



## MATURITY SCHEDULE

(Base CUSIP Number: \_\_\_\_\_<sup>1</sup>)

<u>Certificate Payment Date</u> (_____ 1)	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield<sup>2</sup></u>	<u>CUSIP Suffix</u>
--	-------------------------	----------------------	--------------------------------	---------------------

[\$ \_\_\_\_\_ % Term Bonds due \_\_\_\_\_, \_\_\_\_\_ – Price/Yield<sup>2</sup> \_\_\_\_\_ % CUSIP<sup>1</sup>: \_\_\_\_\_]

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

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

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

This Official Statement is not to be construed as a contract with the Purchaser of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

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

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

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

<sup>2</sup> Reoffering prices/yields furnished by the Purchaser. The City takes no responsibility for the accuracy thereof.

**CITY AND COUNTY OF SAN FRANCISCO**

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Edwin M. Lee

**BOARD OF SUPERVISORS**

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**CITY ATTORNEY**

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[Trustee]  
\_\_\_\_\_, California

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## OFFICIAL STATEMENT

[\$Par Amount]\*

### CITY AND COUNTY OF SAN FRANCISCO CERTIFICATES OF PARTICIPATION, SERIES 201\_\_\_\_ (REHABILITATION DETENTION FACILITY PROJECT)

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

## INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City and County of San Francisco (the “City”) of its City and County of San Francisco Certificates of Participation, Series 201\_\_\_\_ (Rehabilitation Detention Facility Project) (the “Certificates”). Any capitalized term not defined herein will have the meaning given to such term in APPENDIX C: “SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Definitions.” The references to any legal documents, instruments and the Certificates in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions.

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

*Overview of the Transaction.* The City, exercising its Charter powers to convey and lease property for City purposes, will convey certain real property to [Trustee], as trustee (the “Trustee”) under the Facilities Lease dated as of \_\_\_\_\_ 1, 201\_\_, by and between the City, as lessor, and the Trustee, as lessee (the “Facilities Lease”), at a nominal annual rent. The Trustee will lease the Leased Property (as defined hereafter) back to the City for the City’s use under the Lease Agreement dated as of \_\_\_\_\_ 1, 201\_\_, by and between the Trustee and the City (the “Lease Agreement”). The Leased Property generally consists of \_\_\_\_\_. See “THE PROJECT AND THE LEASED PROPERTY.” The City will be obligated under the Lease Agreement to pay Base Rental payments and other payments to the Trustee each year during the term of the Lease Agreement (subject to certain conditions under which Base Rental may be “abated” as discussed herein). Each payment of Base Rental will consist of principal and interest components, and when received by the Trustee in each rental period, will be deposited in trust for payment of the Certificates. The Trustee will create the “certificates of participation” in the Lease Agreement, representing proportional interests in the principal and interest components of Base Rental it will receive from the City. The Trustee will apply Base Rental it receives to pay principal and interest with respect to each Certificate when due according to the Trust Agreement dated as of \_\_\_\_\_ 1, 201\_\_, by and between the City and the Trustee (the “Trust Agreement”), which governs the security and terms of payment of the Certificates. The money received from the sale of the Certificates will be applied by the Trustee, at the City’s direction, to finance or refinance the acquisition, construction and installation of improvements to a detention facility located at \_\_\_\_\_ (as further described herein, the “Project”). [The Project is not a part of the Leased Property. ] See “THE PROJECT AND THE LEASED PROPERTY” herein.

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



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

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

## **THE CITY AND COUNTY OF SAN FRANCISCO**

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

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

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

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

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

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

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City in November 2011. The City's adopted budget for fiscal years 2015-16 and 2016-17 totals \$8.91 billion and \$8.92 billion, respectively. The General Fund portion of each year's adopted budget is \$4.59 billion in fiscal year 2015-16 and \$4.68 billion in fiscal year 2016-17, with the balance being allocated to all other funds, including enterprise fund departments, such as SFO, the San Francisco Municipal Transportation Agency, the Port Commission and the San Francisco Public Utilities Commission. The City employed 29,236 full-time-equivalent employees at the end of fiscal year 2013-14. According to the Controller of the City (the "Controller"), the fiscal year 2014-15 total net assessed valuation of taxable property in the City is approximately \$181.8 billion.

More detailed information about the City's governance, organization and finances may be found in APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_."

## **THE CERTIFICATES**

### **Authority for Execution and Delivery**

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

The Trust Agreement, the Facilities Lease, and the Lease Agreement were approved by the Board of Supervisors of the City by its Resolution No. \_\_\_\_\_, adopted by the Board of Supervisors on \_\_\_\_\_ and approved by the Mayor on \_\_\_\_\_, and the sale of the Certificates was authorized by Resolution No. \_\_\_\_\_, adopted by the Board of Supervisors on \_\_\_\_\_ and approved by the Mayor on \_\_\_\_\_ (collectively, the "Resolution"). The Resolution authorized the execution and delivery of up to \$\_\_\_\_\_ aggregate principal amount of the Certificates under the Trust Agreement and the payment of a maximum annual Base Rental payment under the Lease Agreement. Under Section 9.108 of the Charter of the City, the City is authorized to enter into lease-financing agreements with a public agency or nonprofit corporation only with the assent of the majority of the voters voting upon a proposition for the purpose. The lease-financing arrangements with the Trustee for the Certificates do not fall under this provision, since the Trustee is neither a public agency nor a nonprofit corporation.

### **Payment of Principal and Interest**

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

Interest evidenced and represented by the Certificates will be payable on \_\_\_\_\_ 1 and \_\_\_\_\_ 1 of each year, commencing on \_\_\_\_\_ 1, 201\_\_ (each, an "Interest Payment Date") and continuing to and including their

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

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

## **Form and Registration**

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

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

## **Prepayment of the Certificates**

### *Optional Prepayment*

The 201\_\_ Certificates with a Certificate Payment Date on or after \_\_\_\_\_, are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part on any date on or after \_\_\_\_\_, at the option of the City, in the event the City exercises its option under the Lease Agreement to prepay the principal component of the Base Rental payments at a prepayment price equal to 100% of the principal component to be prepaid, plus accrued interest to the date fixed for prepayment, without premium.

In the event the City gives notice to the Trustee of its intention to exercise such option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the City will continue to pay the Base Rental payments as if no such notice were given.

### *Special Mandatory Prepayment*

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

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

*Mandatory Sinking Account Installment Prepayment\**

The Certificates with a Certificate Payment Date of \_\_\_\_\_ 1, 20\_\_ are subject to sinking account installment prepayment prior to their stated final Certificate Payment Date, in part, by lot, from scheduled payments of the principal component of Base Rental payments, at the principal amount thereof, plus accrued interest to the prepayment date, without premium, on \_\_\_\_\_ 1 in each of the years and in the amounts set forth below:

Sinking Account Payment Date (_____ 1)	Sinking Account Installment Amount
--	---------------------------------------

†

† Final Certificate Payment Date.

*Selection of Certificates for Prepayment*

Whenever provision is made in the Trust Agreement for the prepayment of Certificates (other than from Sinking Account Installments) and less than all Outstanding Certificates are to be prepaid, the City will direct the principal amount of each Certificate Payment Date to be prepaid. Within a maturity, the Trustee, with the consent of the City, will select Certificates for prepayment by lot in any manner that the Trustee in its sole discretion deems fair and appropriate. The Trustee will promptly notify the City in writing of the Certificates so selected for prepayment. Prepayment by lot will be in such manner as the Trustee determines; provided, however, that the portion of any Certificate to be prepaid will be in Authorized Denominations and all Certificates to remain Outstanding after any prepayment in part will be in Authorized Denominations.

*Notice of Prepayment*

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

Each notice of prepayment will specify: (i) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (ii) the date of prepayment, (iii) the place or places where the prepayment will be made, including the name and address of the Trustee, (iv) the prepayment price, (v) the CUSIP numbers (if any) assigned to the Certificates to be prepaid, (vi) the Certificate numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the amount of such Certificate to be prepaid, and (vii) the original issue date and stated Certificate Payment Date of each Certificate to be prepaid in whole or in part. Such Prepayment Notice will further state that on the specified date there will become due and payable with respect to each Certificate or portion thereof being prepaid the prepayment price, together with interest represented thereby accrued but unpaid to the prepayment date, and that from and after such date, if sufficient funds are available for prepayment, interest with respect thereto will cease to accrue and be payable.

\* Preliminary, subject to change.

Neither failure to receive any prepayment notice nor any defect in such prepayment notice so given will affect the sufficiency of the proceedings for the prepayment of such Certificates. Each check or other transfer of funds issued by the Trustee for the purpose of prepaying Certificates will bear the CUSIP number identifying, by issue, series and maturity, the Certificates being prepaid with the proceeds of such check or other transfer.

#### *Conditional Notice of Prepayment; Cancellation of Optional Prepayment*

The City may direct the Trustee to provide a conditional notice of prepayment and such notice will specify its conditional status. Any notice of prepayment may be rescinded by notice delivered in the same manner as the original notice of prepayment.

Notwithstanding any other provision of the Trust Agreement, a conditional prepayment notice may be provided and if the Certificates are subject to optional prepayment and the Trustee does not have on deposit moneys sufficient to prepay the principal, plus the applicable premium, if any, represented by the Certificates proposed to be prepaid on the date fixed for prepayment, and interest with respect thereto, on or prior to such date, the prepayment will be canceled and in each and every such case, the City, the Trustee and the Owners, as the case may be, will be restored to their former positions and rights hereunder. Such a cancellation of a prepayment will not constitute a default under the Trust Agreement nor an event that with the passage of time or giving of notice or both will constitute a default under the Trust Agreement and the Trustee and the City will have no liability from such cancellation. In the event of such cancellation, the Trustee will send notice of such cancellation to the Owners in the same manner as the related notice of prepayment. Neither the failure to receive such cancellation notice nor any defect therein shall affect the sufficiency of such cancellation.

#### *Partial Prepayment*

Upon the surrender of any Certificate prepaid in part only, the Trustee will execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates of Authorized Denominations equal to the unprepaid portion of the Certificates surrendered and of the same Certificate Payment Date and interest rate. Such partial prepayment will be valid upon payment of the amount required to be paid to such Owner, and the City and the Trustee will be released and discharged thereupon from all liability to the extent of such payment.

#### *Effect of Prepayment*

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

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

#### *Purchase of Certificates*

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

**THE PROJECT AND THE LEASED PROPERTY**

**The Project.** A portion of the proceeds of the Certificates will be used to finance or refinance the costs of the acquisition, construction and installation of improvements to a detention facility located at \_\_\_\_\_ (the “Project”).

*[Description of Project to come – use of the facility, cost of construction, construction schedule.]*

See “ESTIMATED SOURCES AND USES OF FUNDS” herein for a further description of the expected application of proceeds of sale of the Certificates.

[The Project is not part of the Leased Property.]

**The Leased Property.** [The Leased Property consists of a portion of the San Francisco General Hospital, located at Lot 001, Block 4154, at 1001 Potrero Avenue, San Francisco, California.] *[Additional description of Leased Property to come.]*

**ESTIMATED SOURCES AND USES OF FUNDS**

Following is a table of estimated sources and uses of funds with respect to the Certificates:

**Sources of Funds:**

Certificate Par Amount .....
Net Original Issue Premium .....
Less: Purchaser’s Discount.....
<i>Total Sources</i> .....

**Uses of Funds:**

Project Fund.....
[Base Rental Fund <sup>(1)</sup> .....
Reserve Fund .....
Costs of Delivery <sup>(2)</sup> .....
<i>Total Uses</i> .....

<sup>(1)</sup> [Represents capitalized interest through \_\_\_\_\_.]

<sup>(2)</sup> Includes amounts for legal fees, Trustee’s fees and expenses, financial advisory fees, rating agency fees, appraisals and property condition report fees, escrow and title insurance fees, rounding amounts, printing costs and any other delivery costs.

## BASE RENTAL PAYMENT SCHEDULE

The Lease Agreement requires the City to make Base Rental payments in arrears on each \_\_\_\_\_ and \_\_\_\_\_, commencing \_\_\_\_\_, 201\_\_, in payment for the use and occupancy of the Leased Property during the term of the Lease Agreement.

The Trust Agreement requires that Base Rental payments be deposited in the Base Rental Fund maintained by the Trustee. Pursuant to the Trust Agreement, on \_\_\_\_\_ 1 and \_\_\_\_\_ 1 of each year, commencing on \_\_\_\_\_ 1, 201\_\_, the Trustee will apply such amounts in the Base Rental Fund as are necessary to make principal and interest payments with respect to the Certificates as the same become due and payable, as shown in the following table.

Payment Date	Principal	Interest	Debt Service	Fiscal Year Debt Service
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## SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

### Source of Payment

The Certificates will evidence and represent proportionate interests in the Base Rental payments required to be made by the City to the Trustee under the Lease Agreement so long as the City has use and occupancy of the Leased Property. The Lease Agreement terminates on \_\_\_\_\_ 1, 20\_\_, or upon early payment of all of the Certificates in accordance with the Trust Agreement, unless extended upon the event of abatement. See “Abatement of Base Rental Payments” below.

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

## **Covenant to Budget**

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

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

The obligation of the City to make Rental Payments is an obligation payable from any legally available funds of the City. For a discussion of the budget and finances of the City, see APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – City Budget" and APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 20\_\_." For a discussion of the City's investment policy regarding pooled cash, see APPENDIX G: "CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER INVESTMENT POLICY."

## **Limited Obligation**

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

## **Base Rental Payments; Additional Rental**

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

Base Rental payments will be payable by the City on \_\_\_\_\_ and \_\_\_\_\_ of each year during the term of the Lease, commencing \_\_\_\_\_, 201\_\_, provided that any such payment will be for that portion of the applicable period that the City has use and occupancy of all or a portion of the Leased Property. In the event that during any such period the City does not have use and occupancy of all or a portion of the Leased Property due to material damage to, destruction of or condemnation of or defects in the title to the Leased Property, Base Rental payments are subject to abatement. See "– Abatement of Base Rental Payments" and "CERTAIN RISK FACTORS – Abatement." The obligation of the City to make Base Rental payments is payable solely from annual appropriations of the City from any legally available funds of the City and the City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental and Additional Rental due under the Lease Agreement as a separate line item in its annual budget and to make necessary annual appropriations for all such Base Rental and Additional Rental, subject to the abatement provisions under the Lease Agreement. See "– Covenant to Budget" above.

*Additional Rental.* Additional Rental payments due from the City to the Trustee include, among other things, amounts sufficient to pay any taxes and insurance premiums, and to pay all fees, costs and expenses of the



Trustee in connection with the Trust Agreement, deposits required to be made to the Rebate Fund, if any, and all other fees, costs and expenses of the Trustee incurred from time to time in administering the Lease Agreement and the Trust Agreement. The City is also responsible for repair and maintenance of the Leased Property during the term of the Lease Agreement.

### **Abatement of Base Rental Payments**

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

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

In order to mitigate the risk that an abatement event will cause a disruption in payment of Base Rental, the Lease Agreement requires the City to maintain rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Facilities Lease for a period of at least 24 months. Pursuant to the Lease Agreement, rental interruption insurance is required to insure only against loss of rental income from the Leased Property caused by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by the City's all risk property insurance on the Leased Property. The City is not required to maintain earthquake or flood insurance (or rental interruption insurance relating to such coverage) under the Lease Agreement [and the City does not currently have earthquake or flood insurance on the Leased Property.] See "– Insurance with Respect to the Leased Property" below. During any period of abatement with respect to all or any part of the Leased Property, the Trustee is required to use the proceeds of the rental interruption insurance to make payments of principal and interest represented by the Certificates. The City is also required by the Lease Agreement to use insurance proceeds to replace or repair Leased Property destroyed or damaged to the extent that there is substantial interference with the City's use and occupancy, or to prepay Certificates such that resulting Rental Payments are sufficient to pay all amounts due under the Lease Agreement and the Trust Agreement with respect to the Certificates remaining Outstanding. See "– Replacement, Maintenance and Repairs" below. In lieu of abatement of Rental Payments, the City in its sole discretion may elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to the substitution provisions of the Lease Agreement. See "– Substitution, Release and Addition of Leased Property" below. In addition, the Trust Agreement establishes a Reserve Fund and requires the Trustee to use any moneys on deposit in the Reserve Fund to make payments of principal and interest represented by the Certificates. See "– Reserve Fund" below.

### **Reserve Fund**

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee. Simultaneously with the delivery of the Certificates, the City will cause to be deposited into the Reserve Fund established under the Trust Agreement a portion of the proceeds of the Certificates, which amount will be at least equal to the Reserve Requirement. The Reserve Requirement with respect to the Certificates means, as of any date of calculation, the

least of (i) the maximum annual principal and interest evidenced by the Certificates payable in the then current Fiscal Year or any future Fiscal Year, (ii) 125% of average annual principal and interest evidenced by the Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Certificates, or (iii) 10% of the stated principal amount evidenced by the Certificates (less original issue discount if in excess of two percent of the stated redemption price at maturity) originally executed and delivered. On the date of execution and delivery of the Certificates, the Reserve Requirement is \$\_\_\_\_\_.

The Reserve Fund is required to be maintained by the Trustee until the Base Rental is paid in full pursuant to the Lease Agreement or until there are no longer any Certificates Outstanding; provided, however, that the Reserve Fund may be used to pay a portion of the final Base Rental Payment.

A Credit Facility in the amount of the Reserve Requirement may be substituted by the City at any time for all or a portion of the funds held by the Trustee in the Reserve Fund, provided that (i) such substitution will not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Certificates at the time of such substitution (and the City will notify each Rating Agency prior to making any such substitution), as confirmed by each applicable Rating Agency in writing, and (ii) the Trustee receives an opinion of Independent Counsel stating that such substitution will not, by itself, adversely affect the exclusion from gross income for federal income tax purposes of interest components of the Base Rental evidenced and represented by the Certificates. If the Credit Facility is a surety bond or insurance policy, such Credit Facility will be for the term of the Certificates. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted will be transferred as directed in writing by a City Representative.

If on any Interest Payment Date the amounts on deposit in the Base Rental Fund are less than the principal and interest payments due with respect to the Certificates on such date, the Trustee will transfer from the Reserve Fund for credit to the Base Rental Fund an amount sufficient to make up such deficiency. In the event of any such transfer, the Trustee will immediately provide written notice to the City of the amount and the date of such transfer.

### **Replacement, Maintenance and Repairs**

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

### **Insurance with Respect to the Leased Property**

The Lease Agreement requires the City to maintain or cause to be maintained throughout the term of the Lease Agreement: (i) general liability insurance against damages occasioned by construction of improvements to or operation of the Leased Property with minimum coverage limits of \$5,000,000 combined single limit for bodily and

personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage maintained or caused by the City to be maintained; (ii) all risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of Certificates, with such insurance covering, as nearly as practicable, loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance (excluding earthquakes and flood), including a replacement cost endorsement; (iii) boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than \$5,000,000 per accident; and (iv) rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Lease Agreement for a period of 24 months (such amount may be adjusted to reflect the actual scheduled Base Rental payments due under the Lease Agreement for the next succeeding 24 months) to insure against loss of rental income from the Leased Property caused by perils covered by the insurance described in (ii) above. All policies of insurance required under the Lease Agreement may provide for a deductible amount that is commercially reasonable as determined by the City Risk Manager.

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

The City is not required to maintain earthquake or flood insurance (or rental interruption insurance relating to such coverage) under the Lease Agreement and the City does not currently have earthquake or flood insurance on the Leased Property.

THE CITY MAY SELF-INSURE AGAINST ANY OF THE RISKS REQUIRED TO BE INSURED AGAINST IN THE LEASE, EXCEPT FOR SELF-INSURANCE FOR RENTAL INTERRUPTION INSURANCE AND TITLE INSURANCE. [The City expects to self-insure for general liability insurance only.]

### **Eminent Domain**

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

### **Substitution, Release, and Addition of Leased Property**

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

## **CERTAIN RISK FACTORS**

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

### **City Long Term Challenges**

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

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

In addition, the City faces long term challenges with respect to the management of pension and post-employment retirement obligations. The City has taken significant steps to address long-term unfunded liabilities for employee pension and other post-employment benefits, including retiree health obligations, yet significant liabilities remain. The most recent actuarial analyses estimate unfunded actuarial liabilities of over \$7 billion for these benefits, comprised of \$4.0 billion for retiree health obligations and \$3.4 billion for employee pension benefits. In recent years, the City and voters have adopted significant changes that should mitigate these unfunded liabilities over time, including adoption of lower-cost benefit tiers, increases to employee and employer contribution requirements, and establishment of a trust fund to set-aside funding for future retiree health costs. The financial benefit from these changes will phase in over time, however, leaving ongoing financial challenges for the City in the shorter term. Further, the size of these liabilities is based on a number of assumptions, including but not limited to assumed investment returns and actuarial assumptions. It is possible that actual results will differ materially from current assumptions, and such changes in investment returns or other actuarial assumptions could increase budgetary pressures on the City.

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

There is no assurance that other challenges not discussed here may become material to investors in the future. For more information, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_."

### **Rental Payments Not a Debt of the City**

**The obligation of the City to make Base Rental or Additional Rental payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any**

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

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

### **Additional Obligations**

Subject to certain City Charter restrictions, the City may incur other obligations, which may constitute additional charges against its revenues, without the consent of the Owners of the Certificates. To the extent that the City incurs additional obligations, the funds available to make payments of Base Rental may be decreased. The City is currently liable on other obligations payable from its general revenues. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – General Obligation Bonds Authorized but Unissued," "– Overlapping Debt," and "– Lease Payments and Other Long-Term Obligations." See also APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_."

### **Abatement**

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

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

In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Reserve Fund after such payments may be less than the Reserve Fund Requirement. The City is not required by the Lease Agreement or the Trust Agreement, and cannot be compelled, to replenish the Reserve Fund to the Reserve Fund Requirement.

It is not possible to predict the circumstances under which such an abatement of Base Rental Payments may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the Lease

Agreement or at the time of the abatement. If the latter, it may be that the value of the Leased Property is substantially higher or lower than its value at the time of execution and delivery of the Certificates. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Certificates.

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

Notwithstanding the provisions of the Lease Agreement and the Trust Agreement specifying the extent of abatement in the event of the City's failure to have use and possession of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental payments of the City may not be sufficient to pay all of that portion of the remaining principal and interest with respect to the Certificates.

### **Reserve Fund**

At the time of delivery of the Certificates, proceeds of the Certificates in the amount of the Reserve Requirement will be deposited in the Reserve Fund. In the event of abatement or default, the amounts on deposit in the Reserve Fund may be significantly less than the amount of Base Rental due at the time of abatement or default. The City has no obligation to restore the Reserve Fund if it is used to pay Base Rental.

### **Limited Recourse on Default; No Re-letting**

The Lease Agreement and the Trust Agreement provide that, if there is a default by the City, the Trustee has the right, at its option, without any further demand or notice, so long as the Trustee does not terminate the Lease Agreement or the City's possession of the Leased Property, to enforce all of its rights and remedies under the Lease Agreement, including the right to recover Base Rental Payments as they become due. The Trustee or any assignee of the rights of the Trustee under the Lease Agreement will not exercise its remedies under the Lease Agreement so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or the interest with respect to the Certificates to be subject to State personal income tax.

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

[Under the Lease Agreement, The Trustee waives any right of the Trustee to re-let the Leased Property.]

### **Enforcement of Remedies**

The enforcement of any remedies provided in the Lease Agreement and the Trust Agreement could prove both expensive and time consuming. The rights and remedies provided in the Lease Agreement and the Trust Agreement may be limited by and are subject to the limitations on legal remedies against cities and counties in the State, including State constitutional limits on expenditures and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a

significant and legitimate public purpose, and the limitations on remedies against municipal corporations in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

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

### **No Acceleration on Default**

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

### **Release and Substitution of the Leased Property**

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

### **Bankruptcy**

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

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies such as the City. Third parties, however, cannot bring involuntary bankruptcy proceedings against the City. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the rights of the Owners of the Certificates may be materially and adversely affected as follows: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment superior

to that of Owners of the Certificates; and (iv) the possibility of the adoption of a plan (an “Adjustment Plan”) for the adjustment of the City’s various obligations over the objections of the Trustee or all of the Owners of the Certificates and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners of the Certificates if the Bankruptcy Court finds that such Adjustment Plan is “fair and equitable” and in the best interests of creditors. The adjustment of similar obligations is currently being litigated in federal court in connection with bankruptcy applications by the cities of San Bernardino and Stockton. The Adjustment Plans in these cities propose significant reductions in the amounts payable by the cities under lease revenue obligations substantially similar to the Certificates. The City can provide no assurances about the outcome of the bankruptcy cases of other California municipalities or the nature of any Adjustment Plan if it were to file for bankruptcy. The City is not currently considering filing for protection under the Bankruptcy Code.

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

### **Seismic Risks**

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

Active earthquake faults underlie both the City and the surrounding Bay Area, including the San Andreas Fault, which passes about 3 miles to the southeast of the City’s border, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away. Significant recent seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of the City, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires, building collapses, and structural damage to buildings and highways in the City and environs. The San Francisco-Oakland Bay Bridge, the only east-west vehicle access into the City, was closed for a month for repairs, and several highways in the City were permanently closed and eventually removed.

In 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.

### **Climate Change Regulations**

The U.S. Environmental Protection Agency (the “EPA”) has taken steps towards the regulation of greenhouse gas (“GHG”) emissions under existing federal law. On December 14, 2009, the EPA made an “endangerment and cause or contribute finding” under the Clean Air Act, codified at 40 C.F.R. 1. In the finding, the EPA determined that the body of scientific evidence supported a finding that six identified GHGs – carbon dioxide,



methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The EPA also found that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. This finding requires that the EPA regulate emissions of certain GHGs from motor vehicles.

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

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

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

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

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

The City is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the City and the local economy. The San Francisco Public Utilities Commission has planned and commenced flood control improvements throughout the City; however, the City cannot guarantee that such improvements will mitigate the impacts of flooding to the City.

### **Natural Gas Transmission and Distribution Pipelines**

In September 2010, a Pacific Gas and Electric Company (“PG&E”) high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. There are numerous gas transmission and distribution pipelines owned, operated and maintained by PG&E throughout the City. The City cannot provide any assurances as to the condition of PG&E pipelines in the City, or predict the extent of damage to surrounding

property that would occur if a PG&E pipeline located within the City were to explode. The obligation of the City to make payments of Base Rental may be abated if the Leased Property or any improvements thereon are damaged or destroyed by a pipeline explosion. There can be no assurance that the Leased Property would not be damaged in whole or in part by a pipeline explosion.

### **Other Events**

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

### **Risk Management and Insurance**

The Lease Agreement obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property. The City is also required to maintain rental interruption insurance in an amount equal to but not less than 24 months' Base Rental payments. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest with respect to the Certificates when due.

The Lease Agreement allows the City to self-insure against any or all risks, except rental interruption and title defects, through an alternative risk management program such as its risk management retention program. The City expects to self-insure for all hazards for which the Lease Agreement permits self-insurance. *[Confirm.]* See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – LITIGATION AND RISK MANAGEMENT – Risk Retention Program."

### **State Law Limitations on Appropriations**

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

### **Changes in Law**

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives or that the State Legislature or the City's Board of Supervisors will not enact legislation that will amend the laws or the Constitution of the State or the Charter, respectively, in a manner that could result in a reduction of the City's General Fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Articles XIII C and XIII D of the California Constitution."

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

### **State of California Financial Condition**

The City receives a significant portion of its funding from the State. The City's fiscal year 2015-16 Annual Appropriation Ordinance projects that approximately \$655.4 million or 14.3% of the City's \$4.59 billion General Fund revenues will come from State sources. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – Impact of the State of California Budget on Local Finances."

Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City. The City cannot predict the extent of the budgetary problems the State may encounter in this or in any future fiscal years, nor is it clear what measures could be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the outcome of any elections impacting fiscal matters, the outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

### **U.S. Government Finances**

The City receives substantial federal funds for assistance payments, social service programs and other programs. The City's fiscal year 2015-16 Annual Appropriation Ordinance projects that approximately \$245.6 million or 5.4% of the City's \$4.59 billion General Fund revenues will come from federal sources. A portion of the City's assets are also invested in securities of the United States government. The City's finances may be adversely impacted by fiscal matters at the federal level, including but not limited to cuts to federal spending. On March 1, 2013 automatic spending cuts to federal defense and other discretionary spending (referred to as "sequestration") went into effect, and Congress was unable to enact a regular budget or a continuing resolution for the 2014 fiscal year, which began on October 1, 2013. As a result, certain appropriations lapsed on October 1, 2013 and the United States federal government entered a partial shutdown with furloughs of certain federal workers and suspension of certain services not exempted by law until October 16, 2013. Among other impacts, the City's receipt of federal subsidies for the interest payments on its obligations issued as "Build America Bonds" was delayed (the City's payment of interest on such obligations is not dependent upon federal subsidies and were not adversely affected by such delay). The City cannot predict the outcome of future federal budget deliberations. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances." See also APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – OTHER CITY TAX REVENUES" and "– INVESTMENT OF CITY FUNDS."

### **Other**

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

## TAX MATTERS

### Tax Exemption

The delivery of the Certificates is subject to delivery of the opinion of Co-Special Counsel, to the effect that interest evidenced by the Certificates for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates (the “Code”), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The delivery of the Certificates is also subject to the delivery of the opinion of Co-Special Counsel, based upon existing provisions of the laws of the State of California that interest evidenced by the Certificates is exempt from personal income taxes of the State of California. The form of Co-Special Counsel’s anticipated opinion is included as APPENDIX F. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

Interest evidenced by the Certificates owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (“FASIT”). A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Co-Special Counsel will rely upon the representations and certifications of the City made in a certificate of even date with the initial delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Lease Agreement and the Trust Agreement by the City subsequent to the issuance of the Certificates. The Lease Agreement, the Trust Agreement and the Tax Certificate contain covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the calculation and payment to the United States Treasury of any “arbitrage profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest evidenced by the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Except as described above, Co-Special Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Co-Special Counsel’s opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) or the State of California with respect to the matters addressed in the opinion of Co-Special Counsel, and Co-Special Counsel’s opinion is not binding on the IRS or the State of California. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures, the IRS is likely to treat the City as the “taxpayer,” and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest evidenced by the Certificates, the City may have different or conflicting interests from the owners of the

Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to Certificate holders of the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### **Tax Accounting Treatment of Discount and Premium on Certain Certificates**

The initial public offering price of certain Certificates (the “Discount Certificates”) may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest evidenced by the Certificates described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price of certain Certificates (the “Premium Certificates”) may be greater than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of

premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Certificates for federal income purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

## **OTHER LEGAL MATTERS**

Certain legal matters incident to the authorization, issuance and sale of the Certificates and with regard to the tax status of the interest represented by the Certificates (see "TAX MATTERS" herein) are subject to the separate legal opinions of Norton Rose Fulbright US LLP, Los Angeles, California and Curls Bartling, P.C., Oakland, California, Co-Special Counsel. The signed legal opinions of Co-Special Counsel, dated and premised on facts existing and law in effect as of the date of original delivery of the Certificates, will be delivered to the initial purchasers of the Certificates at the time of original delivery of the Certificates.

The proposed form of the legal opinions of Co-Special Counsel are set forth in APPENDIX F hereto. The legal opinions to be delivered may vary that text if necessary to reflect facts and law on the date of delivery. The opinions will speak only as of their date, and subsequent distributions of it by recirculation of this Official Statement or otherwise will create no implication that Co-Special Counsel have reviewed or express any opinion concerning any of the matters referred to in the opinion subsequent to its date. Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel.

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

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

## **PROFESSIONALS INVOLVED IN THE OFFERING**

KNN Public Finance and Backstrom McCarley Berry & Co., LLC have served as Co-Financial Advisors to the City with respect to the sale of the Certificates. The Co-Financial Advisors have assisted the City in the City's review and preparation of this Official Statement and in other matters relating to the planning, structuring, and sale of the Certificates. The Co-Financial Advisors have not independently verified any of the data contained herein nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors, Co-Special Counsel and Disclosure Counsel will all receive compensation from the City contingent upon the sale and delivery of the Certificates.

## **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the City (the “Annual Report”) not later than 270 days after the end of the City’s fiscal year (which currently ends on June 30), commencing with the report for fiscal year 20\_\_\_\_, which is due not later than March \_\_\_\_\_, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board (“MSRB”). The notices of enumerated events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX D: “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the initial purchasers of the Certificates in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). In the last five years, the City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of enumerated events.

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

## **ABSENCE OF LITIGATION**

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

## **RATINGS**

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

## **SALE OF CERTIFICATES**

The Certificates were sold at competitive bid on \_\_\_\_\_, 2016. The Certificates were awarded to \_\_\_\_\_ (the “Purchaser”), who submitted the lowest true interest cost bid, at a purchase price of \$\_\_\_\_\_. Under the terms of its bid, the Purchaser will be obligated to purchase all of the Certificates if any are purchased; the obligation to make such purchase is subject to the approval of certain legal matters by Co-Special Counsel and certain other conditions to be satisfied by the City.

The Purchaser has certified the reoffering prices or yields for the Certificates set forth on the inside cover of this Official Statement, and the City takes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the net original issue premium on the reoffering of the Certificates is \$\_\_\_\_\_, and the Purchaser’s gross compensation (or “spread”) is \$\_\_\_\_\_. The Purchaser may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Purchaser.

**MISCELLANEOUS**

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

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

**CITY AND COUNTY OF SAN FRANCISCO**

By: \_\_\_\_\_  
Benjamin Rosenfield  
Controller



**APPENDIX A**

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

**APPENDIX B**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE  
CITY AND COUNTY OF SAN FRANCISCO  
FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_**

[to be attached]

**APPENDIX C**

**SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS**

*The following summary discussion of selected features of the Trust Agreement, the Facilities Lease and the Lease Agreement, all dated as of \_\_\_\_\_ 1, 201\_\_, are made subject to all of the provisions of such documents and to the discussions of such documents contained elsewhere in this Official Statement. This summary does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the City through the Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102-4682.*

[to come from Co-Special Counsel]

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

[\$Par Amount]\*

#### CITY AND COUNTY OF SAN FRANCISCO CERTIFICATES OF PARTICIPATION, SERIES 201\_\_\_\_ (REHABILITATION DETENTION FACILITY PROJECT)

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City and County of San Francisco (the “City”) in connection with the delivery of the certificates of participation captioned above (the “Certificates”). The Certificates are issued pursuant to that certain Trust Agreement (the “Trust Agreement”), dated as of \_\_\_\_\_ 1, 201\_\_, between the City and [Trustee], as trustee (the “Trust Agreement”). Pursuant to Section 8.10 of the Trust Agreement and Section 4.8 of that certain Lease Agreement dated as of \_\_\_\_\_ 1, 201\_\_, by and between the Trustee and the City, the City covenants and agrees as follows:

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

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

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

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

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

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

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

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

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

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

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

(a) The City will, or will cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 20\_\_ Fiscal Year (which is due not later than March \_\_\_\_\_), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City will provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City will submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's fiscal year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(b).

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

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

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

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

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

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

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

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

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

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

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

(a) To the extent applicable and pursuant to the provisions of this Section 5, the City will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates:

(1) Principal and interest payment delinquencies;

- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on any debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
- (7) Modifications to the rights of Certificate holders, if material;
- (8) Certificate calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Certificates, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) Consummation of a merger, consolidation or acquisition involving an obligated person of the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee.

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

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

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

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

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

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

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

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

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

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

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

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

Date: \_\_\_\_\_.

**CITY AND COUNTY OF SAN FRANCISCO**

\_\_\_\_\_  
Benjamin Rosenfield  
Controller

Approved as to form:

DENNIS J. HERRERA  
CITY ATTORNEY

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

**CONTINUING DISCLOSURE CERTIFICATE – EXHIBIT A**

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO  
Name of Issue: CITY AND COUNTY OF SAN FRANCISCO  
CERTIFICATES OF PARTICIPATION, SERIES 201\_\_\_\_  
(REHABILITATION DETENTION FACILITY PROJECT)  
Date of Delivery: \_\_\_\_\_

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

Dated: \_\_\_\_\_

CITY AND COUNTY OF SAN FRANCISCO

By: \_\_\_\_\_ [to be signed only if filed]  
Title: \_\_\_\_\_



## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

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

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

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC is rated “AA+” by Standard & Poor’s. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

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

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

**APPENDIX F**

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

[To come]

**APPENDIX G**

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