | (962,511) | (906,856) | (1,050,454) |
| Net Transfers In/Out | (\$450,630) | (\$477,848) | (\$674,417) | (\$727,095) | (\$744,861) | (\$891,243) |
| Budgeted Excess (Deficiency) of Sources | | | | | | |
| Over (Under) Uses | \$516,375 | \$756,825 | \$862,394 | \$1,230,182 | \$0 | \$1 |
| Variance of Actual vs. Budget | 146,901 | 184,184 | 373,696 | \$296,673 | | |
| Total Actual Budgetary Fund Balance³ | \$663,276 | \$941,009 | \$1,236,090 | \$1,526,855 | \$0 | \$1 |

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

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

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

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to

be made. The audited General Fund balance as of June 30, 2016 was \$1.4 billion (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles (“GAAP”), derived from audited revenues of \$4.4 billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2012 through June 30, 2016.

TABLE A-3

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

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|-------------------------------------------------------------------------------------------|------------------|------------------|------------------|--------------------|--------------------|
| 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 | <u>\$290,877</u> | <u>\$382,125</u> | <u>\$522,062</u> | <u>\$650,711</u> | <u>\$869,272</u> |
| <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 | <u>\$266,220</u> | <u>\$292,512</u> | <u>\$419,640</u> | <u>\$585,379</u> | <u>\$657,558</u> |
| Total Fund Balance, Budget Basis | <u>\$557,097</u> | <u>\$674,637</u> | <u>\$941,702</u> | <u>\$1,236,090</u> | <u>\$1,526,830</u> |
| <u>Budget Basis to GAAP Basis Reconciliation</u> | | | | | |
| Total Fund Balance - Budget Basis | \$557,097 | \$674,637 | \$941,702 | \$1,236,090 | \$1,526,830 |
| Unrealized gain or loss on investments | 6,838 | (1,140) | 935 | 1,141 | 343 |
| Nonspendable fund balance | 19,598 | 23,854 | 24,022 | 24,786 | 522 |
| Cumulative Excess Property Tax Revenues Recognized on Budget Basis | (46,140) | (38,210) | (37,303) | (37,303) | (36,008) |
| Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis | (62,241) | (93,910) | (66,415) | (50,406) | (56,709) |
| Deferred Amounts on Loan Receivables | (16,551) | (20,067) | (21,670) | (23,212) | - |
| Pre-paid lease revenue | (2,876) | (4,293) | (5,709) | (5,900) | (5,816) |
| Total Fund Balance, GAAP Basis | <u>\$455,725</u> | <u>\$540,871</u> | <u>\$835,562</u> | <u>\$1,145,196</u> | <u>\$1,429,162</u> |

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

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

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TABLE A-4

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

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenues: | | | | | |
| Property Taxes | \$1,056,143 | \$1,122,008 | \$1,178,277 | \$1,272,623 | \$1,393,574 |
| Business Taxes ² | 435,316 | 479,627 | 562,896 | 609,614 | 659,086 |
| Other Local Taxes | 751,301 | 756,346 | 922,205 | 1,085,381 | 1,054,109 |
| Licenses, Permits and Franchises | 25,022 | 26,273 | 26,975 | 27,789 | 27,909 |
| Fines, Forfeitures and Penalties | 8,444 | 6,226 | 5,281 | 6,369 | 8,985 |
| Interest and Investment Income | 10,262 | 2,125 | 7,866 | 7,867 | 9,613 |
| Rents and Concessions | 24,932 | 35,273 | 25,501 | 24,339 | 46,553 |
| Intergovernmental | 678,808 | 720,625 | 827,750 | 854,464 | 900,820 |
| Charges for Services | 145,797 | 164,391 | 180,850 | 215,036 | 233,976 |
| Other | 17,090 | 14,142 | 9,760 | 9,162 | 22,291 |
| Total Revenues | \$3,153,115 | \$3,327,036 | \$3,747,361 | \$4,112,644 | \$4,356,916 |
| Expenditures: | | | | | |
| Public Protection | \$991,275 | \$1,057,451 | \$1,096,839 | \$1,148,405 | \$1,204,666 |
| Public Works, Transportation & Commerce | 52,815 | 68,014 | 78,249 | 87,452 | 136,762 |
| Human Welfare and Neighborhood Development | 626,194 | 660,657 | 720,787 | 786,362 | 853,924 |
| Community Health | 545,962 | 634,701 | 668,701 | 650,741 | 666,138 |
| Culture and Recreation | 100,246 | 105,870 | 113,019 | 119,278 | 124,515 |
| General Administration & Finance | 182,898 | 186,342 | 190,335 | 208,695 | 223,844 |
| General City Responsibilities | 96,132 | 81,657 | 86,968 | 98,620 | 114,663 |
| Total Expenditures | \$2,595,522 | \$2,794,692 | \$2,954,898 | \$3,099,553 | \$3,324,512 |
| Excess of Revenues over Expenditures | \$557,593 | \$532,344 | \$792,463 | \$1,013,091 | \$1,032,404 |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | \$120,449 | \$195,272 | \$216,449 | \$164,712 | \$209,494 |
| Transfers Out | (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) | (\$429,059) | (\$447,198) | (\$497,772) | (\$703,457) | (\$748,438) |
| Extraordinary gain/(loss) from dissolution of the Redevelopment Agency | (815) | - | - | - | - |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | \$127,719 | \$85,146 | \$294,691 | \$309,634 | \$283,966 |
| Total Fund Balance at Beginning of Year | \$328,006 | \$455,725 | \$540,871 | \$835,562 | \$1,145,196 |
| Total Fund Balance at End of Year -- GAAP Basis³ | \$455,725 | \$540,871 | \$835,562 | \$1,145,196 | \$1,429,162 |
| Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End | | | | | |
| -- GAAP Basis | \$133,794 | \$135,795 | \$178,066 | \$234,273 | \$249,238 |
| -- Budget Basis | \$220,277 | \$240,410 | \$294,669 | \$390,830 | \$435,202 |

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

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

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

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

Five-Year Financial Plan

The Five-Year Financial Plan ("Plan") is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the Plan to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Plan be adopted every two years. The City updates the Plan annually. The most recently adopted Plan, for fiscal years 2015-16 through 2019-20, was adopted by the Board of Supervisors and signed by the Mayor on April 30, 2015.

On 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 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 continued growth in General Fund revenues of 11%, primarily composed of growth in local tax sources, offset by projected expenditure increases of 30%, 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 \$1,449 million. 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 2016 update anticipate 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 2016 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 2016 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 rejected the proposed General Sales Tax (November 2016 Proposition K) and adopted an increase to the Real Property Transfer Tax rate (November 2016 Proposition W), as well as a tax on the distribution of sugar-sweetened beverages (November 2016 Proposition V).

The March 2016 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, 2018 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 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 16 proposed Plan includes a recession scenario, which reflects a revenue shortfall of \$960 million during the forecast period, based on the average rates of revenue declines experienced in major tax revenue sources during the previous two recessions.

City Budget Adopted for Fiscal Years 2016-17 and 2017-18

On August 1, 2016, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for the fiscal years ending June 30, 2017 and June 30, 2018. This is the fifth two-year budget for the entire City. The adopted budget closed the \$100 million and \$240 million General Fund shortfalls for fiscal year 2016-17 and fiscal year 2017-18 identified in the December 2015 Plan update through a combination of increased revenues and expenditures savings.

The Original Budget for fiscal years 2016-17 and fiscal year 2017-18 totals \$9.59 billion and \$9.72 billion respectively, representing year over year increases of \$360 million and \$50 million. The General Fund portion of each year's budget is \$4.86 billion in fiscal year 2016-17 and \$5.09 billion in fiscal year 2017-18 representing increases of \$272 million and \$232 million. There are 30,626 funded full time positions in the fiscal year 2016-17 Original Budget and 30,903 in the fiscal year 2017-18 Original Budget representing year-over-year increases of 1,074 and 277 positions, respectively.

The Original Budget for fiscal years 2016-17 and 2017-18 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses proposed by the Controller's Office and approved unanimously by the Board of Supervisors on November 22, 2011. The policy was approved by the Mayor on December 1, 2011 and can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary

funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

Based on the revenue and expenditure projections contained in the December 2016 proposed plan, on December 8, 2016, the Mayor's Office issued budget instructions to departments requiring expenditure reductions of 3.0% in fiscal year 2017-18 and an additional reduction of 3.0% in fiscal year 2018-19.

Other Budget Updates

On February 10, 2017, the Controller's Office issued a Six-Month Budget Status report (Six-Month Report) which projected the General Fund would end fiscal year 2016-17 with a balance of \$299.8 million. This represents a \$71.8 million improvement from the previously assumed ending balance. The fund balance projection includes \$203.1 million in starting fund balance, a projected \$91.8 million revenue surplus, \$81.7 million savings from departmental operations, offset by \$74.9 million in increased reserve deposits and \$1.9 million in increased contributions to baselines. The general revenue improvements are driven primarily by a significant increase in property and property transfer tax revenues, offset by shortfalls in hotel, parking, and sales tax. The Nine-Month Budget Status Report, to be published in May, 2017, will provide updated projections.

Impact of the State of California Budget on Local Finances

Revenues from the State represent approximately 14% of the General Fund revenues appropriated in the budget for fiscal years 2016-17 and 2017-18, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 27, 2016, the Governor signed the 2016-17 State Budget, spending \$170.9 billion from the General Fund and other State funds. General Fund appropriations total \$122.5 billion, \$6.9 billion or 6% more than the final 2015-16 spending level. An increase in State revenues boosted 2015-16 spending above the levels approved by the State Legislature in June 2015. The budget agreement balances new spending with targeted one-time expenditures and preparations for the next recession. The budget makes significant investments in education, including \$2.6 billion through the Local Control Funding Formula, as well as \$1.4 billion in one-time funding for K-14 schools. Additionally, the state budget includes new commitments to expand health care and social safety net programs. The budget also allocates funding for one-time infrastructure projects for state, university, and community college facilities. Finally, the budget prepares for the next recession by increasing deposits to the Rainy Day Fund to a balance \$6.7 billion (including a one-time payment of \$2 billion), setting an additional \$1.8 billion to protect the budget from unexpected revenue shortfalls, and continuing to pay down Proposition 2 debt and liabilities.

On January 10, 2017, the Governor released the fiscal year 2017-18 Proposed State Budget, which discontinues the In-Home Supportive Services Maintenance-of-Effort (IHSS MOE) agreement negotiated in 2012, returning the program to prior state-county sharing ratios. If implemented as proposed, this would shift \$626.2 million in State General Fund costs to counties, including over \$40 million in costs to San Francisco. The Governor has indicated his willingness to work with counties to modify the proposal. The Proposed Budget also assumes slower revenue growth than prior forecasts. Fiscal year 2017-18 overall revenue is 2.1% lower than projected in the Governor's fiscal year 2016-17 Adopted Budget. Notably, sales tax – which underlies the County's 1991 and 2011 realignment funds – is expected to be 3.9% lower in fiscal year 2017-18 compared to the fiscal year 2016-17 Adopted Budget.

Impact of Federal Government on Local Finances The City is assessing the potential material adverse changes in current and anticipated federal funding under the new presidential administration and Congress. These changes include, for example, potential increased costs associated with changes to or termination or replacement of the Affordable Care Act, potential withholding of federal grants or other funds flowing to "sanctuary jurisdictions" and suspension or termination of other federal grants for capital projects. The scope and timing of such changes will not be known until the administration concretely proposes specific changes or Congress acts on such proposals, as applicable. As to potential withholding of funds for "sanctuary cities" the City has challenged in federal court the

Presidential Executive Order that would cut funding from "sanctuary jurisdictions," and awaits a ruling. The fiscal year 2016-17 Original Budget includes about \$1.2 billion in federal payments, of which about \$1 billion is for entitlement programs mostly administered by the City's Human Services Agency and Department of Public Health. The City also receives about \$800 million in multi-year federal grants. The City will continue to monitor federal budget and policy changes, but cannot at this time determine the financial impacts of any proposed federal budget changes.

Budgetary Reserves

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

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

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget for fiscal years 2016-17 and 2017-18 includes \$16.6 million in fiscal year 2016-17 and \$19.3 million in fiscal year 2017-18), and the Litigation Reserve (Original Budget for fiscal years 2016-17 and 2017-18 includes \$11 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

Rainy Day Reserve

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

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

25 percent of the excess revenues to any lawful governmental purpose.

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

Monies in the City Reserve are available to provide a budgetary cushion in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. The fiscal year 2015-16 combined ending balance of the One-Time and Economic Stabilization portions of the Reserve was \$120.1 million. There are no projected deposits or withdrawals assumed in the fiscal year 2016-17 and 2017-18 budgets.

Budget Stabilization Reserve

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

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

Fiscal year 2015-16 RPTT receipts exceeded the five-year annual average by \$22.3 million and ending general fund unassigned fund balance was \$47.5 million, triggering a \$52.3 million deposit. However, \$6.2 million of this deposit requirement was offset by the Rainy Day Reserve deposit, resulting in a \$46.2 million deposit to the Budget Stabilization Reserve and leaving an ending balance to \$178.4 million. The fiscal years 2016-17 and 2017-18 budgets assume no reserve deposits given projected RPTT receipts. The Controller's Office determines deposits in October of each year based on actual receipts during the prior fiscal year.

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

THE SUCCESSOR AGENCY

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

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

Authority and Personnel

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

The Successor Agency currently employs approximately 46 full-time equivalent positions. The Executive Director, Tiffany Bohee, was appointed in February 2012. The other principal full-time staff positions are the Deputy Executive Director, Community and Economic Development; the Deputy Executive Director, Finance and Administration; the Deputy Executive Director, Housing; and the Successor Agency General Counsel. Each project area in which the Successor Agency continues to implement redevelopment plans, is managed by a Project Manager. There are separate staff support divisions with real estate and housing development specialists, architects, engineers and planners, and the Successor Agency has its own fiscal, legal, administrative and property management staffs.

Effect of the Dissolution Act

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

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

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

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

Oversight Board

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

Department of Finance Finding of Completion

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

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

State Controller Asset Transfer Review

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

Continuing Activities

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

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

PROPERTY TAXATION

Property Taxation System – General

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

Local property taxation is the responsibility of various City officers. The Assessor computes the value of locally assessed taxable property. After the assessed roll is closed on June 30th, the City Controller issues a Certificate of

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

Assessed Valuations, Tax Rates and Tax Delinquencies

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

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency (also known as the Office of Community Investment and Infrastructure or OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as "tax increment") within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations, causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor Agency received \$122 million of property tax increment in fiscal year 2015-16, diverting about \$69 million that would have otherwise been apportioned to the City's discretionary general fund.

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

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2012-13 through 2016-17
(000s)

| Fiscal Year | Net Assessed Valuation (NAV) ¹ | % Change from Prior Year | Total Tax Rate per \$100 ² | Total Tax Levy ³ | Total Tax Collected ³ | % Collected June 30 |
|-------------|-------------------------------------------|--------------------------|---------------------------------------|-----------------------------|----------------------------------|---------------------|
| 2012-13 | \$165,043,120 | 4.0% | 1.169 | \$1,997,645 | \$1,970,662 | 98.65% |
| 2013-14 | 172,489,208 | 4.5% | 1.188 | 2,138,245 | 2,113,284 | 98.83% |
| 2014-15 | 181,809,981 | 5.4% | 1.174 | 2,139,050 | 2,113,968 | 98.83% |
| 2015-16 | 194,392,572 | 6.9% | 1.183 | 2,290,280 | 2,268,876 | 99.07% |
| 2016-17 | 211,532,524 | 8.8% | 1.179 | 2,494,392 | Not available | Not available |

¹ Based on initial assessed valuations for fiscal year 2016-17. Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

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

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

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

At the start of fiscal year 2016-17, the total net assessed valuation of taxable property within the City was \$211.5 billion. Of this total, \$197.8 billion (93.5%) represents secured valuations and \$13.8 billion (6.5%) represents unsecured valuations. See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in the rest of any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2011-12 through 2015-16 are listed in Table A-6 below.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Refunds of Prior Years' Property Taxes
General Fund Assessment Appeals Reserve
Fiscal Years 2011-12 through 2015-16
(000s)

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

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

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

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

Tax Levy and Collection

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

General Fund property tax revenues in fiscal year 2015-16 were \$1.39 billion, representing an increase of \$102.6 million (7.9%) over fiscal year 2014-15 Original Budget and \$121.0 million (9.5%) over fiscal year 2014-15 actual

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

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

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

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

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

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

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

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO

Teeter Plan

Tax Loss Reserve Fund Balance

Fiscal Years 2011-12 through 2015-16

(000s)

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

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

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

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
July 1, 2016
(000s)

| Assessee | Location | Parcel Number | Type | Total Assessed | |
|-----------------------------------------|-------------------|---------------|-------------------|--------------------|---------------------------------|
| | | | | Value ¹ | % of Basis of Levy ² |
| Elm Property Venture LLC | 101 California St | 0263 011 | Commercial Office | \$995,506 | 0.51% |
| HWA 555 Owners LLC | 555 California St | 0259 026 | Commercial Office | 978,872 | 0.50% |
| PPF Paramount One Market Plaza Owner LP | 1 Market St | 3713 007 | Commercial Office | 801,910 | 0.41% |
| Union Investment Real Estate GMBH | 555 Mission St | 3721 120 | Commercial Office | 473,755 | 0.24% |
| Emporium Mall LLC | 845 Market St | 3705 056 | Commercial Retail | 447,990 | 0.23% |
| SPF China Basin Holdings LLC | 185 Berry St | 3803 005 | Commercial Office | 440,275 | 0.23% |
| SHC Embarcadero LLC | 4 The Embarcadero | 0233 044 | Commercial Office | 413,190 | 0.21% |
| Wells Reit II-333 Market St LLC | 333 Market St | 3710 020 | Commercial Office | 411,153 | 0.21% |
| Post Montgomery Associates | 165 Sutter St | 0292 015 | Commercial Retail | 402,849 | 0.21% |
| PPF OFF One Maritime Plaza LP | 300 Clay St | 0204 021 | Commercial Office | 382,166 | 0.20% |
| | | | | 382,166 | 2.95% |

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.

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.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues
Fiscal Years 2011-12 through 2017-18
All Funds
(000s)

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

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and beginning in fiscal year 2013-14, Gross Receipts Tax revenues. Figures for fiscal years 2011-12 through 2015-16 are audited actuals. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

Transient Occupancy Tax (Hotel Tax)

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

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

TABLE A -10

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues
Fiscal Years 2011-12 through 2017-18
(000s)

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

Figures for fiscal year 2011-12 through fiscal year 2015-16 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

¹ Amounts in fiscal year 2012-13 and FY 2014-15 are substantially adjusted due to multi-year audit and litigation resolutions.

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

Real Property Transfer Tax

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

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

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2011-12 through 2017-18
(000s)

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

Figures for fiscal year 2011-12 through 2015-16 are audited actuals. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

Sales and Use Tax

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

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

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

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

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2011-12 through 2017-18
(000s)

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

Figures for fiscal year 2011-12 through fiscal year 2015-16 are audited actuals. Figures for fiscal years 2016-17 and 2017-18 are Original Budget amounts.

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

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

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

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

Utility Users Tax

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

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

Emergency Response Fee; Access Line Tax

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone

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

Sugar Sweetened Beverage Tax

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

Parking Tax

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

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

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

INTERGOVERNMENTAL REVENUES

State – Realignment

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

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

Increases in both years are net of State allocation reductions due to implementation of the Affordable Care Act (ACA) equal to assumed savings for counties as a result of treating fewer uninsured patients. The State's fiscal year 2015-16 Budget included assumed Statewide county savings of \$742 million and the fiscal year 2016-17 Budget included assumed savings of \$565 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 2011-12 through 2017-18
(000s)

| Major Service Areas | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Original Budget | Original Budget | Original Budget | Original Budget | Original Budget | Original Budget | Original Budget |
| Public Protection | \$998,237 | \$1,058,689 | \$1,130,932 | \$1,173,977 | \$1,223,981 | \$1,298,185 | \$1,323,268 |
| Human Welfare & Neighborhood Development | 672,834 | 670,375 | 700,254 | 799,355 | 857,055 | 176,768 | 165,498 |
| Community Health | 575,446 | 609,892 | 701,978 | 736,916 | 787,554 | 970,679 | 1,009,995 |
| General Administration & Finance | 199,011 | 197,994 | 244,591 | 293,107 | 286,871 | 786,218 | 824,100 |
| Culture & Recreation | 100,740 | 111,066 | 119,579 | 126,932 | 137,062 | 158,954 | 158,979 |
| General City Responsibilities | 110,725 | 145,560 | 137,025 | 158,180 | 186,068 | 349,308 | 333,291 |
| Public Works, Transportation & Commerce | 51,588 | 67,529 | 80,797 | 127,973 | 161,545 | 154,344 | 164,895 |
| Total* | \$2,708,581 | \$2,861,106 | \$3,115,155 | \$3,416,440 | \$3,640,137 | \$3,894,456 | \$3,980,026 |

*Total may not add due to rounding

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

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

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

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

Baselines

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

(in Millions)

| Baselines & Set-Asides | FY 2016-17 | FY 2016-17 |
|-----------------------------------------------|------------------------|--------------------|
| | Required Baseline | Original Budget |
| Municipal Transportation Agency (MTA) | \$212.0 | \$212.0 |
| MTA Baseline - Population Adjustment | \$38.0 | \$38.0 |
| Parking and Traffic Commission | \$79.5 | \$79.5 |
| Children's Services | \$153.1 | \$157.5 |
| Transitional Aged Youth | \$18.4 | \$23.2 |
| Library Preservation | \$72.5 | \$72.5 |
| Public Education Baseline Services | \$9.2 | \$9.2 |
| Recreation and Park Maintenance of Effort | \$67.4 | \$67.4 |
| Public Education Enrichment Funding | | |
| Unified School District | \$64.6 | \$64.6 |
| Office of Early Care and Education | \$32.3 | \$32.3 |
| City Services Auditor | \$16.3 | \$16.3 |
| Human Services Homeless Care Fund | \$16.7 | \$16.7 |
| <u>Property Tax Related Set-Asides</u> | | |
| Municipal Symphony | \$2.6 | \$2.6 |
| Children's Fund Set-Aside | \$72.6 | \$72.6 |
| Library Preservation Set-Aside | \$51.8 | \$51.8 |
| Open Space Set-Aside | \$51.8 | \$51.8 |
| <u>Staffing and Service-Driven</u> | | |
| Police Minimum Staffing | Requirement likely met | |
| Fire Neighborhood Firehouse Funding | Requirement met | |
| Treatment on Demand | Requirement met | |
| Total Baseline Spending | \$958.90 | \$968.08 |

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

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

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents approximately 50% of the City's expenditures, totaling \$4.7 billion in the fiscal year 2016-17 Original Budget (all-funds), and \$4.9 billion in the fiscal year 2017-18 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.2 billion in the fiscal year 2016-17 Original Budget and \$2.3 billion in the fiscal year 2017-18 Original Budget. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

Labor Relations

The City's budget for fiscal years 2016-17 and 2017-18 includes 30,626 and 30,903 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 ("SEIU"); the International Federation of Professional and Technical Engineers, Local 21 ("IFPTE"); and the unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Milias-Brown Act, California Government Code Sections 3500-3511) and the City Charter. San Francisco is unusual among California's cities and counties in that nearly all of 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 May 2014, the City negotiated three-year agreements (for fiscal years 2014-15 through 2016-17) with most of its labor unions. In general, the parties agreed to: (1) annual wage increase schedules of 3% (October 11, 2014), 3.25% (October 10, 2015), and 3.25% (July 1, 2016); and (2) some structural reforms of the City's healthcare benefit and cost-sharing structures to rebalance required premiums between the two main health plans offered by the City. These changes to health contributions build reforms agreed to by most unions during earlier negotiations.

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

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

In February 2017, the City negotiated two-year contract extensions (for fiscal years 2017-18 and 2018-19) with most of its labor unions. The parties agreed to a wage increase schedule of 3% on July 1, 2017 and 3% on July 1, 2018, with a provision to delay the fiscal year 2018-19 adjustment by six months if the City's deficit for fiscal year 2018-2019, as projected in the March, 2018 update to the Five Year Financial Plan, exceeds \$200 million. Existing agreements with police officers, firefighters, and physicians expire in June 2018; the agreement with supervising nurses expires in June, 2019.

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

TABLE A-15

| CITY AND COUNTY OF SAN FRANCISCO (All Funds) Employee Organizations as of July 1, 2016 | | |
|-------------------------------------------------------------------------------------------|------------------------------|-------------------------------|
| <u>Organization</u> | <u>Budgeted Positions</u> | <u>Expiration Date of MOU</u> |
| Automotive Machinists, Local 1414 | 466 | 30-Jun-19 |
| Bricklayers, Local 3/Hod Carriers, Local 36 | 18 | 30-Jun-19 |
| Building Inspectors Association | 96 | 30-Jun-19 |
| Carpenters, Local 22 | 115 | 30-Jun-19 |
| Carpet, Linoleum & Soft Tile | 3 | 30-Jun-19 |
| CIR (Interns & Residents) | - | 30-Jun-19 |
| Cement Masons, Local 580 | 38 | 30-Jun-19 |
| Deputy Sheriffs Association | 801 | 30-Jun-19 |
| District Attorney Investigators Association | 45 | 30-Jun-19 |
| Electrical Workers, Local 6 | 914 | 30-Jun-19 |
| Glaziers, Local 718 | 9 | 30-Jun-19 |
| International Alliance of Theatrical Stage Employees, Local 16 | 27 | 30-Jun-19 |
| Ironworkers, Local 377 | 15 | 30-Jun-19 |
| Laborers International Union, Local 261 | 1,114 | 30-Jun-19 |
| Municipal Attorneys' Association | 453 | 30-Jun-19 |
| Municipal Executives Association | 1,287 | 30-Jun-19 |
| MEA - Police Management | 6 | 30-Jun-18 |
| MEA - Fire Management | 9 | 30-Jun-18 |
| Operating Engineers, Local 3 | 63 | 30-Jun-19 |
| City Workers United | 132 | 30-Jun-19 |
| Pile Drivers, Local 34 | 37 | 30-Jun-19 |
| Plumbers, Local 38 | 347 | 30-Jun-19 |
| Probation Officers Association | 154 | 30-Jun-19 |
| Professional & Technical Engineers, Local 21 | 6,131 | 30-Jun-19 |
| Roofers, Local 40 | 13 | 30-Jun-19 |
| S.F. Institutional Police Officers Association | 2 | 30-Jun-19 |
| S.F. Firefighters, Local 798 | 1,837 | 30-Jun-18 |
| S.F. Police Officers Association | 2,506 | 30-Jun-18 |
| SEIU, Local 1021 | 12,471 | 30-Jun-19 |
| SEIU, Local 1021 Staff & Per Diem Nurses | 1,723 | 30-Jun-19 |
| SEIU, Local 1021 H-1 Rescue Paramedics | 4 | 30-Jun-18 |
| Sheet Metal Workers, Local 104 | 45 | 30-Jun-19 |
| Sheriff's Managers and Supervisors Association | 99 | 30-Jun-19 |
| Stationary Engineers, Local 39 | 692 | 30-Jun-19 |
| Supervising Probation Officers, Operating Engineers, Local 3 | 31 | 30-Jun-19 |
| Teamsters, Local 853 | 171 | 30-Jun-19 |
| Teamsters, Local 856 (Multi-Unit) | 115 | 30-Jun-19 |
| Teamsters, Local 856 (Supervising Nurses) | 126 | 30-Jun-19 |
| TWU, Local 200 (SEAM multi-unit & claims) | 364 | 30-Jun-19 |
| TWU, Local 250-A Auto Service Workers | 180 | 30-Jun-19 |
| TWU, Local 250-A Transit Fare Inspectors | 54 | 30-Jun-19 |
| TWU-250-A Miscellaneous | 107 | 30-Jun-19 |
| TWU-250-A Transit Operators | 2,658 | 30-Jun-19 |
| Union of American Physicians & Dentists | 205 | 30-Jun-18 |
| Unrepresented Employees | 134 | 30-Jun-18 |
| | 35,817 ⁽¹⁾ | |

⁽¹⁾ Budgeted positions do not include SFUSD, SFCCD, or Superior Court Personnel.

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

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

History and Administration

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

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

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

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

Membership

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

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

Beginning July 1, 2008, the Retirement System had a Deferred Retirement Option Program ("DROP") program for Police Plan members who were eligible and elected participation. The program "sunset" on June 30, 2011. A total of 354 eligible Police Plan members elected to participate in DROP during the three-year enrollment window. As of July 2016, there are no members active in DROP.

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

TABLE A-16

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

| As of 1-Jul | Active Members | Vested Members | Reciprocal Members | Total Non-retired | Retirees/ Continuants | Active to Retiree Ratio |
|----------------|-------------------|-------------------|-----------------------|----------------------|--------------------------|----------------------------|
| 2012 | 28,097 | 4,543 | 1,015 | 33,655 | 25,190 | 1.115 |
| 2013 | 28,717 | 4,933 | 1,040 | 34,690 | 26,034 | 1.103 |
| 2014 | 29,516 | 5,409 | 1,032 | 35,957 | 26,852 | 1.099 |
| 2015 | 30,837 | 5,960 | 1,024 | 37,821 | 27,485 | 1.122 |
| 2016 | 32,406 | 6,617 | 1,028 | 40,051 | 28,286 | 1.146 |

Sources: SFERS' annual July 1 actuarial valuation reports
 See <http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

Notes: Member counts exclude DROP participants.
 Member counts are for the entire Retirement System and include non-City employees.

Funding Practices

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

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

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

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

Prospective purchasers of the City's bonds should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, mysfers.org, under Publications. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's bonds are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents, and are therefore subject to change.

Employer Contribution History and Annual Valuations

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

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

TABLE A-17

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

| As of 1-Jul | Actuarial Liability | Market Value of Assets | Actuarial Value of Assets | Market Percent Funded | Actuarial Percent Funded | Employee & Employer Contributions in prior FY | Employer Contribution Rates ^[1] in prior FY |
|----------------|------------------------|---------------------------|------------------------------|-----------------------------|--------------------------------|--------------------------------------------------------|-----------------------------------------------------------------|
| 2012 | 19,393,854 | 15,293,724 | 16,027,683 | 78.9% | 82.6% | 608,957 | 18.09% |
| 2013 | 20,224,777 | 17,011,545 | 16,303,397 | 84.1% | 80.6% | 701,596 | 20.71% |
| 2014 | 21,122,567 | 19,920,607 | 18,012,088 | 94.3% | 85.3% | 821,902 | 24.82% |
| 2015 | 22,970,892 | 20,428,069 | 19,653,339 | 88.9% | 85.6% | 894,325 | 26.76% |
| 2015 | 22,970,892 | 20,428,069 | 19,653,339 | 88.9% | 85.6% | 894,325 | 26.76% |
| 2016 | 24,403,882 | 20,154,503 | 20,654,703 | 88.6% | 84.6% | 849,569 | 20.80% |

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

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

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

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

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

GASB Disclosures

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

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

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

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

TABLE A-17A

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

| As of | Collective Total Pension Liability (TPL) | Discount Rate | Plan Fiduciary Net Position | Plan Net Position as % of TPL | Collective Net Pension Liability (NPL) | City and County's Proportionate Share of NPL |
|-------------|------------------------------------------------|------------------|--------------------------------|-------------------------------------|----------------------------------------------|----------------------------------------------------|
| 30-Jun 2013 | \$20,785,417 | 7.52% | \$17,011,545 | 81.8% | \$3,773,872 | \$3,552,075 |
| 2014 | 21,691,042 | 7.58% | 19,920,607 | 91.8% | 1,770,435 | 1,660,365 |
| 2015 | 22,724,102 | 7.46% | 20,428,069 | 89.9% | 2,296,033 | 2,156,049 |
| 2016 | 25,967,281 | 7.50% | 20,154,503 | 77.6% | 5,812,778 | 5,476,653 |

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

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

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

Asset Management

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

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

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

Recent Voter Approved Changes to the Retirement Plan

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

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

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

1. New SFERS benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%;
2. Employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;

3. Cost-sharing provisions which increase or decrease employee contributions to SFERS on and after July 1, 2012 for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. For example, Miscellaneous employees who earn between \$50,000 and \$100,000 per year pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate, while Miscellaneous employees who earn \$100,000 or more per year pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are also required from Safety employees; and
4. Effective July 1, 2012, no Supplemental COLA will be paid unless SFERS is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

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

On July 13, 2016, the SFERS Board adopted a Resolution to exempt members who retired before November 6, 1996, from the “fully funded” provision related to payment of Supplemental COLAs under Proposition C. The Resolution directed that retroactive payments for Supplemental COLAs be made to these retirees. After the Board adopted the Resolution, the Retirement System published an actuarial study on the cost to the Fund of payments to the pre-1996 retirees. The study reports that the two retroactive supplemental payments will trigger immediate payments of \$34 million, create additional liability for continuing payments of \$114 million, and cause a new unfunded liability of \$148 million. This liability does not include the Supplemental COLA payments that may be triggered in the future. Under the cost sharing formulas in Proposition C, the City and its employees will pay for these costs in the form of higher yearly contribution rates. The Controller has projected the future cost to the City and its employees to be \$260 million, with over \$200 million to be paid in the next five fiscal years. The City has taken legal action to obtain an injunction to prevent SFERS from making Supplemental COLA payments to these members who retired before November 6, 1996 and seeking a judicial determination as to the authority of the Board in this matter. On October 5, 2016, the Superior Court of California granted the City’s motion for preliminary injunction, which enjoins SFERS from making such payments pending final court ruling on the matter.

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

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

As of June 30, 2016, the audited market value of Retirement System assets was \$20.2 billion. As of February 28, 2017, the unaudited market value of SFERS’ portfolio was \$21.5 billion. These values represent, as of the date specified, the estimated value of the Retirement System’s portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System’s financial statements.

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

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

Other Employee Retirement Benefits

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

Medical Benefits

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

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

The San Francisco Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the HSS Beneficiaries are funded. The San Francisco Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained on the HSS website or by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (415) 554-1727. Audited annual financial statements for several years are also posted on the HSS website. The information available on such website is not incorporated in this Official Statement by reference.

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

Determination of Employer and Employee Contributions for Medical Benefits

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

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

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

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

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

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

Health Care Reform

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

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (Public Law 111-114), and on March 30, 2010 signed the Health Care and Education Reconciliation of 2010 (collectively, the "Health Care Reform Law" or the Affordable Care Act (ACA) or "Obamacare"). The ACA was intended to extend health insurance to over 32 million uninsured Americans by 2019, and includes other significant changes with

respect to the obligation to carry health insurance by individuals and the provision of health care by private and public employers, such as the City.

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

Provisions of Health Care Reform already implemented by HSS include discontinued eligibility for non-prescription drugs reimbursement through flexible spending accounts ("FSAs") in 2011, eliminated copayments for wellness visits, eliminated life-time caps on coverage, 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 2080 hours on system configuration and is compliant with this requirement for 2016 and 2017.

As part of overall "HealthCare Reform 2.0" under President Trump, it is likely that the age for eligibility will be increased. If this occurs, there will be an estimated 1,500 additional "early retirees" not subsidized by Medicare requiring coverage by HSS. The Republicans have also proposed a "voucher" system for Medicare. If this occurs it will require major changes to retiree health coverage. At this time it is too early to predict what changes will be made and it is very possible that changes will be passed but not implemented until January 2019, after the mid-term Congressional elections.

Local Elections:

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

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

Proposition C (2011) City Pension and Health Care Benefit

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

Employer Contributions for San Francisco Health Service System Benefits

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

The 2016 aggregate plan costs for the City increased by 3.80%. This is due to a number of factors including aggressive contracting by HSS that maintains competition among 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. 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)

| <u>Fiscal Year Ended</u> | <u>Annual OPEB</u> | <u>Percentage of Annual OPEB Cost Funded</u> | <u>Net OPEB Obligation</u> |
|--------------------------|--------------------|--------------------------------------------------|--------------------------------|
| 6/30/2012 | \$405,850 | 38.5% | \$1,348,883 |
| 6/30/2013 | 418,539 | 38.3% | 1,607,130 |
| 6/30/2014 | 353,251 | 47.2% | 1,793,753 |
| 6/30/2015 | 363,643 | 46.0% | 1,990,155 |
| 6/30/2016 | 326,133 | 51.8% | 2,147,434 |

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

Total City Employee Benefits Costs

The City budgets to pay its ARC for pension and has established a Retiree Health Care Trust Fund into which both the City and employees are required to contribute funds as retiree health care benefits are earned. Currently, these Trust deposits are only required on behalf of employees hired after 2009, and are therefore limited, but 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 2016-17
(000s)

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

Fiscal year 2011-12 through fiscal year 2015-16 figures are audited actuals. Fiscal year 2016-17 figures are original budget.

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

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

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

INVESTMENT OF CITY FUNDS

Investment Pool

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

Investment Policy

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

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. See “APPENDIX C – City and County of San Francisco Office of the Treasurer – Investment Policy” for a complete copy of the Treasurer’s Investment Policy, dated May 2016. The Investment Policy is also posted at the Treasurer’s website. The information available on such website is not incorporated herein by reference.

Investment Portfolio

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

TABLE A-20

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

| Type of Investment | Par Value | Book Value | Market Value |
|------------------------------------|------------------------|-------------------------|-------------------------|
| U.S. Treasuries | \$1,725,000,000 | \$1,719,369,388 | \$1,722,116,000 |
| Federal Agencies | 3,952,698,000 | 3,953,600,531 | 3,948,032,323 |
| State and Local Obligations | 290,934,000 | 295,096,161 | 292,790,433 |
| Public Time Deposits | 1,200,000 | 1,200,000 | 1,200,000 |
| Negotiable Certificates of Deposit | 815,000,000 | 815,000,000 | 815,392,583 |
| Banker's Acceptances | | | |
| Commercial Paper | 695,000,000 | 690,793,243 | 693,578,118 |
| Medium Term Notes | 101,604,000 | 101,782,575 | 101,749,678 |
| Money Market Funds | 461,139,949 | 461,139,949 | 461,139,949 |
| Supranationals | 80,000,000 | 79,925,100 | 79,870,750 |
| Total | \$8,122,575,949 | \$ 8,117,906,948 | \$ 8,115,869,835 |

January 2017 Earned Income Yield: 0.899%

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

TABLE A-21

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

| Maturity in Months | | | Par Value | Percentage |
|--------------------|----|----|------------------------|----------------|
| 0 | to | 1 | \$1,025,148,949 | 12.62% |
| 1 | to | 2 | 1,298,425,000 | 15.99% |
| 2 | to | 3 | 671,298,000 | 8.26% |
| 3 | to | 4 | 166,085,000 | 2.04% |
| 4 | to | 5 | 520,240,000 | 6.40% |
| 5 | to | 6 | 143,520,000 | 1.77% |
| 6 | to | 12 | 1,027,010,000 | 12.64% |
| 12 | to | 24 | 1,425,830,000 | 17.55% |
| 24 | to | 36 | 1,138,950,000 | 14.02% |
| 36 | to | 48 | 432,500,000 | 5.32% |
| 48 | to | 60 | 273,569,000 | 3.37% |
| | | | \$8,122,575,949 | 100.00% |

Weighted Average Maturity: 412 Days

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

Further Information

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

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

CAPITAL FINANCING AND BONDS

Capital Plan

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

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

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

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

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

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

Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes (“general obligation bonds”) can only be authorized with a two-thirds approval of the voters. As of April 1, 2017, the City had approximately \$2.25 billion aggregate principal amount of general obligation bonds outstanding.

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

TABLE A-22

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of April 1, 2017 ^{1 2}

| Fiscal Year | Principal | Interest | Annual Debt Service |
|---------------------------|------------------------|----------------------|------------------------|
| 2017 | \$189,434,110 | \$48,373,909 | \$237,808,019 |
| 2018 | 123,873,225 | 88,868,612 | 212,741,837 |
| 2019 | 124,230,545 | 84,676,748 | 208,907,293 |
| 2020 | 123,541,232 | 78,649,111 | 202,190,343 |
| 2021 | 122,085,457 | 72,700,986 | 194,786,443 |
| 2022 | 128,083,401 | 67,121,223 | 195,204,624 |
| 2023 | 131,760,251 | 61,192,905 | 192,953,156 |
| 2024 | 134,366,206 | 54,907,030 | 189,273,236 |
| 2025 | 135,221,476 | 48,463,484 | 183,684,960 |
| 2026 | 130,491,279 | 42,140,369 | 172,631,648 |
| 2027 | 135,690,840 | 36,402,040 | 172,092,880 |
| 2028 | 140,604,035 | 30,447,874 | 171,051,909 |
| 2029 | 141,041,751 | 24,668,943 | 165,710,694 |
| 2030 | 137,285,095 | 18,856,513 | 156,141,608 |
| 2031 | 99,261,950 | 13,238,784 | 112,500,734 |
| 2032 | 102,620,000 | 9,573,281 | 112,193,281 |
| 2033 | 68,105,000 | 5,848,349 | 73,953,349 |
| 2034 | 43,770,000 | 3,291,929 | 47,061,929 |
| 2035 | 35,160,000 | 1,711,971 | 36,871,971 |
| 2036 | 12,680,000 | 475,476 | 13,155,476 |
| TOTAL ³ | \$2,259,305,853 | \$791,609,537 | \$3,050,915,390 |

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

² Totals reflect rounding to nearest dollar.

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

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

General Obligation Bonds

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

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

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

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

In November 2012, voters approved Proposition B, which authorized the issuance of up to \$195.0 million in general obligation bonds to provide funds for the construction, reconstruction, renovation, demolition, environmental remediation and/or improvement of park, open space, and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately \$71.9 million in June 2013. The City issued the second series of bonds in the amount of \$43 million in January 2016.

In June 2014, voters approved Proposition A, which authorized the issuance of up to \$400.0 million in general

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

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

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

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

Refunding General Obligation Bonds

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

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Refunding Bonds
As of December 31, 2016

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

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

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

Series 2008-R3 Bonds were partially refunded.

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

TABLE A-24

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

| <u>Description of Issue (Date of Authorization)</u> | <u>Series</u> | <u>Issued</u> | <u>Outstanding</u> ¹ | <u>Authorized & Unissued</u> |
|------------------------------------------------------------|---------------|------------------------|---------------------------------|----------------------------------|
| Seismic Safety Loan Program (11/3/92) | 2007A | \$30,315,450 | \$22,765,853 | |
| | 2015A | 24,000,000 | 24,000,000 | 260,684,550 |
| Clean & Safe Neighborhood Parks (2/5/08) | 2010B | 24,785,000 | 7,510,000 | |
| | 2010D | 35,645,000 | 35,645,000 | |
| | 2012B | 73,355,000 | 53,215,000 | |
| | 2016A | 8,695,000 | 8,120,000 | |
| San Francisco General Hospital and Trauma Center (11/4/08) | 2009A | 131,650,000 | 15,800,000 | |
| | 2010A | 120,890,000 | 36,645,000 | |
| | 2010C | 173,805,000 | 173,805,000 | |
| | 2012D | 251,100,000 | 170,800,000 | |
| | 2014A | 209,955,000 | 176,035,000 | |
| Earthquake Safety and Emergency Response Bond (6/8/10) | 2010E | 79,520,000 | 45,425,000 | |
| | 2012A | 183,330,000 | 133,965,000 | |
| | 2012E | 38,265,000 | 32,805,000 | |
| | 2013B | 31,020,000 | 19,065,000 | |
| | 2014C | 54,950,000 | 46,910,000 | |
| | 2016C | 25,215,000 | 24,110,000 | |
| Road Repaving & Street Safety (11/8/11) | 2012C | 74,295,000 | 54,480,000 | |
| | 2013C | 129,560,000 | 79,570,000 | |
| | 2016E | 44,145,000 | 42,200,000 | |
| Clean & Safe Neighborhood Parks (11/6/12) | 2013A | 71,970,000 | 44,215,000 | |
| | 2016B | 43,220,000 | 26,345,000 | 79,810,000 |
| Earthquake Safety and Emergency Response Bond (6/3/14) | 2014D | 100,670,000 | 85,920,000 | |
| | 2016D | 109,595,000 | 81,340,000 | 189,735,000 |
| Transportation and Road Improvement (11/4/15) | 2015B | 67,005,000 | 47,005,000 | 432,995,000 |
| Affordable Housing Bond (11/4/15) | 2016F | 75,130,000 | 75,130,000 | 234,870,000 |
| Public Health and Safety Bond (6/7/16) | 2017A | 173,120,000 # | 173,120,000 | 176,880,000 |
| SUB TOTALS | | \$2,385,205,450 | \$1,735,945,853 | \$1,374,974,550 |
| General Obligation Refunding Bonds: | | | | |
| Series 2008-R1 issued 5/29/08 | | 232,075,000 | 8,170,000 | |
| Series 2008-R2 issued 5/29/08 | | 39,320,000 | 11,105,000 | |
| Series 2011-R1 issued 11/9/12 | | 339,475,000 | 226,920,000 | |
| Series 2015-R1 issued 2/25/15 | | 293,910,000 | 277,165,000 | |
| SUB TOTALS | | 904,780,000 | 523,360,000 | |
| TOTALS | | \$3,289,985,450 | \$2,259,305,853 | \$1,374,974,550 |

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

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

Lease Payments and Other Long-Term Obligations

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

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

TABLE A-25

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

| Fiscal Year | Principal | Interest | Annual Payment Obligation |
|---------------------------|------------------------|-----------------------------------|------------------------------|
| 2017 | \$7,675,000 | \$8,196,634 | \$15,871,634 |
| 2018 | 62,120,000 | 47,767,339 | 109,887,339 |
| 2019 | 54,205,000 | 45,226,132 | 99,431,132 |
| 2020 | 39,565,000 | 43,037,463 | 82,602,463 |
| 2021 | 47,800,000 | 41,030,633 | 88,830,633 |
| 2022 | 47,705,000 | 38,955,222 | 86,660,222 |
| 2023 | 49,775,000 | 36,849,250 | 86,624,250 |
| 2024 | 51,440,000 | 34,647,044 | 86,087,044 |
| 2025 | 51,195,000 | 32,345,528 | 83,540,528 |
| 2026 | 51,080,000 | 30,082,534 | 81,162,534 |
| 2027 | 53,465,000 | 27,691,181 | 81,156,181 |
| 2028 | 54,160,000 | 25,193,263 | 79,353,263 |
| 2029 | 56,645,000 | 22,623,351 | 79,268,351 |
| 2030 | 56,430,000 | 19,952,428 | 76,382,428 |
| 2031 | 48,005,000 | 17,306,077 | 65,311,077 |
| 2032 | 37,320,000 | 14,894,708 | 52,214,708 |
| 2033 | 35,455,000 | 13,113,843 | 48,568,843 |
| 2034 | 37,060,000 | 11,353,856 | 48,413,856 |
| 2035 | 24,895,000 | 9,741,125 | 34,636,125 |
| 2036 | 23,315,000 | 8,515,394 | 31,830,394 |
| 2037 | 21,505,000 | 7,364,158 | 28,869,158 |
| 2038 | 22,400,000 | 6,281,175 | 28,681,175 |
| 2039 | 23,325,000 | 5,152,823 | 28,477,823 |
| 2040 | 24,305,000 | 3,973,519 | 28,278,519 |
| 2041 | 25,310,000 | 2,744,513 | 28,054,513 |
| 2042 | 18,140,000 | 1,629,071 | 19,769,071 |
| 2043 | 8,815,000 | 958,600 | 9,773,600 |
| 2044 | 7,195,000 | 587,000 | 7,782,000 |
| 2045 | 7,480,000 | 299,200 | 7,779,200 |
| TOTAL ¹ | \$1,047,785,000 | \$557,513,064 ² | \$1,605,298,064 |

¹ Totals reflect rounding to nearest dollar.

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

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

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

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

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of April 1, 2017 the total authorized amount for such financings was \$67.7 million. The total principal amount outstanding as of April 1, 2017 was \$2.00 million.

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

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

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

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

Commercial Paper Program

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "CP Program"). Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project. The former Series 1 and 1-T and Series 2 and 2-T letters of credit issued in 2010 by J.P. Morgan Chase Bank, N.A. and U.S. Bank 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 April 1, 2017, the outstanding principal amount of CP Notes is \$218.8 million. The weighted average interest rate for CP Notes is approximately 0.77%.

Board Authorized and Unissued Long-Term Obligations

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

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

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

Overlapping Debt

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

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TABLE A-26

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

| | | |
|-----------------------------------------------------------------------------------------------------|---------------------|------------------------|
| <u>2016-2017 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions): | | \$211,532,524,208 |
| | Outstanding | |
| <u>DIRECT GENERAL OBLIGATION BOND DEBT</u> | 4/1/2017 | |
| General City Purposes Carried on the Tax Roll | | \$2,259,305,853 |
| GROSS DIRECT DEBT | | \$2,259,305,853 |
| <u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u> | | |
| San Francisco COPs, Series 2001A (30 Van Ness Ave. Property) | | \$24,770,000 |
| San Francisco Finance Corporation, Equipment LRBs Series 2011A, 2012A, and 2013A | | 2,005,000 |
| San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1 | | 9,975,000 |
| San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2 | | 99,620,000 |
| San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007 | | 47,000,000 |
| San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A | | 28,045,000 |
| San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties) | | 2,295,000 |
| San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital) | | 125,570,000 |
| San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project) | | 31,190,000 |
| San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt | | 23,240,000 |
| San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs | | 129,550,000 |
| San Francisco Refunding Certificates of Participation, Series 2010A | | 105,045,000 |
| San Francisco COPs, Refunding Series 2011AB (Moscone) | | 40,390,000 |
| San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project) | | 36,815,000 |
| San Francisco COPs, Series 2013A Moscone Center Improvement | | 7,750,000 |
| San Francisco COPs, Series 2013BC Port Facilities | | 32,275,000 |
| San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project) | | 38,350,000 |
| San Francisco COPs, Series 2015AB War Memorial Veterans Building Seismic Upgrade and Improvements | | 127,810,000 |
| San Francisco Refunding COPs, Series 2015-R1 (City Office Buildings-Multiple Properties Project) | | 120,920,000 |
| San Francisco COPs, Series 2016A War Memorial Veterans Building Seismic Upgrade and Improvements | | 15,170,000 |
| LONG-TERM OBLIGATIONS | | \$1,047,785,000 |
| GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS | | \$3,307,090,853 |
| <u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u> | | |
| Bayshore Hester Assessment District | | \$550,000 |
| San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds | | 77,490,000 |
| San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B | | 102,494,000 |
| San Francisco Community College District General Obligation Bonds - Election of 2001, 2005 | | 262,945,000 |
| San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011 | | 34,260,000 |
| San Francisco Redevelopment Agency Obligations (Property Tax Increment) | | 760,367,853 |
| San Francisco Redevelopment Agency Obligations (Special Tax Bonds) | | 151,301,115 |
| Association of Bay Area Governments Obligations (Special Tax Bonds) | | 18,140,000 |
| Special Tax District No. 2009-1 Improvement Area 1, 2 SF Sustainable Financing | | 2,999,392 |
| San Francisco Unified School District General Obligation Bonds, Election of 2003, 2006, and 2011 | | 916,490,000 |
| TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS | | \$2,327,037,360 |
| GROSS COMBINED TOTAL OBLIGATIONS | | \$5,634,128,213 |
| <u>Ratios to Assessed Valuation:</u> | Actual Ratio | Charter Req. |
| Gross Direct Debt (General Obligation Bonds) | 1.07% | < 3.00% |
| Gross Direct Debt & Long-Term Obligations | 1.56% | n/a |
| Gross Combined Total Obligations | 2.66% | n/a |

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

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

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

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

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

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

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

MAJOR ECONOMIC DEVELOPMENT PROJECTS

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

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

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

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

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

Treasure Island

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

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

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

The Golden State Warriors, a National Basketball Association team, is developing a multipurpose recreation and entertainment venue and associated development in Mission Bay. The site is bordered by Third Street to the West, Terry Francois Boulevard to the East, 16th Street to the South and South Street to the North. The Warriors project includes a state-of-the-art multi-purpose recreation and entertainment venue for Warriors' home games, concerts and family shows. The site will also have restaurants, retail, office space, bike valet, public plazas and a limited amount of parking, and trigger the construction of a new 5 acre Bay Front Park between the new event center and the Bay. Environmental review has been completed for the site, and was upheld in a November 2016 decision. The project began construction in January 2017 and the event center 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 Transbay Transit Center. In 2012 the Transit Center District Plan, the guiding document for the area surrounding the Transit Center, was approved by the Planning Commission and by the Board of Supervisors. The Transit Center District Plan includes additional funding sources for the Transbay Transit Center. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub and extend the Caltrain commuter rail line underground 1.3 miles into the Financial District. The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open by the end of 2017. Demolition of existing structures on the site was completed in August 2011.

The 10 acres of property formerly owned by the State surrounding the Transbay Transit Center is being redeveloped with plans for 3,300 new homes, 1,400 to be affordable below-market rate homes, over 2 million square feet of new office space, over 9 acres of new parks and open space, and a new retail boulevard on Folsom Street. Recently completed in the neighborhood is Rene Cazenave Apartments which is 120 units of permanent affordable housing for formerly homeless individuals, and Solaire, which consists of 479 residential units of which 70 units are affordable. There are over 1,200 units currently under construction on Folsom Street, 767,000 square feet of office space under construction at Howard and Beale Streets, and 1.4 million square feet of office space under construction at Mission and First Streets. In addition, a new construction projects along Folsom Street totaling 391 units is expected to break ground in early 2017.

The Pelli Clarke Pelli Architects-designed Transit Center will serve more than 100,000 people per day through nine transportation systems, including future California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The Center is designed to embrace the goals of green architecture and sustainability. The heart of the Transbay Transit Center, "City Park," a 5.4-acre public park that will sit atop the facility, and there will be a living green roof for the transit facility. The Center will have a LEED rating of Silver. The project is estimated to create more than 48,000 jobs in its first phase of construction, which will last seven years. The \$4.5 billion Transbay Transit Center Project is funded by various public and private funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others.

Mission Bay

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

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

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

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

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

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

Pier 70

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site to achieve a number of goals, including preservation and adaptive reuse of historic structures; retention of the ship repair operations; provision of new open space; reactivation and economic development on the site; and needed infrastructure and site remediation. The Port, which controls Pier 70, and OEWD, in its capacity as lead negotiator, have initiated preliminary negotiations with Forest City, the developer selected to build a new mixed-use neighborhood on a 28-acre portion of Pier 70 known as the Waterfront Site. The parties have agreed on a development concept and corresponding financial terms for the Waterfront Site, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following community and environmental review. In November 2014, Proposition F was approved by the voters, authorizing an increase of height limits on Pier 70 from 40 feet to 90 feet.

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

Moscone Convention Center

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

In addition to adding new rentable square footage, the project architects propose an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian entrance from Third 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 XIIC addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIIC, 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 XIIC. 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 XIID contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIID) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement purposes and community benefit purposes, and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other things, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v. City of Brawley*, 59 Cal. App. 4th 1441 (1997), the Court of Appeal, Fourth District, concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Courts of Appeal have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See *Fielder v. City of Los Angeles*, 14 Cal. App. 4th 137 (1993) and *Fisher v. County of Alameda*, 20 Cal. App. 4th 120 (1993).

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, it is subordinate to the authority of charter cities to impose taxes derived from the State Constitution. Proposition 218 (discussed above), however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution.

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure under Proposition 62 may not be significant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. See "OTHER CITY TAX REVENUES" herein. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to the requirements of Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city.

Proposition 1A

Proposition 1A, a constitutional amendment proposed by the State Legislature and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate, or change the allocation of local sales tax revenues, subject to certain exceptions. As set forth under the laws in effect as of November 3, 2004, Proposition 1A generally prohibits the State from shifting any share of property tax revenues allocated to local governments for any fiscal year to schools or community colleges. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing aid to cities and spending on other State programs, or other actions, some of which could be adverse to the City.

Proposition 22

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies (but see "San Francisco Redevelopment Agency Dissolution" above). While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However,

borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

Proposition 26

On November 2, 2010, the voters approved Proposition 26 (“Proposition 26”), revising certain provisions of Articles XIII 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, owners of condominiums in Millennium Tower filed a lawsuit (the "Lehman Lawsuit") against the Transbay Joint Powers Authority ("TJPA") and the individual members of the TJPA, including the City. The TJPA is a joint exercise of powers authority created by the City, the Alameda-Contra Costa Transit District, the Peninsula Corridor Joint Powers Board, and Caltrans (ex officio). The TJPA is responsible under State law for developing the Transbay Transit Center, which will be a new regional transit hub located near the Millennium Tower. See "MAJOR ECONOMIC DEVELOPMENT PROJECTS—Transbay".

The TJPA began excavation and construction of the Transbay Transit Center in 2010, after the Millennium Tower was completed. In brief, the 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 said that the Millennium Tower was already sinking more than planned and tilting before the TJPA began construction of the Transbay Transit Center and that the TJPA took precautionary efforts to avoid exacerbating the situation. The City expects that other lawsuits will be filed against the TJPA relating to the subsidence and tilting of the Millennium Tower. Since the Lehman Lawsuit, the City has been named as a defendant in one other lawsuit related to the Millennium Tower the Buttery Lawsuit. The Buttery Lawsuit alleges that the City failed to inform buyers of various conditions of the Millennium Tower property. The City continues to evaluate the lawsuits, and the subject matter of the lawsuits, but cannot now make any prediction as to the outcome of the lawsuits, or whether the lawsuits, if determined adversely to the TJPA or the City, would have a material adverse impact on City finances.

Risk Retention Program

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

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

collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement.

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

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

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

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstance shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL __, 2017

NEW ISSUE - BOOK-ENTRY ONLY

NOT RATED

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the 2017A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, the interest on the Bonds is exempt from California personal income taxes. Interest on the 2017B Bonds is not intended to be exempt from federal income taxation. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

CITY AND COUNTY OF SAN FRANCISCO
COMMUNITY FACILITIES DISTRICT NO. 2014-1
(TRANSBAY TRANSIT CENTER)

\$ _____
Special Tax Bonds, Series 2017A

\$ _____
Special Tax Bonds, Series 2017B
(Federally Taxable)

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The City and County of San Francisco, California (the "City") on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "District") will be issuing Special Tax Bonds, Series 2017A (the "2017A Bonds") and Special Tax Bonds, Series 2017B (Federally Taxable) (the "2017B Bonds" and, together with the 2017A Bonds, the "Bonds"). The Bonds are being issued on behalf of the District, which was established by the City, pursuant to a Fiscal Agent Agreement, dated as of [as of date] (the "Fiscal Agent Agreement"), by and between the City and [Fiscal Agent], as fiscal agent (the "Fiscal Agent"), and will be secured as described herein. The Bonds are being issued to fund: (i) capital improvements for the Transbay Project (defined herein), (ii) a Reserve Fund, (iii) capitalized interest on the Bonds through _____, 20____, (iv) administrative expenses, and (v) costs of issuance, all as further described herein. See "THE FINANCING PLAN" herein.

The Bonds will be issued in denominations of \$5,000 or any integral multiple in excess thereof, shall mature on September 1 in each of the years and in the amounts, and shall bear interest as shown on the inside front cover hereof. Interest on the Bonds shall be payable on each March 1 and September 1, commencing September 1, 2017 (the "Interest Payment Dates") to the Owner thereof as of the Record Date (as defined herein) immediately preceding each such Interest Payment Date, by check mailed on such Interest Payment Date or by wire transfer to an account in the United States of America made upon instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the Bonds will be payable by DTC through the DTC participants. See "THE BONDS - Book-Entry System" herein. Purchasers of the Bonds will not receive physical delivery of the Bonds purchased by them.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS - Redemption" herein.

All obligations of the City under the Fiscal Agent Agreement and the Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Ownership of the Bonds is subject to a significant degree of risk. Potential investors are advised to carefully read the section of this Official Statement entitled "Special Risk Factors." The City has not and does not contemplate making an application to any rating agency for the assignment of a rating to the Bonds. Investors must read the entire Official Statement, including the sections entitled "SPECIAL RISK FACTORS" and "NO RATING" to obtain information essential to making an informed investment decision with respect to the Bonds.

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

The Bonds are offered when, as and if issued, subject to approval as to their legality by Jones Hall APLC, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney, and by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel to the City with respect to the issuance of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel Stradling Yocca Carlson & Rauth, a Professional Corporation, California. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about May __, 2017.

[Stifel logo]

Dated: May __, 2017

* Preliminary, subject to change.

\$ _____ *

**CITY AND COUNTY OF SAN FRANCISCO
COMMUNITY FACILITIES DISTRICT NO. 2014-1
(TRANSBAY TRANSIT CENTER)
SPECIAL TAX BONDS, SERIES 2017A**

(Base CUSIP† _____)

| <u>Maturity Date</u> <u>(September 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP†</u> |
|----------------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|---------------|
|----------------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|---------------|

\$ _____ % Term Bonds due September 1, 20__ – Yield: _____ % Price: _____ % CUSIP†: _____

\$ _____ *

**CITY AND COUNTY OF SAN FRANCISCO
COMMUNITY FACILITIES DISTRICT NO. 2014-1
(TRANSBAY TRANSIT CENTER)
SPECIAL TAX BONDS, SERIES 2017B (FEDERALLY TAXABLE)**

(Base CUSIP† _____)

| <u>Maturity Date</u> <u>(September 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP†</u> |
|----------------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|---------------|
|----------------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|---------------|

\$ _____ % Term Bonds due September 1, 20__ – Yield: _____ % Price: _____ % CUSIP†: _____

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of investors. None of the City, the Underwriter, or the Municipal Advisor, is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

London Breed, *Board President, District 5*

Sandar Fewer, *District 1*

Mark Farrell, *District 2*

Aaron Peskin, *District 3*

Katy Tang, *District 4*

Jane Kim, *District 6*

Norman Yee, *District 7*

Jeff Sheehy, *District 8*

Hillary Ronen, *District 9*

Malia Cohen, *District 10*

Ahsha Safai, *District 11*

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Naomi M. Kelly, *City Administrator*

Benjamin Rosenfield, *Controller*

Nadia Sesay, *Director of Public Finance*

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Jones Hall APLC
San Francisco, California

Disclosure Counsel

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Los Angeles, California

Special Tax Consultant

Goodwin Consulting Group, Inc.
Sacramento, California

Co-Municipal Advisors

Backstrom Mccarley Berry & Co., LLC
San Francisco, California

Public Financial Management, Inc.
San Francisco, California

Fiscal Agent

[Fiscal Agent]
Los Angeles, California

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GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

The information set forth herein has been obtained from the City and other sources believed to be reliable. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. No dealer, broker, salesperson or any other person has been authorized by the City, the Municipal Advisor or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriter.

This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any offer or solicitation of such offer or any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale of the Bonds made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the District or the City or in any other information contained herein, since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

All obligations of the City under the Fiscal Agent Agreement and the Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access ("EMMA") website.

The City maintains a website with information pertaining to the City. However, the information presented therein is not incorporated into this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

[insert map location map]

OFFICIAL STATEMENT

CITY AND COUNTY OF SAN FRANCISCO COMMUNITY FACILITIES DISTRICT NO. 2014-1 (TRANSBAY TRANSIT CENTER)

\$ _____*
Special Tax Bonds, Series 2017A

\$ _____*
Special Tax Bonds, Series 2017B
(Federally Taxable)

INTRODUCTION

General

This Official Statement, including the cover page, the inside cover page and the Appendices hereto, is provided to furnish certain information in connection with the issuance and sale by the City and County of San Francisco (the "City") of its City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A (the "2017A Bonds") and its City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017B (Federally Taxable) (the "2017B Bonds" and, together with the 2017A Bonds, the "Bonds"). The Bonds will be issued by the City on behalf of the District pursuant to the provisions of a Fiscal Agent Agreement, dated as of [as of date] (the "Fiscal Agent Agreement"), by and between the City and [Fiscal Agent], as fiscal agent (the "Fiscal Agent"), pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Act") and Resolution No. ___ adopted by the Board of Supervisors of the City on _____, 2017.

The Act was enacted by the State of California (the "State") Legislature to provide an alternate method of financing certain public facilities and services, especially in developing areas. Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified electors within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and levy and collect special taxes to repay its bonds.

The Bonds will be issued in denominations of \$5,000 or any integral multiple in excess thereof and will be dated and bear interest from the date of their delivery, at the rates set forth on the inside cover page hereof. See "THE BONDS." The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the Bonds will be payable by DTC through the DTC participants. See "THE BONDS - Book-Entry System" herein. Purchasers of the Bonds will not receive physical delivery of the Bonds purchased by them.

* Preliminary, subject to change.
22956437.6

Use of Proceeds

The Bonds are being issued on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "District"), which was established by the City, pursuant to a Fiscal Agent Agreement, dated as of [as of date] (the "Fiscal Agent Agreement"), by and between the City and [Fiscal Agent], as fiscal agent (the "Fiscal Agent"), and will be secured as described herein. The Bonds are being issued to fund: (i) capital improvements for the Transbay Project (defined herein), (ii) a Reserve Fund, (iii) capitalized interest on the Bonds through _____, 20____, (iv) administrative expenses, and (v) costs of issuance, all as further described herein. See "THE FINANCING PLAN" herein.

The District

The District is located in downtown San Francisco immediately south of Market Street near the City's new Transbay Transit Center, designed to be a hub of transit connections serving regional commuters. On July 15, 2014, the Board of Supervisors of the City adopted Resolution No. 247-14 stating its intent to form the District under the Act. On the same date, the Board of Supervisors of the City also adopted Resolution No. 246-14, which authorized bonded indebtedness on behalf of the District in an aggregate amount not to exceed \$1,400,000,000, approved an Amended Rate and Method of Apportionment of Special Tax (the "Rate and Method"), approved the levy of special taxes within the District to pay the principal of, and interest on, the authorized bonded indebtedness and approved an appropriations limit for the District not to exceed \$300,000,000. On December 29, 2014, an election was held within the District pursuant to the Act at which the qualified electors approved the formation of the District and incurrence of bonded indebtedness in an aggregate amount not to exceed \$1,400,000,000. See "SECURITY FOR THE BONDS," "THE DISTRICT" herein and APPENDIX B – "AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

The following diagram sets forth the current boundaries of the District and identifies the three properties that currently contribute 100% of the Special Tax Revenues (as defined herein) levied by the Board of Supervisors of the City within the District. See "THE DISTRICT" and "SPECIAL RISK FACTORS – Concentration of Property Ownership" herein.

[Remainder of page intentionally left blank.]

[insert diagram regarding the composition of the District]

Security for the Bonds

The Bonds are secured by the pledge of Special Tax Revenues and all moneys deposited in the Bond Fund and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. "Special Tax Revenues" means the proceeds of the Special Taxes received by the City, including any scheduled payments thereof and any Special Tax Prepayments, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon, but shall not include any interest in excess of the interest due on the Bonds or any penalties collected in connection with any such foreclosure. "Special Taxes" means the special taxes levied by the Board of Supervisors within the District under the Act, the Ordinance and the Fiscal Agent Agreement. "Special Tax Prepayments" means the proceeds of any Special Tax prepayments received by the City, as calculated pursuant to the Rate and Method, less any administrative fees or penalties collected as part of any such prepayment. See "SECURITY FOR THE BONDS – General" herein.

Properties that receive a zoning bonus to exceed the current height and floor-to-area ratios in the City's Planning Code are annexed into the District. However, Special Taxes can only be levied on a property within the District if a Certificate of Occupancy (defined herein) and Tax Commencement Authorization (defined herein) is issued by the City. See APPENDIX B – "AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" hereto.

See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

Reserve Fund

The City on behalf of the District has established a Reserve Fund for the Bonds pursuant to the Fiscal Agent Agreement to be funded at the Reserve Requirement. See "SECURITY FOR THE BONDS – Reserve Fund" herein.

Foreclosure Covenant

The City on behalf of the District has covenanted for the benefit of the owners of the Bonds that, under certain circumstances described herein, the District will commence judicial foreclosure proceedings with respect to delinquent Special Taxes on property within the District, and will diligently pursue such proceedings to completion. See "SECURITY FOR THE BONDS – The Special Taxes" and "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure" herein.

Limited Obligations

All obligations of the City under the Fiscal Agent Agreement and the Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Further Information

Brief descriptions of the Bonds, the security for the Bonds, special risk factors, the District, the City and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Fiscal Agent

Agreement, resolutions and other documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Fiscal Agent Agreement, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. For definitions of certain capitalized terms used herein and not otherwise defined, and a description of certain terms relating to the Bonds, see APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT" hereto.

THE TRANSBAY PROJECT

History of the Transbay Project Site

The City's former Transbay Terminal was built in 1939 at First and Mission Streets as the terminal for East Bay trains using the newly opened Bay Bridge. For the first time, San Francisco was directly linked by rail to the East Bay, Central Contra Costa County and even Sacramento. The Terminal was financed and operated as part of the Bay Bridge, and was paid for by Bay Bridge tolls. At the time, trucks and trains used the lower deck of the Bay Bridge, and automobiles operated in both directions on the upper deck.

In its heyday at the end of World War II, the Terminal's rail system served 26 million passengers annually. After the war ended and gas rationing was eliminated, the Terminal's use began to steadily decline. In 1958, the lower deck of the Bay Bridge was converted to automobile traffic only and the transit line crossing the Bay Bridge was dismantled. By 1959, the inter-modal Transbay Terminal was converted into a bus-only facility.

Transit Center District Plan

In 2012, the City adopted the Transit Center District Plan ("TCDP") after a multi-year public planning process. The TCDP is a comprehensive vision for shaping growth on the southern side of downtown San Francisco to respond to and support the construction of the new Transbay Transit Center project (the "Transbay Project" or "Project"), including the Downtown Rail Extension ("DTX"). TCDP lays out policy recommendations to accommodate additional transit-oriented growth, sculpt the downtown skyline, improve streets and open spaces, and expand protection of historic resources. In adopting the TCDP, the Board of Supervisors of the City authorized the formation of the District. See "THE DISTRICT" herein.

The Transbay Joint Powers Authority ("TJPA") is a joint exercise of powers authority created by the City, the Alameda-Contra Costa Transit District, the Peninsula Corridor Joint Powers Board, and Caltrans (*ex officio*). The TJPA is responsible under State law for developing the Transbay Project.

The Transbay Project

Phase 1. The Transbay Project includes two major phases as well as certain activities related to implementation of the Redevelopment Plan for the Transbay Redevelopment Project Area. The first phase ("Phase 1") will create a new six-story Transbay Transit Center to replace the former Terminal with above-grade bus level, rooftop park (the "Rooftop Park"), concourse retail and circulation level, ground-floor, two below-grade rail levels serving Caltrain and future California High Speed Rail (the exterior shell of the two below-grade levels collectively referred to as the "Train Box"), a new off-site bus storage facility and a new bus ramp that will connect the Transit Center and the bus storage facility with the San Francisco-Oakland Bay Bridge. The overall budget for Phase 1 is \$2.064 billion. Construction is well underway and completion of Phase 1 is anticipated in the fall, 2017.

Rooftop Park

The Transbay Transit Center's roof will be a 5.4 acre park. The 1,400-foot long elevated park will feature a wide range of activities and amenities, including an outdoor amphitheater, gardens, trails, open grass areas, and children's play space, as well as a restaurant and cafe. In addition to being a generous amenity for the quickly developing Transbay neighborhood, Rooftop Park will double as a "green roof" for the Transit Center, one of many environmentally-friendly building features. A landscaped "green roof," also known as a "vegetative" or "living" roof, offers significant environmental benefits. It will shade much of the ground-level sidewalk when the sun is strongest and provide biological habitat for flora and fauna and public open space for transit passengers, neighborhood residents, and employees. It also acts as insulation for interior spaces, moderating heat build-up in warm weather and retaining heat during cooler weather. Unlike asphalt paving or dark colored roofing surfaces, planting on the green roof cools the surrounding environment and improves air quality by acting as a carbon sink. As a biological organism itself, the park will help to capture and filter the exhaust in the area and help to improve the air quality of the neighborhood.

The park will be just over a quarter mile long and the design includes active space allowing organized events like concerts and fairs along with quiet areas where visitors can relax in informal natural settings. The plaza located in the center of the park will receive the largest influx of visitors from the building's main escalator and elevator which connect to the ground level. Plenty of seating as well as opportunities for retail and food services are expected to be offered on the main plaza.

The park's western end will feature an amphitheater and stage for programmed performances. Botanic displays and open lawn areas will allow visitors to enjoy the park setting. Children will also find places for active and dynamic exploration. These areas will fit into the overall park plan, and will contain gardens, water features and other elements.

Train Box

The Train Box is part of the Downtown Rail Extension that will extend the Caltrain rail tracks from 4th & King Streets to the Transbay Transit Center, a facility projected to achieve LEED Gold certification due to its sustainable design features. The Train Box, 1500-foot long x 190-foot wide x 60-foot deep, is the core-and-shell of the two below-grade levels of the Transbay Transit Center. The bottom level will be the Train Station Platform and have three passenger platforms that will accommodate six train tracks for Caltrain and California High Speed Rail. The Lower Concourse is one level below grade and will serve as the passenger connection between the Transit Center ground floor and Train Station Platform. Space will be provided in the concourse for retail, ticketing and bike storage. Train Box construction includes a cement-soil mix shoring wall and excavation, temporary internal bracing, an underground drilled shaft buttress for an adjacent property, underground geothermal loops and piping, micropile tie-downs, structural steel columns and beams, concrete box walls, concrete slabs (mat and grade) for the rail/passenger/street levels, and waterproofing.

Phase 2. The second phase ("Phase 2") includes the extension of Caltrain rail tracks from their current San Francisco terminus at Fourth and Townsend Streets to a new underground terminus beneath the Transbay Transit Center to accommodate Caltrain and California High Speed Rail. The District was formed to raise funds to finance portions of the Transbay Project, specifically the Rooftop Park and the Caltrain Downtown Extension, including the Train Box.

THE FINANCING PLAN

The Bonds are being issued to fund: (i) capital improvements for the Transbay Project, (ii) a Reserve Fund, (iii) capitalized interest on the Bonds through ____, 20__, (iv) administrative expenses, and (v) costs of issuance. See "THE TRANSBAY PROJECT" herein.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds is set forth below:

| <u>Sources of Funds</u> | <u>2017A Bonds</u> | <u>2017B Bonds</u> | <u>Total</u> |
|------------------------------------------|--------------------|--------------------|--------------|
| Principal Amount | \$ | \$ | \$ |
| [Net] [Premium/Discount] | | | |
| Total Sources | | | |
| <u>Uses of Funds</u> | | | |
| Deposit to 2017 Improvement Account | \$ | - | \$ |
| Deposit to Reserve Fund | | \$ | |
| Deposit to Bond Fund ⁽¹⁾ | | | |
| Allocated Bond Proceeds Account | | - | |
| Administrative Expense Fund | | | |
| Costs of Issuance Account ⁽²⁾ | | | |
| Total Uses | <u>\$</u> | <u>\$</u> | <u>\$</u> |

⁽¹⁾ Represents capitalized interest deposited into the 2017A Capitalized Interest Account and the 2017B Capitalized Interest Account, as applicable.

⁽²⁾ Includes Underwriter's discount, fees for Bond Counsel, Disclosure Counsel, Municipal Advisor, the Special Tax Consultant, the Fiscal Agent and its counsel, costs of printing the Official Statement, and other costs of issuance of the Bonds.

THE BONDS

Description of the Bonds

The Bonds will be issued as fully registered bonds, in denominations of \$5,000 or any integral multiple in excess thereof within a single maturity and will be dated and bear interest from the date of their delivery, at the rates set forth on the inside cover page hereof. The Bonds will be issued in fully registered form, without coupons. The Bonds will mature on September 1 in the principal amounts and years as shown on the inside cover page hereof.

The Bonds will bear interest at the rates set forth above payable on the Interest Payment Dates in each year. Interest on all Bonds shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Dated Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date, which instructions shall continue in effect until revoked in writing, or until such Bonds are transferred to a new Owner. "Record Date" means the fifteenth day of the calendar month next preceding the applicable Interest Payment Date, whether or not such day is a Business Day. The interest, principal of and any premium on the Bonds are payable in lawful money of the United States of America, with principal and any premium payable upon surrender of the Bonds at the Principal Office of the Fiscal Agent. All Bonds paid by the Fiscal Agent pursuant this Section shall be canceled by the Fiscal Agent.

Redemption*

Optional Redemption. The 2017A Bonds maturing on or after September 1, 20 __ are subject to redemption prior to their stated maturities, on any date on and after September 1, 20 __, in whole or in part, at a redemption price equal to the principal amount of the 2017A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The 2017B Bonds maturing on or after September 1, 20 __ are subject to redemption prior to their stated maturities, on any date on and after September 1, 20 __, in whole or in part, at a redemption price equal to the principal amount of the 2017B Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

* Preliminary, subject to change.

Mandatory Sinking Fund Redemption. The Term Bonds are subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the redemption date, without premium, in the aggregate respective principal amounts all as set forth in the following table:

2017A Bonds

| | |
|--------------------------------------------------|--------------------------------------------------|
| Sinking Fund Redemption Date (September 1) | Principal Amount <u>Subject to Redemption</u> |
|--------------------------------------------------|--------------------------------------------------|

(maturity)

2017B Bonds

| | |
|--------------------------------------------------|--------------------------------------------------|
| Sinking Fund Redemption Date (September 1) | Principal Amount <u>Subject to Redemption</u> |
|--------------------------------------------------|--------------------------------------------------|

(maturity)

Provided, however, if some but not all of the Term Bonds have been redeemed pursuant to optional redemption or Redemption from Special Tax Prepayments, the total amount of all future Sinking Fund Payments shall be reduced by the aggregate principal amount of Term Bonds so redeemed, to be allocated among such Sinking Fund Payments on a *pro rata* basis in integral multiples of \$5,000 as determined by the Fiscal Agent, notice of which determination (which shall consist of a revised sinking fund schedule) shall be given by the City to the Fiscal Agent.

Redemption from Special Tax Prepayments. Special Tax Prepayments and any corresponding transfers from the Reserve Fund shall be used to redeem 2017 Bonds on the next Interest Payment Date for which notice of redemption can timely be given, among series and maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the 2017 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

| <u>Redemption Date</u> | <u>Redemption Price</u> |
|---------------------------------------------------------------|-------------------------|
| Any Interest Payment Date on or before March 1, 20__ | 103% |
| On September 1, 20__ and March 1, 20__ | 102 |
| On September 1, 20__ and March 1, 20__ | 101 |
| On September 1, 20__ and any Interest Payment Date thereafter | 100 |

Notice of Redemption. The Fiscal Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the Securities Depositories, to one or more Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books in the Principal Office of the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds. Such notice

shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption shall state as to any Bond called in part the principal amount thereof to be redeemed, and shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date. The cost of mailing any such redemption notice and any expenses incurred by the Fiscal Agent in connection therewith shall be paid by the City from amounts in the Administrative Expense Fund.

The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Fiscal Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute a default under the Fiscal Agent Agreement. The City and the Fiscal Agent have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Fiscal Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

Partial Redemption. Whenever provision is made in the Fiscal Agent Agreement for the redemption of less than all of the Bonds, the Fiscal Agent shall select the Bonds to be redeemed, from all Bonds or such given portion thereof not previously called for redemption, among maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption, and by lot within a maturity.

Purchase of Bonds in Lieu of Redemption. In lieu of redemption under the Fiscal Agent Agreement, moneys in the Bond Fund or other funds provided by the City may be used and withdrawn by the Fiscal Agent for purchase of Outstanding 2017 Bonds, upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may 2017 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such 2017 Bonds were to be redeemed in accordance with the Fiscal Agent Agreement. Any 2017 Bonds purchased shall be treated as Outstanding 2017 Bonds under this Fiscal Agent Agreement, except to the extent otherwise directed by the Finance Director.

The Fiscal Agent

[Fiscal Agent] has been appointed as the Fiscal Agent for all of the Bonds under the Fiscal Agent Agreement. For a further description of the rights and obligations of the Fiscal Agent pursuant to the Fiscal Agent Agreement, see APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT" hereto.

Book-Entry System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee), and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Fiscal Agent, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to

DTC’s Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM” hereto.

DEBT SERVICE SCHEDULE

The following is the debt service schedule for the Bonds, assuming no redemptions other than mandatory sinking fund redemptions.

| <u>Year Ending (September 1)</u> | <u>2017A Bonds⁽¹⁾</u> | | | <u>2017B Bonds⁽¹⁾</u> | | | <u>Total Annual Debt Service</u> |
|--------------------------------------|----------------------------------|-----------------|--------------|----------------------------------|-----------------|--------------|--------------------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Total | \$ | \$ | \$ | \$ | \$ | \$ | \$ |

⁽¹⁾ Special Taxes may only be levied on any individual parcel in the District for a maximum term of 30 years, thus, the levy on 350 Mission Street and 299 Fremont Street will terminate before the final maturity of the Bonds. The Bonds have been structured to maintain projected coverage of 110%, notwithstanding the termination of the levy on such parcels. See “SPECIAL RISK FACTORS – Maximum Term of Levy” herein.

SECURITY FOR THE BONDS

General

The Bonds will be secured by a first pledge pursuant to the Fiscal Agent Agreement of all of the Special Tax Revenues and all moneys deposited in the Bond Fund (including the 2017A Capitalized Interest Account, the 2017B Capitalized Interest Account and the Special Tax Prepayments Account) and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. The Special Tax Revenues and all moneys deposited into such funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under the Fiscal Agent Agreement. “Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments thereof and any Special Tax Prepayments, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon, but shall not include any interest in excess of the interest due on the Bonds or any penalties collected in connection with any such foreclosure.

The Special Taxes are to be apportioned, levied and collected according to the Rate and Method. See “– Rate and Method of Apportionment of Special Tax” below. Special Taxes can only be levied on property within the District, if a Certificate of Occupancy (as defined in the Rate and Method) and Tax Commencement Authorization (as defined in the Rate and Method) has been issued by the City. See APPENDIX B – “AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” hereto.

The 2017 Bonds and all Related Parity Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent in the Fiscal Agent Agreement provided) of all moneys deposited in the Reserve Fund. The moneys in the Reserve Fund (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the 2017 Bonds and all Related Parity Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the 2017 Bonds and all Related Parity Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose.

“Related Parity Bonds” means any series of Parity Bonds for which (i) the Proceeds are deposited into the Reserve Fund so that the balance therein is equal to the Reserve Requirement following issuance of such Parity Bonds and (ii) the related Supplemental Agreement specifies that the Reserve Fund shall act as a reserve for the payment of the principal of, and interest and any premium on, such series of Parity Bonds.

Amounts in the 2017A Improvement Account, the Allocated Bonds Account, the Administrative Expense Fund, the 2017A Costs of Issuance Account and the 2017B Costs of Issuance Account are not pledged to the repayment of the Bonds. The Project is not pledged to the repayment of the Bonds, nor are the proceeds of any condemnation or insurance award received by the City with respect to the Project.

Ownership of the Bonds is subject to a significant degree of risk. Potential investors are advised to carefully read the section of this Official Statement entitled “Special Risk Factors.”

Limited Obligation

All obligations of the City under the Fiscal Agent Agreement and the Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Teeter Plan

In 1993, in Resolution No. 830-93, the Board of Supervisors resolved to adopt the “Teeter Plan” for the allocation and distribution of property tax levies and collections and of tax sale proceeds. Collection of the Special Taxes is subject to the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds,” as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code (known as the “Teeter Plan”). Under the Teeter Plan, the County will maintain a County tax loss reserve fund for the purpose of paying each taxing agency 100% of the amounts of secured taxes levied on the tax bill irrespective of any delinquent taxes. The County has the power to unilaterally discontinue the Teeter Plan or remove the District from the Teeter Plan. The Teeter Plan may also be discontinued by petition of two-thirds (2/3) of the participant taxing agencies. The County has the power to include additional taxing agencies on the Teeter Plan.

Special Tax Fund

Special Tax Fund. Pursuant to the Fiscal Agent Agreement, there is established a "Special Tax Fund" to be held by the Fiscal Agent, to the credit of which the Fiscal Agent will deposit amounts received from or on behalf of the City consisting of Special Tax Revenues and amounts transferred from the Administrative Expense Fund and the Bond Fund. The City has agreed in the Fiscal Agent Agreement that it will promptly remit any Special Tax Revenues received by it to the Fiscal Agent for deposit by the Fiscal Agent to the Special Tax Fund. Notwithstanding the foregoing,

(i) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be separately identified by the Finance Director and shall be disposed of by the Fiscal Agent first, for transfer to the Bond Fund to pay any past due debt service on the Bonds; second, for transfer to the Reserve Fund to the extent needed to increase the amount then on deposit in the Reserve Fund up to the then Reserve Requirement; and third, to be held in the Special Tax Fund for use as described in below under "*Disbursements*"; and

(ii) any proceeds of Special Tax Prepayments shall be separately identified by the Finance Director and shall be deposited by the Fiscal Agent as follows (as directed in writing by the Finance Director): (a) that portion of any Special Tax Prepayment constituting a prepayment of costs of the Project shall be deposited by the Fiscal Agent to the Improvement Fund and (b) the remaining Special Tax Prepayment shall be deposited by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to the Fiscal Agent Agreement.

Moneys in the Special Tax Fund shall be held by the Fiscal Agent for the benefit of the City and Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Disbursements from the Special Tax Fund. On the third Business Day prior to each Interest Payment Date, the Fiscal Agent will withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

(i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Improvement Fund, the Reserve Fund and any reserve account for Parity Bonds that are not Related Parity Bonds, the 2017A Capitalized Interest Account, the 2017B Capitalized Interest Account and the Special Tax Prepayments Account to the Bond Fund such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date and any past due principal or interest on the Bonds not theretofore paid from a transfer described in clause second of subparagraph (ii) above under "*Special Tax Fund*," and

(ii) without preference or priority (a) to the Reserve Fund an amount, taking into account amounts then on deposit in the Reserve Fund, such that the amount in the Reserve Fund is equal to the Reserve Requirement, and (b) to the reserve account for any Parity Bonds that are not Related Parity Bonds, taking into account amounts then on deposit in such reserve account, such that the amount in such reserve account is equal to the amount required to be on deposit therein (and in the event that amounts in the Special Tax Fund are not sufficient for the purposes of this paragraph, such amounts shall be applied to the Reserve Fund and any other reserve accounts ratably based on the then Outstanding principal amount of the Bonds).

Each calendar year, following the transfers pursuant to the preceding paragraph for the March 1 Interest Payment Date occurring in such calendar year, when amounts (including investment earnings) have been accumulated in the Special Tax Fund sufficient to make the transfers pursuant to the preceding

paragraph for the September 1 Interest Payment Date occurring in such calendar year, the Finance Director, during the period up to but not including December 10 of such calendar year, may in his or her sole discretion direct the disposition of moneys in the Special Tax Fund in excess of the amounts needed for such September 1 Interest Payment Date as follows: (i) direct the Fiscal Agent to transfer money to the Improvement Fund (or the accounts therein) for payment or reimbursement of the costs of the Project, (ii) direct the Fiscal Agent to transfer money to the Administrative Expense Fund, in an amount not to exceed the amount included in the Special Tax levy for Administrative Expenses for such Fiscal Year and (iii) direct the Fiscal Agent to transfer money for any other lawful purpose.

Administrative Expense Fund

The Fiscal Agent will transfer from the Special Tax Fund and deposit in the Administrative Expense Fund established under the Fiscal Agent Agreement an amount equal to the amount specified in an Officer's Certificate to be used to pay an Administrative Expense or a Cost of Issuance. Amounts deposited in the Administrative Expense Fund are not pledged to the repayment on the Bonds.

Bond Fund

The Bond Fund is established under the Fiscal Agent Agreement as a separate fund to be held by the Fiscal Agent. Moneys in the Bond Fund will be held by the Fiscal Agent for the benefit of the Owners of the Bonds, and shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below.

Capitalized Interest Accounts. Within the Bond Fund there is established a separate account designated as the "2017A Capitalized Interest Account" to be held by the Fiscal Agent for the benefit of the City and the Owners of the 2017A Bonds. Amounts on deposit in the 2017A Capitalized Interest Account will be used and withdrawn by the Fiscal Agent solely for the payment of interest on the 2017A Bonds as follows: \$_____ shall be used on March 1, 20 __, and the remainder shall be used on September 1, 20 __. When the amount in the Capitalized Interest Account is fully expended for the payment of interest, the account shall be closed. Within the Bond Fund there is hereby established a separate account designated as the "2017B Capitalized Interest Account" to be held by the Fiscal Agent for the benefit of the City and the Owners of the 2017B Bonds. Amounts on deposit in the 2017B Capitalized Interest Account will be used and withdrawn by the Fiscal Agent solely for the payment of interest on the 2017B Bonds as follows: \$_____ shall be used on March 1, 20 __, and the remainder shall be used on September 1, 20 __. When the amount in the Capitalized Interest Account is fully expended for the payment of interest, the account shall be closed.

Flow of Funds for Payment of Principal and Interest. At least ten (10) Business Days before each Interest Payment Date, the Fiscal Agent shall notify the Finance Director in writing as to the principal and premium, if any, and interest due on the Bonds on the next Interest Payment Date (whether as a result of scheduled principal of and interest on the Bonds, optional redemption of the Bonds or a mandatory sinking fund redemption). On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds. Notwithstanding the foregoing, amounts in the Bond Fund as a result of a transfer of the proceeds of Special Tax Prepayments will be immediately disbursed by the Fiscal Agent to pay past due amounts owing on the Bonds.

At least three (3) Business Days prior to each Interest Payment Date, the Fiscal Agent shall determine if the amounts then on deposit in the Bond Fund are sufficient to pay the debt service due on the Bonds on the next Interest Payment Date. If amounts in the Bond Fund are insufficient for such purpose, the Fiscal Agent promptly will notify the Finance Director by telephone (and confirm in writing) of the amount of the insufficiency.

If amounts in the Bond Fund are insufficient for the purpose set forth in the preceding paragraph with respect to any Interest Payment Date, the Fiscal Agent will do the following:

(i) Withdraw from the Reserve Fund, in accordance with the provisions of the Fiscal Agent Agreement, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to the 2017 Bonds and any Related Parity Bonds. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund.

(ii) Withdraw from the reserve funds, if any, established under a Supplemental Agreement related to Parity Bonds that are not Related Parity Bonds, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to such Parity Bonds. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund.

If, after the foregoing transfers and application of such funds for their intended purposes, there are insufficient funds in the Bond Fund to make the payments provided for in the Fiscal Agent Agreement, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, if any, and then to payment of principal due on the Bonds by reason of sinking payments. Each such payment shall be made ratably to the Owners of the Bonds based on the then Outstanding principal amount of the Bonds, if there are insufficient funds to make the corresponding payment for all of the then Outstanding bonds. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

Any failure by the Fiscal Agent to provide the notices required by the Fiscal Agent Agreement will not alter the obligation of the City to make the scheduled payments from amounts in the Bond Fund.

Special Tax Prepayments Account. Within the Bond Fund a separate account will be held by the Fiscal Agent, designated the "Special Tax Prepayments Account." Moneys in the Special Tax Prepayments Account will be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given under the Fiscal Agent Agreement and will be used (together with any amounts transferred for the purpose) to redeem Bonds on the redemption date selected in accordance with the Fiscal Agent Agreement.

Establishment of Improvement Fund

The Improvement Fund is established as a separate fund under the Fiscal Agent Agreement, and within the Improvement Fund there is established a 2017A Improvement Account and an Allocated Bond Proceeds Account, to be held by the Fiscal Agent and to the credit of which fund and accounts deposits shall be made as required by the Fiscal Agent Agreement. Moneys in the Improvement Fund will be disbursed, except as otherwise provided in the Fiscal Agent Agreement upon completion of the Project, for the payment or reimbursement of the costs of the Project.

Disbursements from the 2017A Improvement Account and the Allocated Bond Proceeds Account will be made by the Fiscal Agent upon receipt of an Officer's Certificate which shall: (i) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made (which shall be for payment of a Project cost or to reimburse expenditures of the City or any other party for Project costs previously paid), and the person to which the disbursement is to be paid; (ii) certify that no portion of the amount then being requested to be disbursed was set forth in any Officers Certificate previously filed requesting disbursement; and (iii) certify that all disbursements from the Improvement Fund are in compliance with the Joint Community Facilities Agreement, dated _____, by and between the City and the TJPA, as amended from time to time.

Reserve Fund

The District has established a Reserve Fund pursuant to the Fiscal Agent Agreement to be funded at the Reserve Requirement. "Reserve Requirement" means, as of the date of issuance of the 2017 Bonds and any Related Parity Bonds, an amount equal to the lesser of (i) Maximum Annual Debt Service on the 2017 Bonds and any Related Parity Bonds between the date of such calculation and the final maturity of such Bonds or (ii) one hundred twenty-five percent (125%) of average Annual Debt Service on the 2017 Bonds and any Related Parity Bonds between the date of such calculation and the final maturity of such Bonds and (iii) 10% of the original principal amount of the 2017 Bonds and any Related Parity Bonds (or, if the 2017 Bonds and any Related Parity Bonds have more than a *de minimis* amount of original issue discount or premium, 10% of the issue price of the 2017 Bonds and any Related Parity Bonds); provided that, with respect to the issuance of any Related Parity Bonds, if the Reserve Fund would have to be increased by an amount greater than ten percent (10%) of the stated principal amount of the Related Parity Bonds (or, if the Related Parity Bonds have more than a *de minimis* amount of original issue discount or premium, of the issue price of such Related Parity Bonds), then the Reserve Requirement shall be such lesser amount as is determined by a deposit of such ten percent (10%); and provided that accrued interest on any Related Parity Bonds deposited with the Fiscal Agent upon delivery of such Related Parity Bonds shall be excluded for purposes of the calculation of the Reserve Requirement.

Rate and Method of Apportionment of Special Taxes

The following is a summary of certain provisions of the Rate and Method. This summary does not purport to be comprehensive and reference should be made to the full Rate and Method attached hereto as Appendix B.

Certain Definitions. All capitalized terms not defined in this section have the meanings set forth in the Rate and Method attached hereto as Appendix B.

"Administrator" means the Director of the Office of Public Finance who shall be responsible for administering the Special Tax according to the Rate and Method.

"Building" means a permanent enclosed structure that is, or is part of, a Conditioned Project.

"Certificate of Occupancy" means the first certificate, including any temporary certificate of occupancy, issued by the City to confirm that a Building or a portion of a Building has met all of the building codes and can be occupied for residential and/or non-residential use. For purposes of the Rate and Method, "Certificate of Occupancy" shall not include any certificate of occupancy that was issued prior to January 1, 2013 for a Building within the District; however, any subsequent certificates of occupancy that are issued for new construction or expansion of the Building shall be deemed a Certificate of Occupancy and the associated Parcel(s) shall be categorized as Taxable Parcels if the Building is, or is part of, a Conditioned Project and a Tax Commencement Letter has been provided to the Administrator for the Building.

"Conditioned Project" means a Development Project that, pursuant to Section 424 of the Planning Code, is required to participate in funding Authorized Facilities through the District and, therefore, is subject to the levy of the Special Tax when Buildings (or portions thereof) within the Development Project become Taxable Buildings.

"CPC" means the Capital Planning Committee of the City and County of San Francisco, or if the Capital Planning Committee no longer exists, "CPC" shall mean the designated staff member(s) within the City and/or TJPA that will recommend issuance of Tax Commencement Authorizations for Conditioned Projects within the District.

“IPIC” means the Interagency Plan Implementation Committee, or if the Interagency Plan Implementation Committee no longer exists, “IPIC” shall mean the designated staff member(s) within the City and/or TJPA that will recommend issuance of Tax Commencement Authorizations for Conditioned Projects within the District.

“Tax Commencement Authorization” means a written authorization issued by the Administrator upon the recommendations of the IPIC and CPC in order to initiate the levy of the Special Tax on a Conditioned Project that has been issued a Certificate of Occupancy.

“Taxable Building” means, in any Fiscal Year, any Building within the CFD that is, or is part of, a Conditioned Project, and for which a Certificate of Occupancy was issued and a Tax Commencement Authorization was received by the Administrator on or prior to June 30 of the preceding Fiscal Year. If only a portion of the Building is a Conditioned Project, as determined by the Zoning Authority, that portion of the Building shall be treated as a Taxable Building for purposes of this Rate and Method.

“Zoning Authority” means either the City Zoning Administrator, the Executive Director of the San Francisco Office of Community Investment and Infrastructure, or an alternate designee from the agency or department responsible for the approvals and entitlements of a project in the District. If there is any doubt as to the responsible party, the Administrator shall coordinate with the City Zoning Administrator to determine the appropriate party to serve as the Zoning Authority for purposes of this RMA.

General. A Special Tax applicable to each Taxable Parcel in the District shall be levied and collected according to the tax liability determined by the Administrator through the application of the appropriate amount or rate for Square Footage within Taxable Buildings, as described below. All Taxable Parcels in the District shall be taxed for the purposes, to the extent, and in the manner provided in the Rate and Method, including property subsequently annexed to the District unless a separate Rate and Method of Apportionment of Special Tax is adopted for the annexation area.

Special Taxes can only be levied on property within the District if a Certificate of Occupancy and Tax Commencement Authorization has been issued by the City. Special Taxes cannot be levied on undeveloped property within the District. See APPENDIX B – “AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” hereto.

Maximum Special Tax. Upon issuance of a Tax Commencement Authorization and the first Certificate of Occupancy for a Taxable Building within a Conditioned Project that is not an Affordable Housing Project, the Administrator shall coordinate with the Zoning Authority to determine the Square Footage of each Land Use on each Taxable Parcel. The Administrator shall then apply the following steps to determine the Maximum Special Tax for the next succeeding Fiscal Year for each Taxable Parcel in the Taxable Building:

Step 1. Determine the Building Height for the Taxable Building for which a Certificate of Occupancy was issued.

Step 2. Determine the For-Sale Residential Square Footage and/or Rental Residential Square Footage for all Residential Units on each Taxable Parcel, as well as the Office/Hotel Square Footage and Retail Square Footage on each Taxable Parcel.

Step 3. For each Taxable Parcel that includes only For-Sale Units, multiply the For-Sale Residential Square Footage by the applicable Base Special Tax to determine the Maximum Special Tax for the Taxable Parcel.

Step 4. For each Taxable Parcel that includes only Rental Units, multiply the Rental Residential Square Footage by the applicable Base Special Tax to determine the Maximum Special Tax for the Taxable Parcel.

Step 5. For each Taxable Parcel that includes only Residential Uses other than Market Rate Units, net out the Square Footage associated with any BMR Units and multiply the remaining Rental Residential Square Footage (if any) by the applicable Base Special Tax to determine the Maximum Special Tax for the Taxable Parcel.

Step 6. For each Taxable Parcel that includes only Office/Hotel Square Footage, multiply the Office/Hotel Square Footage on the Parcel by the applicable Base Special Tax to determine the Maximum Special Tax for the Taxable Parcel.

Step 7. For each Taxable Parcel that includes only Retail Square Footage, multiply the Retail Square Footage on the Parcel by the applicable Base Special Tax to determine the Maximum Special Tax for the Taxable Parcel.

Step 8. For Taxable Parcels that include multiple Land Uses, separately determine the For-Sale Residential Square Footage, Rental Residential Square Footage, Office/Hotel Square Footage, and/or Retail Square Footage. Multiply the Square Footage of each Land Use by the applicable Base Special Tax, and sum the individual amounts to determine the aggregate Maximum Special Tax for the Taxable Parcel for the first succeeding Fiscal Year.

For a discussion of changes to the Maximum Special Tax under the Rate and Method, see APPENDIX B – “AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” hereto.

Covenant for Superior Court Foreclosure

General. In the event of a delinquency in the payment of any installment of Special Taxes, the City is authorized by the Act to order institution of an action in the Superior Courts of the State to foreclose any lien therefor. In such action, the real property subject to the Special Taxes may be sold at a judicial foreclosure sale. The ability of the City to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner in the event the property is owned by or in receivership of the Federal Deposit Insurance Corporation (the “FDIC”) or other similar federal agencies. See “SPECIAL RISK FACTORS – Bankruptcy and Foreclosure” and “SPECIAL RISK FACTORS – Tax Delinquencies.” Such judicial foreclosure proceedings are not mandatory.

There could be a default or a delay in payments to the owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the City of foreclosure sale proceeds, if any, and subsequent transfer of those proceeds to the City. However, up to the maximum amount permitted under the applicable Rate and Method, the District may adjust the Special Taxes levied on all property within the District to provide the amount required to pay debt service on the Bonds, but not more than a 10% increase on a Residential Property from the prior Fiscal Year is allowed due to delinquencies in the District.

Under current law, a judgment debtor (property owner) has at least 120 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action a foreclosure sale is set aside, the judgment is revived, the judgment creditor is entitled to interest on the revived judgment and any liens

extinguished by the sale are revived as if the sale had not been made (Section 701.680 of the Code of Civil Procedure of the State of California).

Covenant to Foreclose. Under the Act, the City covenants in the Fiscal Agent Agreement with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as provided in the Fiscal Agent Agreement, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs. The Finance Director shall notify the City Attorney of any such delinquency of which the Finance Director is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

On or September 1 of each Fiscal Year, the Finance Director shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Tax Revenues theretofore received by the City, and:

(A) ***Individual Delinquencies.*** If the Finance Director determines that (i) any single parcel subject to the Special Tax in the District is delinquent in the payment of Special Taxes in the aggregate amount of \$40,000 or more or (ii) any single parcel subject to the Special Tax in the District is delinquent in the payment of three or more installments of Special Taxes, then the Finance Director shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the City within 90 days of such determination.

(B) ***Aggregate Delinquencies.*** If the Finance Director determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the Finance Director shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

The Finance Director and the City Attorney, as applicable, are hereby authorized to employ counsel to conduct any such foreclosure proceedings. The fees and expenses of any such counsel (including a charge for City staff time) in conducting foreclosure proceedings shall be an Administrative Expense.

No Obligation of the City Upon Delinquency

The City is under no obligation to transfer any funds of the City into the Special Tax Fund or any other funds or accounts under the Fiscal Agent Agreement for the payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes, other than Special Tax Revenues. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure," for a discussion of the City's obligation to foreclose Special Tax liens upon delinquencies, and "SECURITY FOR THE BONDS – Reserve Fund," for a discussion of the Reserve Fund securing the Bonds.

Parity Bonds

The City may issue Parity Bonds, in addition to the Bonds, in such principal amount as shall be determined by the City in an aggregate amount not to exceed \$1,400,000,000, under a Supplemental Agreement entered into by the City and the Fiscal Agent. Any such Parity Bonds shall constitute Bonds under the Fiscal Agent Agreement and shall be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds under the Fiscal Agent Agreement on a parity with all other Bonds

Outstanding under the Fiscal Agent Agreement. The City may issue such Parity Bonds, on a parity basis with the Bonds, subject to the following specific conditions precedent:

(A) *Compliance.* The City shall be in compliance with all covenants set forth in this Agreement and all Supplemental Agreements, and issuance of the Parity Bonds shall not cause the City to exceed the District's limitation on debt (as defined in the Act).

(B) *Same Payment Dates.* The Supplemental Agreement providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on Interest Payment Dates, and principal thereof shall be payable on September 1 in any year in which principal is payable on the Parity Bonds (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

(C) *Separate Funds; Reserve Fund or Reserve Account.* The Supplemental Agreement providing for the issuance of such Parity Bonds may provide for the establishment of separate funds and accounts.

The Supplemental Agreement providing for issuance of the Parity Bonds shall provide for (i) a deposit to the Reserve Fund in an amount necessary such that the amount deposited therein shall equal the Reserve Requirement following issuance of the Parity Bonds, (ii) a deposit to a reserve account for the Parity Bonds (and such other series of Parity Bonds identified by the City) in an amount defined in such Supplemental Agreement, as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to the Reserve Fund and that the Owners of the Bonds covered by the Reserve Fund will have no interest in or claim to such other reserve account or (iii) no deposit to either the Reserve Fund or another reserve account as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to the Reserve Fund or any other reserve account.

(D) *Value.* The District's Value shall be at least three (3) times the sum of: (i) the aggregate principal amount of all Bonds then Outstanding, plus (ii) the aggregate principal amount of the series of Parity Bonds proposed to be issued, plus (iii) the aggregate principal amount of any fixed assessment liens on the parcels in the District subject to the levy of Special Taxes, plus (iv) a portion of the aggregate principal amount of any and all other community facilities district bonds then outstanding and payable at least partially from special taxes to be levied on parcels of land within the District (the "Other District Bonds") equal to the aggregate outstanding principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on parcels of land within the District, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land against which the special taxes are levied to pay the Other District Bonds (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent available Fiscal Year.

(E) *Coverage.* For each Fiscal Year after issuance of the Parity Bonds, the maximum amount of the Special Taxes that, based on Developed Property as of the date of issuance of such Parity Bonds, may be levied for such Fiscal Year under the Ordinance, the Agreement and any Supplemental Agreement for each respective Fiscal Year, shall be at least 110% of the total Annual Debt Service of the then Outstanding Bonds and the proposed Parity Bonds for each Bond Year that commences in each such Fiscal Year, and the aggregate Special Tax Prepayments that could occur after the issuance of the Parity Bonds shall be not less than the principal amount of the Outstanding Bonds and the proposed Parity Bonds.

(F) *Certificates.* The City shall deliver to the Fiscal Agent an Officer's Certificate certifying that the conditions precedent to the issuance of such Parity Bonds set forth in subsections (A), (B), (C), (D), and (E) above have been satisfied.

Notwithstanding the foregoing, the City may issue Refunding Bonds as Parity Bonds without the need to satisfy the requirements of clauses (D) or (E) above, and, in connection therewith, the Officer's Certificate in clause (F) above need not make reference to clauses (D) and (E). The City is not prohibited from issuing any other bonds or otherwise incurring debt secured by a pledge of the Special Tax Revenues subordinate to the pledge under the Fiscal Agent Agreement.

THE CITY

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the "Bay"). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The City's 2016 population was approximately 781,000. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO" hereto.

THE DISTRICT

Background

On July 15, 2014, the Board of Supervisors of the City adopted Resolution No. 247-14 stating its intent to form the District under the Act. On the same date, the Board of Supervisors of the City also adopted Resolution No. 246-14 pursuant to which the District was authorized to incur bonded indebtedness in an aggregate amount not to exceed \$1,400,000,000, approved an Amended Rate and Method of Apportionment of Special Tax (the "Rate and Method"), approved the levy of special taxes within and for the District to pay the principal of, and interest on, the authorized bonded indebtedness and approved an appropriations limit for the District not to exceed \$300,000,000. After conducting a noticed public hearing, on September 2, 2014, the Board of Supervisors of the City adopted the Resolution of Formation, which established the District and set forth the Rate and Method for the levy and collection of the Special Tax within the District. On December 29, 2014, at an election was held within the District pursuant to the Act at which the qualified electors approved the formation of the District and incurrence of indebtedness in an aggregate amount not to exceed \$1,400,000,000. See APPENDIX B – "AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

Property Ownership and Development Status

The District consists of approximately 12.4 gross acres, approximately 2.7 acres of which are developed for office, retail and residential use. There are currently three properties in the District that have received both a Certificate of Occupancy and a Tax Commencement Authorization – 350 Mission Street, also known as "Salesforce East," 299 Fremont Street, also known as "Block 6" or "Solaire," and 415 Mission Street, also known as "Salesforce Tower."

350 Mission Street (Salesforce East). The building located at 350 Mission Street on a 18,905 square foot parcel is a 30-story LEED® Platinum-certified office tower containing approximately 420,000 square feet of floor area. The lobby features a cantilever with 90 feet of glass panels that slide open and closed - adjoining the lobby to the street. The lobby includes a cafe and restaurant, amphitheater seating, and space that can be configured for pop-up events. A commissioned work of digital art in the

lobby animates a 70-by-38-foot LED screen that is visible from the street. Salesforce, a global cloud computing company (publically traded as CRM on the New York Stock Exchange), is currently the only tenant in the building. The building located at 350 Mission Street was completed in 2015. The Special Tax for 350 Mission Street is calculated based on three floors.

299 Fremont Street (Block 6). The buildings located at 299 Fremont Street on a 30,025 square foot parcel include a 32-story residential tower and 7 townhomes with a total of 409 rental units. There is 288,937 square feet of floor area subject to the Special Tax. The residential tower contains 7,204 square feet of retail space on the ground floor. Amenities include a fitness center, community room and kitchen, media room, game room, yoga studio, and a roof deck lounge and spa.

All of the residential units are intended to serve as rental housing with unit sizes ranging from the 422 square foot studio units to 1,562 square foot, two-bedroom, two-and-a-half bath, units. As of March 2017, the 409 market rate rental units were 88% occupied. Block 6 also includes affordable housing that is not subject to the Special Tax. Block 6 was completed in February 2017 and opened in March 2017. The owner is Block 6 Joint Venture, LLC, an affiliate of Golub Real Estate Corporation.

| <u>Unit</u> | <u>Pricing*</u> |
|------------------------------|-------------------|
| Studio | \$3,185 - \$3,450 |
| One Bedroom | \$3,300 - \$3,845 |
| One Bedroom Den | \$4,850 - \$5,225 |
| Two Bedroom | \$5,100 - \$6,150 |
| Townhome (2 bed/2.5 bath) | \$6,350 - \$7,895 |

* Source: www.solairesf.com. For informational purposes only. The City makes no representation regarding such pricing information.

415 Mission Street (Salesforce Tower). The building located at 415 Mission Street on a 50,514 square foot parcel contains a mix of office, and retail uses. The building is the tallest in the City with a top roof height of 970 feet and an overall height of 1,070 feet and the second-tallest west of the Mississippi River. The tower was completed in _____ 2017 and has [61] floors.

Future Development

The following table sets forth development that may receive a Certificate of Occupancy and Tax Commencement Authorization this calendar year and become subject to the Special Tax. The City provides no assurance, however, that any such development will be completed as expected.

| <u>Property Owner/Use</u> | <u>Location/Sq. Ft.</u> | <u>Certificate of Occupancy Date</u> | <u>Estimated Special Tax</u> | <u>Projected AV⁽¹⁾</u> |
|------------------------------------------------------------------|------------------------------|--------------------------------------|------------------------------|-----------------------------------|
| 41 TEHAMA LP (retail; rental residential) | 41 Tehama Street (310,124) | Sept. 2017 | \$1,803,653 | \$ 61,449,400 |
| 181 FREMONT STREET LLC (office; retail; for sale residential) | 181 Fremont Street (503,040) | Oct. 2017 | \$3,290,336 | \$160,574,433 |

⁽¹⁾ Values reflect current in-process construction values.

Property Valuation

In Fiscal Year 2016-17, the Special Taxes were levied in the District for the first time on the first two parcels to receive both a Certificate of Occupancy and Tax Commencement Authorization (Salesforce East and Block 6). The Fiscal Year 2016-17 levy on these two parcels was \$1,840,406. The Fiscal Year 2016-17 assessed values for these two parcels totaled \$210.8 million. The value for 350 Mission Street reflects the value at final completion, while the value for 299 Fremont Street reflects the in-process construction value. The Fiscal Year 2017-18 assessed value for the Salesforce Tower was \$331 million, reflecting partial construction value as of the January 1, 2017 lien date. The District’s estimated assessed value for Fiscal Year 2017-18 is \$_____ for land and \$_____ for structures, for a total estimated assessed valuation of \$_____.

Pursuant to the Act and the Rate and Method, the principal amount of the Bonds is not allocable among the parcels in the District. The following table sets forth the estimated value-to-lien ratio for the District based upon Fiscal Year 2016-17 assessed values. A downturn of the economy or other market factors may depress land values and hence the value-to-lien ratios. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio.

**Community Facilities District No. 2014-1
(Transbay Transit Center)
Estimated Value to Lien Ratios**

| Fiscal Year 2016-17 Assessed Value of Property the District | Principal Amount of Bonds | Approximate Ratio of Assessed Value to Principal Amount of Bonds | Approximate Ratio of Assessed Value to Principal Amount of the Bonds and other Overlapping Lien⁽¹⁾ |
|----------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| \$ | \$ | | |

Source: Special Tax Consultant.

⁽¹⁾ For information regarding the other overlapping liens, see “– Direct and Overlapping Debt” below.

Debt Service Coverage

The following table sets forth debt service coverage with respect to the Bonds.

[table to come from underwriter]

Estimated Effective Tax Rate

The following table sets forth an illustrative Fiscal Year 2016-17 tax bill for a Taxable Property in the District.

**Community Facilities District No. 2014-1
(Transbay Transit Center)
Fiscal Year 2016-17 -- Illustrative Tax Bill**

| <u>Assessed Value</u> | | <u>Salesforce East</u> | <u>Block 6</u> |
|---------------------------------------|----------------|------------------------|----------------------|
| Land Value | | \$53,715,187 | \$ 25,642,437 |
| Improvement & Other Value | | <u>13,496,797</u> | <u>117,979,484</u> |
| Total Assessed Value | | \$67,211,984 | \$143,621,921 |
| | | | |
| <u>Ad Valorem Tax Rate /1</u> | | | |
| Base Tax Rate | 1.0000% | \$672,120 | \$1,436,219 |
| Other Ad Valorem Property Taxes | <u>0.1792%</u> | <u>120,444</u> | <u>257,370</u> |
| Total Ad Valorem Taxes | 1.1792% | \$792,564 | \$1,693,590 |
| | | | |
| <u>Direct Charges</u> | | | |
| GTR Rincon Hill CBD | | \$ 39,656 | \$5,529 |
| SFUSD Facility District | | 36 | 36 |
| SFFCCD Parcel Tax | | 79 | 79 |
| SF – Teacher Support | | 237 | 237 |
| Transbay CFD No. 2014-1 | | <u>249,249</u> | <u>1,591,157</u> |
| Total Direct Charges | | \$289,257 | \$1,597,039 |
| | | | |
| Total Taxes and Direct Charges | | \$1,081,820 | \$3,290,628 |
| Percentage of Assessed Value | | 1.61% | 2.29% |

Source: Special Tax Consultant.

Future Financings

The City anticipates issuing Parity Bonds on behalf of the District annually in each of the next five years in the following approximate par amounts: [\$24.5 million, \$119.5 million, \$277.4 million, \$20.4 million, and \$276.3 million].

Direct and Overlapping Debt

The following table details the direct and overlapping debt currently encumbering property within the District.

[table to come]

SPECIAL RISK FACTORS

The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the City to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District.

Risks of Real Estate Secured Investments Generally

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential properties and/or sites in the event of sale or foreclosure, (ii) changes in real estate tax rates and other operating expenses, government rules (including, without limitation, zoning laws and restrictions relating to threatened and endangered species) and fiscal policies and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses, or natural disasters elsewhere in the country or other parts of the world affecting supply of building materials that may cause delays in construction. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due.

Disclosure to Future Property Owners

Pursuant to Section 53328.3 of the Act, the City has recorded a Notice of Special Tax Lien. The sellers of property within the District are required to give prospective buyers a Notice of Special Tax in accordance with Sections 53340.2 and 53341.5 of the Act. While title companies normally refer to the Notice of Special Tax Lien in title reports, there can be no guarantee that such reference will be made or the seller's notice given or, if made and given, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property or the lending of money thereon. Failure to disclose the existence of the Special Taxes may affect the willingness and ability of future owners of land within the District to pay the Special Taxes when due.

Parity Taxes and Special Assessments

The Special Taxes and any penalties thereon will constitute a lien against the parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is coequal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property. The City, however, has no control over the ability of other agencies to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes. See "THE DISTRICT – Direct and Overlapping Debt."

Value to Lien Ratios

Value-to-lien ratios have traditionally been used in land-secured bond issues as a measure of the “collateral” supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The value-to-lien ratio is mathematically a fraction, the numerator of which is the value of the property (in this case, Fiscal Year 2016-17 Assessed Values) and the denominator of which is the “lien” of the assessments or special taxes. A value to lien ratio should not, however, be viewed as a guarantee for credit-worthiness. Land values are sensitive to economic cycles. A downturn of the economy or other market factors may depress land values and hence the value-to-lien ratios. Further, the value-to-lien ratio cited for a bond issue is an average. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio. (With a ratio below 1:1, the land is worth less than the debt on it.) Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action. No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. Finally, local agencies may form overlapping community facilities districts or assessment districts because they typically do not coordinate their bond issuances. Debt issuance by another entity can dilute value-to-lien ratios.

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each Taxable Parcel and Taxable Building in the District will be based primarily on the square footage. See APPENDIX B – “AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” and “SECURITY FOR THE BONDS – Rate and Method of Apportionment of Special Taxes.” The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by a gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. MOREOVER, IF A SUBSTANTIAL PORTION OF LAND WITHIN THE DISTRICT BECAME EXEMPT FROM THE SPECIAL TAX BECAUSE OF PUBLIC OWNERSHIP, OR OTHERWISE, THE MAXIMUM SPECIAL TAX WHICH COULD BE LEVIED UPON THE REMAINING ACREAGE MIGHT NOT BE SUFFICIENT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE AND A DEFAULT COULD OCCUR WITH RESPECT TO THE PAYMENT OF SUCH PRINCIPAL AND INTEREST.

Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the properties within the District on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made to the County Tax Collector separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future.

See “SECURITY FOR THE BONDS – Reserve Fund” and “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Fiscal Agent Agreement, in the event of delinquency in the payment of Special Tax installments.

Maximum Term of Levy

The Bonds are secured by Special Tax Revenues from all parcels subject to the Special Tax in the District. Upon delivery of the Bonds, Special Taxes will be levied on ___ parcels. Because Special Taxes may only be levied on any individual parcel for a maximum term of 30 years, the levy on parcels ___ and ___ will terminate before the final maturity of the Bonds. Unless additional parcels are annexed into the District before the maximum term of the applicable levy is reached, payments due on the Bonds in 20__ and 20__ will be secured only by Special Taxes levied on the remaining ___ parcels. The Bonds have been structured to maintain projected coverage of 110%, notwithstanding the termination of the levy on parcels ___ and ___.

Concentration of Property Ownership

Failure of any significant owner of taxable property in the District to pay the annual Special Taxes when due could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of the property upon a foreclosure or otherwise or prior to delinquency redemption after a foreclosure sale, if any. In that event, there could be a default in payments of the principal of and interest on the Bonds. Development of property in the Community Facilities District may not occur as currently proposed or at all. As of the date the Bonds are delivered, only three properties will be responsible for contributing 100% of the Special Tax Revenues. See “THE DISTRICT” for information regarding property ownership and the status of development in the District.

Future Indebtedness

The cost of any additional improvements may well increase the public and private debt for which the land in the District provide security, and such increased debt could reduce the ability or desire of property owners to pay the Special Taxes levied against the land in the District. In addition, in the event any additional improvements or fees are financed pursuant to the establishment of an assessment district or another district formed pursuant to the Act, any taxes or assessments levied to finance such improvements may have a lien on a parity with the lien of the Special Taxes. The City is authorized to issue on behalf of the District bonded indebtedness in an aggregate amount not to exceed \$1,400,000,000. See “THE DISTRICT – Future Financings.”

Natural Disasters

The City is located in a seismically active region, and damage from an earthquake in or near the City could cause moderate to extensive or total damage to taxable property. See “- Seismic Risks” below. Other natural or man-made disasters, such as flood, fire, toxic dumping or acts of terrorism, could also cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the Bay Area’s economy generally, can also affect assessed values, particularly as these forces might reverberate in the residential housing and commercial property markets. As a result of the occurrence of events described in this paragraph, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due, and the reserve fund for the Bonds may become depleted. In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

Seismic Risks

The City is located in a seismically active region. Active earthquake faults underlie both the City and the surrounding Bay Area, including the San Andreas Fault, which passes about three miles to the southeast of the City's border, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away. Significant seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of the City, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires, building collapses, and structural damage to buildings and highways in the City and surrounding areas. The San Francisco-Oakland Bay Bridge, the only east-west vehicle access into the City, was closed for a month for repairs, and several highways in the City were permanently closed and eventually removed. On August 24, 2014, the San Francisco Bay Area experienced a 6.0 earthquake centered near Napa along the West Napa Fault. The City did not suffer any material damage as a result of this earthquake.

In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Survey, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more quakes of about magnitude 6.7 or larger will occur in the San Francisco Bay Area before the year 2045. Such earthquakes may be very destructive. In addition to the potential damage to City-owned buildings and facilities (on which the City does not generally carry earthquake insurance), due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly long-term harm to the City's economy, tax receipts, and residential and business real property values, including in the District.

[In early 2016, the Port Commission of the City and County of San Francisco commissioned an earthquake vulnerability study of the Northern Waterfront Seawall. The Seawall was constructed over 100 years ago and sits on reclaimed land, rendering it vulnerable to seismic risk. The Seawall provides flood and wave protection to downtown San Francisco, and stabilizes hundreds of acres of filled land. Preliminary findings of the study indicate that a strong earthquake may cause most of the Seawall to settle and move outward toward the Bay, which would significantly increase earthquake damage and disruption along the waterfront. The Port Commission estimates that seismic retrofitting of the Seawall could cost as much as \$3 billion, with another \$2 billion or more needed to prepare the Seawall for rising sea levels. The study estimates that approximately \$1.6 billion in Port assets and \$2.1 billion of rents, business income, and wages are at risk from major damage to the Seawall.]

Hazardous Substances

A serious risk in terms of the potential reduction in the value of a parcel within the District is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel within the District may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of the property whether or not the owner or operator had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, will be to reduce the marketability and value of such parcel by the costs of remedying the condition, because the prospective purchaser, upon becoming the owner, will become obligated to remedy the condition just as the seller is.

Further it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the current existence on the parcel of a substance currently classified as hazardous but

which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly affect the value of a parcel within the District that is realizable upon a delinquency.

Risk of Sea Level Changes and Flooding

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

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

Other Events

Seismic events, wildfires, tsunamis, and other natural or man-made events may damage City infrastructure. For example, in August 2013, a massive wildfire in Tuolumne County and the Stanislaus National Forest burned over 257,135 acres (the "Rim Fire"), which area included portions of the City's Hetch Hetchy Project. The Hetch Hetchy Project is comprised of dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir which supplies 85% of San Francisco's drinking water), hydroelectric generator and transmission facilities and water transmission facilities. Hetch Hetchy facilities affected by the Rim Fire included two power generating stations and the southern edge of the Hetch Hetchy Reservoir. There was no impact to drinking water quality. The City's hydroelectric power generation system was interrupted by the fire, forcing the San Francisco Public Utilities Commission to spend approximately \$1.6 million buying power on the open market and using existing banked energy with PG&E. The Rim Fire inflicted approximately \$40 million in damage to parts of the City's water and power infrastructure located in the region. In September 2010, a Pacific Gas and Electric Company ("PG&E") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. There are numerous gas transmission and distribution pipelines owned, operated and maintained by PG&E throughout the City.

Millennium Tower

Millennium Tower is a 58-story luxury residential building completed in 2009 and is located at 301 Mission Street in the City. **Millennium Tower is not contributing to Special Tax Revenues and none of the information presented in this Official Statement assumes collection of Special Taxes**

from the Millennium Tower project. On August 17, 2016, owners of condominiums in Millennium Tower filed a lawsuit (the "Lawsuit") against the TJPA and the individual members of the TJPA, including the City. The TJPA is a joint exercise of powers authority created by the City, the Alameda-Contra Costa Transit District, the Peninsula Corridor Joint Powers Board, and Caltrans (*ex officio*). The TJPA is responsible under State law for developing the Transbay Transit Center.

The TJPA began excavation and construction of the Transbay Transit Center in 2010, after the Millennium Tower was completed. In brief, the Lawsuit claims that the construction of the Transbay Transit Center harmed the Millennium Tower by causing it to settle into the soil more than planned and tilt toward the west/northwest, and the condo owners claim unspecified monetary damages for inverse condemnation and nuisance. The TJPA has said that the Millennium Tower was already sinking more than planned and tilting before the TJPA began construction of the Transbay Transit Center and that the TJPA took precautionary efforts to avoid exacerbating the situation. The City cannot make any prediction as to the outcome of the Lawsuit or any other future lawsuit regarding Millennium Tower.

Bankruptcy and Foreclosure

The payment of property owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure." In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

In addition, bankruptcy of a property owner (or a property owner's partner or equity owner) would likely result in a delay in procuring Superior Court foreclosure proceedings unless the bankruptcy court consented to permit such foreclosure action to proceed. Such delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

Under 11 U.S.C. Section 362(b)(18), in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for ad valorem taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S.C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like ad valorem taxes for this purpose.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as ad valorem taxes. *No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy.*

Property Controlled by FDIC

The City's ability to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Tax payments may be limited in certain respects with regard to properties in which the Internal Revenue Service, the Drug Enforcement Agency, the Federal Deposit Insurance Corporation (the "FDIC") or other similar federal agency has or obtains an interest.

Unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the City wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. In *Rust v. Johnson* (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association ("FNMA") is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States. The District has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes within the District, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

On June 4, 1991 the FDIC issued a Statement of Policy Regarding the Payment of State and Local Real Property Taxes. The 1991 Policy Statement was revised and superseded by a new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its proper tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non *ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The FDIC has filed claims against one California county in United States Bankruptcy Court contending, among other things, that special taxes authorized under the Act are not *ad valorem* taxes and therefore not payable by the FDIC, and seeking a refund of any special taxes previously paid by the FDIC. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. The Bankruptcy Court ruled in favor of the FDIC's positions and, on August 28, 2001, the United States Court of Appeals for the Ninth Circuit affirmed the decision of the Bankruptcy Court, holding that the FDIC, as an entity of the federal government, is exempt from post-receivership special taxes levied under the Act. This is consistent with provision in the Law that the federal government is exempt from special taxes.

The City is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to a parcel in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed on at a judicial foreclosure sale would likely reduce the number of or eliminate the persons willing to purchase such a parcel at a foreclosure sale. Owners of the Bonds should

assume that the City will be unable to foreclose on any parcel owned by the FDIC. Such an outcome would cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment of the Bonds. The City has not undertaken to determine whether the FDIC or any FDIC-insured lending institution currently has, or is likely to acquire, any interest in any of the parcels, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn, along with various other factors, can lead to problems in the collection of the special tax. In some community facilities districts, taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by a community facilities district.

Under provisions of the Act, the Special Taxes are billed to the properties within the District that were entered on the Assessment Roll of the County Assessor by January 1 of the previous Fiscal Year. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Ordinarily, these Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

Collection of Special Taxes

To pay debt service on the Bonds, it is necessary that the Special Tax levied against property within the District be paid in a timely manner. The City has covenanted in the Fiscal Agent Agreement under certain conditions to institute foreclosure proceedings against property with delinquent Special Taxes to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Taxes to protect its security interest. If such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Taxes installment. Although the Act authorizes the City to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the City with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure."

Maximum Special Tax Rates

Within the limits of the Rate and Method, the City may adjust the Special Taxes levied on all property within the District to provide the amount required each year to pay annual debt service on the Bonds and to replenish the Reserve Fund to an amount equal to the Reserve Requirement. However, the amount of Special Taxes that may be levied against particular categories of property is subject to the maximum tax rates set forth in the Rate and Method. In the event of significant Special Tax delinquencies, there is no assurance that the maximum tax rates for property in the District would be sufficient to meet debt service obligations on the Bonds. See "SECURITY FOR THE BONDS – The

Special Taxes” and APPENDIX B – “AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Exempt Properties

The Act provides that properties or entities of the State, federal or local government are exempt from the Special Taxes; provided, however, the property within the District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Taxes, will continue to be subject to the Special Taxes. The Act further provides that if property subject to the Special Taxes is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Taxes with respect to that property is to be treated as if it were a special assessment. The constitutionality and operation of these provisions of the Act have not been tested. In particular, insofar as the Act requires payment of the Special Taxes by a federal entity acquiring property within the District, it may be unconstitutional.

California Constitution Article XIIC and Article XIID

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which articles contain a number of provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees and charges. According to the “Official Title and Summary” of Proposition 218 prepared by the California State Attorney General, Proposition 218 limits the “authority of local governments to impose taxes and property-related assessments, fees and charges.” On July 1, 1997 California State Senate Bill 919 (“SB 919”) was signed into law. SB 919 enacted the “Proposition 218 Omnibus Implementation Act,” which implements and clarifies Proposition 218 and prescribes specific procedures and parameters for local jurisdictions in complying with Articles XIIC and XIID.

Article XIID of the State Constitution reaffirms that the proceedings for the levy of any Special Taxes by the District under the Act must be conducted in conformity with the provisions of Section 4 of Article XIIC. The District has completed its proceedings for the levy of Special Taxes in accordance with the provisions of Section 4 of Article XIIC. Under Section 53358 of the California Government Code, any action or proceeding to review, set aside, void, or annul the levy of a special tax or an increase in a Special Tax (including any constitutional challenge) must be commenced within 30 days after the Special Tax is approved by the voters.

Article XIIC removes certain limitations on the initiative power in matters of local taxes, assessments, fees and charges. The Act provides for a procedure, which includes notice, hearing, protest and voting requirements, to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting a resolution to reduce the rate of any special tax if the proceeds of that tax are being utilized to retire any debt incurred pursuant to the Act unless such legislative body determines that the reduction of that tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that exercise by the voters of the initiative power referred to in Article XIIC to reduce or terminate the Special Tax is subject to the same restrictions as are applicable to the City Council, as the legislative body of the District, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that Proposition 218 has not conferred on the voters the power to repeal or reduce the Special Taxes if such repeal or reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year

below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds.

Proposition 218 and the implementing legislation have yet to be extensively interpreted by the courts; however, the California Court of Appeal in April 1998 upheld the constitutionality of Proposition 218's balloting procedures as a condition to the validity and collectability of local governmental assessments. A number of validation actions for and challenges to various local governmental taxes, fees and assessments have been filed in Superior Court throughout the State, which could result in additional interpretations of Proposition 218. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and the outcome of such determination cannot be predicted at this time with any certainty.

Validity of Landowner Elections

On August 1, 2014, the California Court of Appeal, Fourth Appellate District, Division One (the "Court"), issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997). The Court considered whether Propositions 13 and 218, which amended the California Constitution to require voter approval of taxes, require registered voters to approve a tax or whether a city could limit the qualified voters to just the landowners and lessees paying the tax. The case involved a Convention Center Facilities District (the "CCFD") established by the City of San Diego. The CCFD is a financing district established under San Diego's charter and was intended to function much like a community facilities district established under the provisions of the Act. The CCFD is comprised of the entire City of San Diego. However, the special tax to be levied within the CCFD was to be levied only on properties improved with a hotel located within the CCFD.

At the election to authorize such special tax, the San Diego Charter proceeding limited the electorate to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located, thus, the election was an election limited to landowners and lessees of properties on which the special tax would be levied, and was not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was based on Section 53326(c) of the Act, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax. In addition, Section 53326(b) of the Act provides that if there are less than 12 registered voters in the district, the landowners shall vote.

The Court held that the CCFD special tax election did not comply with applicable requirements of Proposition 13, which added Article XIII A to the California Constitution (which states "Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district") and Proposition 218, which added Article XIII C and XIII D to the California Constitution (Section 2 of Article XIII C provides "No local government may impose, extend or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote"), or with applicable provisions of San Diego's Charter, because the electors in such an election were not the registered voters residing within such district.

San Diego argued that the State Constitution does not expressly define the qualified voters for a tax; however, the Legislature defined qualified voters to include landowners in the Mello-Roos Community Facilities District Act. The Court of Appeal rejected San Diego's argument, reasoning that the text and history of Propositions 13 and 218 clearly show California voters intended to limit the taxing powers of local government. The Court was unwilling to defer to the Act as legal authority to provide local governments more flexibility in complying with the State's constitutional requirement to obtain voter approval for taxes. The Court held that the tax was invalid because the registered voters of San

Diego did not approve it. However, the Court expressly stated that it was not addressing the validity of landowners voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. In the case of the CCFD, at the time of the election there were several hundred thousand registered voters within the CCFD (i.e., all of the registered voters in the city of San Diego). In the case of the District, there were fewer than 12 registered voters within the District at the time of the election to authorize the Special Tax within the District.

Moreover, Section 53341 of the Act provides that any “action or proceeding to attack, review, set aside, void or annul the levy of a special tax ... shall be commenced within 30 days after the special tax is approved by the voters.” Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act or the levy of special taxes authorized pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds or the special tax. Voters approved the special tax and the issuance of bonds for the District pursuant to the requirements of the Act in June 20, 2006. Therefore, under the provisions of Section 53341 and Section 53359 of the Mello-Roos Act, the statute of limitations period to challenge the validity of the special tax has expired.

Ballot Initiatives and Legislative Measures

Proposition 218 was adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process; and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the District or other local districts to increase revenues or to increase appropriations or on the ability of a landowner to complete the development of property.

No Acceleration

The Bonds do not contain a provision allowing for their acceleration in the event of a payment default or other default under the terms of the Bonds or the Fiscal Agent Agreement or upon any adverse change in the tax status of interest on the Bonds. There is no provision in the Act or the Fiscal Agent Agreement for acceleration of the Special Taxes in the event of a payment default by an owner of a parcel within the District. Pursuant to the Fiscal Agent Agreement, a Bond Owner is given the right for the equal benefit and protection of all Bond Owners to pursue certain remedies described in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT” hereto.

Loss of Tax Exemption

As discussed under the caption “TAX MATTERS,” to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2017A Bonds, the District has covenanted in the Fiscal Agent Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2017A Bonds under Section 103 of the Internal Revenue Code of 1986. Interest on the 2017A Bonds could become includable in gross income for purposes of Federal income taxation retroactive to the date the 2017A Bonds were issued, as a result of acts or omissions of the City or the District in violation of the Code. Should such an event of taxability occur, the 2017A Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Fiscal Agent Agreement.

Limitations on Remedies

Remedies available to the Bond Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Fiscal Agent Agreement. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Bond Owners.

Enforceability of the rights and remedies of the Bond Owners, and the obligations incurred by the District, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. See "SPECIAL RISK FACTORS – Bankruptcy and Foreclosure."

Limited Secondary Market

As stated herein, investment in the Bonds poses certain economic risks which may not be appropriate for certain investors, and only persons with substantial financial resources who understand the risk of investment in the Bonds should consider such investment. There can be no guarantee that there will be a secondary market for purchase or sale of the Bonds or, if a secondary market exists, that the Bonds can or could be sold for any particular price. No application has been made for a credit rating for the Bonds, and it is not known whether a credit rating could be secured either now or in the future for the Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") on an annual basis, and to provide notices of the occurrences of certain enumerated events. The Annual Report will be filed with the MSRB. The notices of enumerated events will be filed with the MSRB. The specific nature of information to be contained in the Annual Report or the notice of events is summarized in APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made by the District in order to assist the Underwriter in complying with the Rule.

The ratings on certain obligations of the City were upgraded by Fitch Ratings on March 28, 2013. Under certain continuing disclosure undertakings of the City, the City was required to file a notice of such upgrade with the Electronic Municipal Market Access system of the MSRB by April 11, 2013. The City filed such notice on May 17, 2013.

TAX MATTERS

2017A Bonds

General. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2017A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in this paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 (the "Tax Code") that must be satisfied subsequent to the issuance of the 2017A Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2017A Bonds.

California Tax Status. In the opinion of Bond Counsel, interest on the 2017A Bonds is exempt from California personal income taxes.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a 2017A Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2017A Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2017A Bonds on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2017A Bond to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2017A Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2017A Bonds who purchase the 2017A Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2017A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2017A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2017A Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2017A Bond (said term being the shorter of the 2017A Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2017A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2017A Bond is amortized each year over the term to maturity of the 2017A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2017A Bond premium is not deductible for federal income tax purposes. Owners of Premium 2017A Bonds, including purchasers who do not

purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2017A Bonds.

Form of Bond Counsel Opinions. At the time of issuance of the 2017A Bonds, Bond Counsel expects to deliver an opinion for the 2017A Bonds in substantially the form set forth in Appendix D.

Owners of the 2017A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2017A Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2017A Bonds

2017B Bonds

The interest on the 2017B Bonds is not intended by the District to be excluded from gross income for federal income tax purposes. However, in the opinion of Bond Counsel, interest on the 2017B Bonds is exempt from California personal income taxes. The proposed form of opinion of Bond Counsel with respect to the 2017B Bonds to be delivered on the date of issuance of the 2017B Bonds is set forth in Appendix D.

Owners of the 2017B Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2017B Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2017B Bonds.

UNDERWRITING

Stifel, Nicolaus & Co. Incorporated (the "Underwriter") purchased the Bonds at a purchase price of \$ _____, representing the principal amount of the Bonds less an Underwriter's discount of \$ _____ and [plus/minus] a [net] original issue [premium/discount] of \$ _____. The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may realow any such discounts on sales to other dealers.

LEGAL OPINION

The legal opinion of Jones Hall APLC, San Francisco, California, as Bond Counsel, approving the validity of the Bonds, in substantially the form set forth in Appendix D hereto, will be made available to purchasers of the Bonds at the time of original delivery. Bond Counsel has not undertaken on behalf of the Owners or the Beneficial Owners of the Bonds to review the Official Statement and assumes no responsibility to such Owners and Beneficial Owners for the accuracy of the information contained herein. Certain legal matters will be passed upon for the City by the City Attorney, and by Norton Rose Fulbright US LLP, Los Angeles, California, Disclosure Counsel, with respect to the issuance of the Bonds.

Compensation paid to Jones Hall APLC, as Bond Counsel, and Norton Rose Fulbright US LLP, as Disclosure Counsel, is contingent on the issuance of the Bonds.

NO LITIGATION

A certificate of the City to the effect that no litigation is pending or threatened concerning the validity of the Bonds will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the City nor the District are aware of any litigation pending or threatened which questions the existence of the District or the City or contests the authority of the City on behalf of the District to levy and collect the Special Taxes or to issue the Bonds.

NO RATING ON THE BONDS

The Bonds are not rated and the District does not anticipate applying for a rating on the Bonds. No such rating should be assumed from any credit rating the District or the City may obtain for other purposes. Prospective purchasers of the Bonds should make independent determinations as to the credit quality of the Bonds.

MUNICIPAL ADVISORS

The City has retained Backstrom Mccarley Berry & Co., LLC and Public Financial Management, Inc., as Municipal Advisors in connection with the issuance of the Bonds. The Municipal Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Municipal Advisors are each an independent financial advisory firm and are not engaged in the business of underwriting, trading or distributing the Bonds.

Compensation paid to the Municipal Advisors is contingent upon the successful issuance of the Bonds.

MISCELLANEOUS

All of the preceding summaries of the Fiscal Agent Agreement, other applicable legislation, agreements and other documents are made subject to the provisions of such documents and do not purport to be complete documents of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The City Council of the City has duly authorized _____ to execute and deliver this Official Statement on behalf of the City.

CITY AND COUNTY OF SAN FRANCISCO

By: _____

APPENDIX A
CITY AND COUNTY OF SAN FRANCISCO

APPENDIX B

AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

APPENDIX D
FORM OF BOND COUNSEL OPINION

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *Information on such website is not incorporated by reference herein.*

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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



CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Public Finance Director

SUBJECT: Resolution Authorizing the Issuance and Sale of City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B;
Ordinance Appropriating Proceeds of Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B;
Resolution extending the Teeter Plan to Special Taxes Levied for the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center); and
Resolution determining annexation of Property to the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center)

DATE: Friday, April 28, 2017

Recommended Action:

I respectfully request that the Board of Supervisors (the "Board") consider for review and approval the resolution authorizing the issuance and sale of an aggregate not to exceed par amount of \$152,000,000 in City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A and Federally Taxable Series 2017B (the "Bonds") financing capital improvements for Transbay Project and plan infrastructure; ordinance appropriating the proceeds; resolution extending the Teeter Plan; and resolution determining annexation of property.

Background:

Over the past decade, the City engaged in several efforts to plan for future development and construction of public infrastructure for the area surrounding the Transbay Transit Center and Downtown Rail Extension ("DTX"). In 2005, the Transbay Redevelopment Project Area was adopted with the purpose of redeveloping 10 acres of property owned by the State of California

(the "State-owned parcels") in order to generate funding for the Transbay Joint Powers Authority ("TJPA") to construct the new Transbay Transit Center (the "TTC").

In 2012, the City adopted the Transit Center District Plan ("TCDP" or "Plan") after a multi-year public planning process. TCDP is a comprehensive plan to respond to and support the construction of the new Transbay Transit Center project including the downtown rail extension. In adopting the TCDP, the Board of Supervisors authorized the formation of a Mello-Roos community facilities district (a "CFD") within the TCDP boundary for new large developments to provide funding for the new Transbay Transit Center public improvements and other new public infrastructure necessary to support the growth and development of the neighborhood.

In 2014, the Board approved the formation of the CFD for the purpose of providing funding to pay for the costs of certain public infrastructure to be built as a result of the Transbay Project. The Transbay CFD District ("District") is located in downtown San Francisco immediately south of Market Street near the City's new Transbay Transit Center, designed to be a hub of transit connections serving regional commuters. Properties that receive a zoning bonus that exceed the current height and floor-to-area ratios in the City's Planning Code are annexed into the District.

In 2015, the Board approved the levy and collection of special taxes and the issuance of Bonds. The proceeds from the Bonds will finance infrastructure program to improve streets, open spaces, and transportation network within the district. Pursuant to the Joint Community Facilities Agreement, between the City and TJPA, approximately 82.6% of the CFD special tax proceeds will partially finance the Transbay Project. The Transbay Project consists of the extension of the Caltrain rail tracks to the Transbay Transit Center to accommodate Cal Train and California High Speed Rail (the "Downtown Rail Extension" or "DTX"), which includes the train-related components of the Transbay Transit Center (the "Train Box") and the Rooftop Park. The remaining 17.4% will finance improvements to streetscape and transportation enhancements within the district, and improvements to new and enhanced open spaces.

The Special Tax Bonds:

On July 15, 2014, the Board of Supervisors of the City adopted Resolution No. 247-14 stating its intent to form the District under the Act. On the same date, the Board of Supervisors of the City also adopted Resolution No. 246-14, which authorized bonded indebtedness on behalf of the District in an aggregate amount not to exceed \$1,400,000,000, approved an Amended Rate and Method of Apportionment of Special Tax (the "Rate and Method"), approved the levy of special taxes within the District to pay the principal of, and interest on, the authorized bonded indebtedness and approved an appropriations limit for the District not to exceed \$300,000,000. On December 29, 2014, an election was held within the District pursuant to the Act at which the qualified electors approved the formation of the District and incurrence of bonded indebtedness in an aggregate amount not to exceed \$1,400,000,000.

The proposed resolution authorizes the first sale of the Special Tax Bonds in a par amount not to exceed \$152,000,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver \$152,000,000 under conservative assumptions of market conditions prevailing

at the expected time of sale. The additional authorized amount above the expected delivery amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Special Tax Bonds and any potential increases in required deposits for capitalized interest, debt service reserve fund, and delivery date expenses in the event interest rates were to increase from current levels.

The Bonds are secured by pledge of the special tax revenues received by the City, which are the special taxes levied by the Board of Supervisors within the District. Special taxes can only be levied on a property within the District if a Certificate of Occupancy and Tax Commencement Authorization is issued by the City. The Bonds are sized based on the expected levels of special taxes levied per year from the District, as a result of properties fulfilling both levy requirements. As of fiscal year 2016-17, the CFD anticipates collecting \$1.8 million in special tax proceeds, \$8.0 by fiscal year-end 2017-18, and a up to \$13.1 million by fiscal year-end 2018-19.

Project Description:

The proceeds of the Bonds will be used to finance or refinance portions of the Transbay Project and public infrastructure adjacent to the Transit Center, including sidewalk widening and extensions, pedestrian bulbs, bus islands, curb ramps, and additional pedestrian crosswalks.

Plan of Finance: The City will only sell Bonds at an amount sufficiently sized to the guaranteed special taxes levied within the District.

Table 1: Anticipated Sources and Uses from the Bonds

| | |
|---------------------------------------|----------------------|
| Maximum Not to Exceed Amount: | \$152,000,000 |
| <i>Reserve Proceeds</i> | <i>\$2,251,503</i> |
| Estimated Sources: | |
| Par Amount | \$147,590,000 |
| Premium | \$2,158,497 |
| Total Estimated Sources: | \$149,748,497 |
| Estimated Uses: | |
| Project Fund Deposits: | |
| Project Fund (Transbay Projects) | \$103,614,143 |
| Project Fund (Other Projects) | \$23,979,257 |
| | \$127,593,400 |
| Other Fund Deposits: | |
| Debt Service Reserve Fund | \$12,161,227 |
| Capitalized Interest Fund | \$5,566,170 |
| Delivery Date Expenses: | |
| Cost of Issuance | \$4,427,700 |
| Total Estimated Uses: | \$149,748,497 |
| <i>Reserve for Market Uncertainty</i> | <i>\$2,251,503</i> |
| Maximum Not to Exceed Amount: | \$152,000,000 |

The authorized amount above the expected par amount of \$147,590,000 allows for market premium as a result of prevailing interest rates as well as additional market reserves to due fluctuations in market conditions from the date of authorization by the Board of Supervisors to the time of the sale of the Bonds. Pursuant to the Plan, each project will pay special taxes for maximum of 30 years as such the Bonds have a term of 30 years.¹ As a companion piece of legislation to the Resolutions, the Office of Public Finance is also requesting the approval of a Supplemental Appropriation Ordinance to finance project costs and associating financing costs.

Based upon current market interest rates of 4.48%, the Office of Public Finance estimates an average annual debt service of approximately \$9,728,982. The anticipated total par amount of \$147,590,000 is estimated to result in approximately \$145,198,304 in interest payments over the life of the Bonds. The total debt service over the life of the Bonds total approximately \$292,788,304.

Method of Sale & Bond Purchase Agreement: We are proposing a negotiated sale in connection with this transaction. The Bonds are repaid from special tax revenues from specific projects within the district and are outside of the City's customary credit profile. The Office of Public Finance has selected Stifel, Nicolaus & Company, Incorporated to serve as Senior Underwriter and intends to select a second underwriter to serve as Co-underwriter. Both firms are selected from the City's Underwriter Pool, which was established via a competitive process. The proposed resolution approves the form of the Bond Purchase Agreement which provides the terms of sale of the bonds from the City to the selected underwriters and purchasers.

Capital Plan:

The Bonds are limited obligations of the City. They are payable solely from the special tax revenues within the CFD district. Therefore, this transaction is not subject to the policy constraints of the Capital Plan.

Teeter Plan:

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

¹ Other key assumptions underlying the debt service estimates include: 1) Level debt service structure; 2) Debt Service Reserve Fund sized at Maximum Annual Debt Service and funded with bond proceeds; 3) Capitalized Interest on the amount proportional to the Salesforce Tower until 9/1/2017; and 4) Cost of Issuance estimated at 3% of total par.

The resolution for the Board’s consideration would allow for the Community Facilities District 2014-1 (Transbay Transit Center) to receive 100% of the levy of special taxes per year without discounting the level of delinquencies which might occur. Under the Teeter Plan, the City makes all the taxing agencies “whole” and assumes the minor risk of being paid at some future date. In return, the City receives the interest (currently at 18%) and penalties (currently 10%) when taxes are ultimately paid. The net effect of this adjustment would be an increase in special tax revenues to the City at least in the short term while providing credit enhancement for Bonds.

Property Annexation – Block One:

As a companion piece to this legislation, the Office of Public Finance is also requesting the approval of a resolution determining annexation of property into the District for properties located at 100, 124, 126, and 160 Folsom Street, collectively known as Block One. In order for a property to annex into the District, the Board of Supervisors must adopt a resolution determining the property has been added to the District. Approval of this resolution is a necessary condition in order for a property to annex into the CFD and be deemed a taxable property under the CFD.

Financing Timeline:

| <u>Milestones:</u> | <u>Dates*:</u> |
|-------------------------------------------------------------------------|----------------|
| Capital Planning Committee | April 24 |
| Board Introduction | May 2 |
| Budget & Finance Committee Hearing | May 18 |
| Board Approval of Resolution and 1st Reading of Appropriation Ordinance | June 6 |
| Final Board Approval (2nd Reading) | June 13 |
| Estimated Sale & Closing | July 2017 |

*Please note that dates are preliminary and may change.

Additional Information

The legislation was presented to the Capital Planning Committee on Monday, April 24, 2017 and is expected to be introduced at the Board of Supervisors meeting on Tuesday, May 2, 2017. The related financing documents—including the Bond Purchase Agreement, Fiscal Agent Agreement, Continuing Disclosure Agreement, Preliminary Official Statement, and Appendix A—will also be submitted.

The Preliminary Official Statement: The proposed resolution also approves the form of Preliminary and final Official Statement relating to the Certificates (the “Official Statement”). The Official Statement has been updated to reflect the City’s financial condition, including the adopted ten-year capital plan; update to the Five-Year Financial Plan; the Controller’s release of the Revenue Letter; and the adoption by the Board and approval by the Mayor of the Original Budget. The information contained in the Appendix A to the Official Statement was updated as of April 3, 2017 and was prepared by City staff for inclusion in the Official Statement.

Federal securities laws impose on the City the obligation to ensure that its offering documents are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the disclosure documents as well as City staff charged with preparing the documents. The Official Statement is attached for your approval prior to its publication.

Contents Included in the Preliminary Official Statement:

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

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


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

CC: Angela Calvillo, Clerk of the Board of Supervisors
Harvey Rose, Budget and Legislative Analyst
Nicole Elliott, Mayor's Office, Director of Legislative & Government Affairs
Mawuli Tugbenyoh, Mayor's Office, Liaison to the Board of Supervisors
Melissa Whitehouse, Mayor's Budget Director
Mark Blake, Deputy City Attorney
Sara DeBord, TJPA Chief Finance Officer
Bruce Robertson, Finance Manager, Public Works

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *For* Mayor Edwin M. Lee 
RE: Resolution Determining the Annexation of Property to City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center)
DATE: May 2, 2017

Attached for introduction to the Board of Supervisors is a resolution determining that Property is Annexed to the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center), and directing the Clerk of the Board of Supervisors to Record Notice of the Annexation.

I respectfully request that this item be heard in Budget & Finance Committee on May 18, 2017.

Should you have any questions, please contact Mawuli Tugbenyoh (415) 554-5168.

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