

APPENDIX A

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

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

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

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

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CITY GOVERNMENT

City Charter

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

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

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

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

Mayor and Board of Supervisors

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

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

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

TABLE A-1

**CITY AND COUNTY OF SAN FRANCISCO
Board of Supervisors**

| Name | First Elected or Appointed | Current Term Expires |
|--|----------------------------|----------------------|
| Eric Mar, <i>District 1</i> | 2008 | 2017 |
| Mark Farrell, <i>District 2</i> | 2010 | 2015 |
| David Chiu, <i>Board President, District 3</i> | 2008 | 2017 |
| Katy Tang, <i>District 4</i> | 2013 | 2014 |
| London Breed, <i>District 5</i> | 2012 | 2017 |
| Jane Kim, <i>District 6</i> | 2010 | 2015 |
| Norman Yee, <i>District 7</i> | 2012 | 2017 |
| Scott Wiener, <i>District 8</i> | 2010 | 2015 |
| David Campos, <i>District 9</i> | 2008 | 2017 |
| Malia Cohen, <i>District 10</i> | 2010 | 2015 |
| John Avalos, <i>District 11</i> | 2008 | 2017 |

Other Elected and Appointed City Officers

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

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

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

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

budget for each fiscal year and worked on behalf of the Mayor to manage City spending during the course of each year. From 1997 to 2001, Mr. Rosenfield worked as an analyst in the Mayor's Budget Office and a project manager in the Controller's Office.

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

CITY BUDGET

Overview

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

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. In July 2013, the City adopted a full two-year budget. The City's fiscal year 2013-14 adopted budget appropriates annual revenues, fund balance, transfers, and reserves of approximately \$7.91 billion, of which the City's General Fund accounts for approximately \$3.95 billion. In fiscal year 2014-15 appropriated revenues, fund balance, transfers and reserves total approximately \$7.93 billion and \$4.05 billion of General Fund budget. For a further discussion of the fiscal years 2013-14 and 2014-15 adopted budgets, see "City Budget Adopted for Fiscal Years 2013-14 and 2014-15" herein.

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

Budget Process

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

Under the Charter, following the submission of the Mayor's proposed budget, the City Controller must provide an opinion to the Board of Supervisors regarding the accuracy of economic assumptions underlying the revenue

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

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

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

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

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

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

Proposition A requires three significant changes:

- Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets were approved in July 2012 by the Board of Supervisors for four departments for fiscal year 2012-13 and 2013-14: the Airport, the Port, the Public Utilities Commission, and MTA. All other departments prepared balanced, rolling two-year budgets beginning in fiscal year 2012-13.
- Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The first five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was adopted by the Board of Supervisors on June 7, 2011, and was updated on March 7, 2012. A new five-year financial plan, covering fiscal years 2013-14 through 2017-18 was adopted by the Board of Supervisors on April 10, 2013. See "Five Year Financial Plan" below.
- Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions by May 15. Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt, and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year.

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

Role of Controller; Budgetary Analysis and Projections

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

Charter Section 3.105 directs the City Controller to issue periodic or special financial reports during the fiscal year. Each year, the City Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The City Controller issued the most recent of these reports, the fiscal year 2012-13 Nine Month Budget Status Report (the "Nine Month Report"), on May 9, 2013. In addition, under Proposition A of November 2009, the Mayor must submit a Five-Year Financial Plan every two years to the Board of Supervisors which forecasts revenues and expenditures for the next five fiscal years and proposes actions to balance them. On April 10, 2013, the Board of Supervisors approved the City's second Five-Year Financial Plan. For details see "Five Year Financial Plan" below. Finally, as discussed above, the City Charter directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 11, 2013 the Controller released the Discussion of the Mayor's FY 2013-14 and FY 2014-15 Proposed Budget (the "Revenue Letter"). All of these reports are available from the City Controller's website: www.sfcontroller.org. The information from said website is not incorporated herein by reference.

General Fund Results: Audited Financial Statements

The General Fund portions of the fiscal year 2013-14 and 2014-15 Original Budgets total \$3.95 billion, and \$4.05 billion respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port, and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2009-10 through 2012-13 and the Original Budgets for fiscal years 2013-14 through 2014-15. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR" which includes the City's audited financial statements) for fiscal year 2012-13 was issued on November 27, 2013. The fiscal year 2012-13 CAFR reported that as of June 30, 2013, the General Fund available for appropriation in subsequent years was \$240.4 million (see Table A-4), of which \$122.7 million was assumed in the fiscal year 2013-14 Original Budget and \$111.6 million was assumed in the fiscal year 2014-15 Original Budget, and \$6.1 million remains available for future appropriations. This represents a \$20.1 million increase in available fund balance over the \$220.3 million available as of June 30, 2012 and resulted primarily from savings and greater-than-budgeted additional tax revenue,

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

TABLE A-2

| CITY AND COUNTY OF SAN FRANCISCO | | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|-----------------------|---------------------|
| Budgeted General Fund Revenues and Appropriations for | | | | | | |
| Fiscal Years 2009-10 through 2014-15 | | | | | | |
| (000s) | | | | | | |
| | FY 2009-10 | FY 2010-11 | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 |
| | Final Revised | Final Revised | Final Revised | Final Revised | Original | Original |
| | Budget | Budget | Budget | Budget | Budget ^{2,3} | Budget ² |
| Prior-Year Budgetary Fund Balance & Reserves | \$390,512 | \$312,040 | \$427,886 | \$557,097 | \$156,426 | \$129,329 |
| <u>Budgeted Revenues</u> | | | | | | |
| Property Taxes | \$1,021,015 | \$984,843 | \$1,028,677 | \$1,078,083 | \$1,153,417 | \$1,220,417 |
| Business Taxes | 371,848 | 342,350 | 389,878 | 452,806 | 532,988 | 564,180 |
| Other Local Taxes | 456,140 | 528,470 | 602,455 | 733,295 | 846,924 | 869,812 |
| Licenses, Permits and Franchises | 25,138 | 23,242 | 24,337 | 25,332 | 23,061 | 25,533 |
| Fines, Forfeitures and Penalties | 11,662 | 3,794 | 7,710 | 7,194 | 9,097 | 9,435 |
| Interest and Investment Earnings | 10,984 | 9,547 | 6,050 | 6,776 | 10,946 | 11,010 |
| Rents and Concessions | 19,884 | 22,346 | 22,894 | 21,424 | 25,534 | 20,597 |
| Grants and Subventions | 686,058 | 681,090 | 679,486 | 721,967 | 780,936 | 782,440 |
| Charges for Services | 146,680 | 145,443 | 153,678 | 168,963 | 177,048 | 177,805 |
| Other | 21,713 | 30,929 | 19,232 | 24,844 | 14,301 | 21,175 |
| Total Budgeted Revenues | \$2,771,122 | \$2,772,054 | \$2,934,397 | \$3,240,685 | \$3,574,252 | \$3,702,404 |
| Bond Proceeds & Repayment of Loans | 1,725 | 785 | 589 | 627 | 1,105 | 760 |
| <u>Expenditure Appropriations</u> | | | | | | |
| Public Protection | \$954,816 | \$951,516 | \$991,840 | \$1,058,324 | \$1,130,932 | \$1,155,085 |
| Public Works, Transportation & Commerce | 44,276 | 25,763 | 53,878 | 68,351 | 80,797 | 111,993 |
| Human Welfare & Neighborhood Development | 657,274 | 650,622 | 677,953 | 670,958 | 700,254 | 717,018 |
| Community Health | 481,805 | 513,625 | 573,970 | 635,960 | 701,978 | 702,791 |
| Culture and Recreation | 93,755 | 100,043 | 99,762 | 105,580 | 119,579 | 115,632 |
| General Administration & Finance | 174,907 | 178,709 | 190,014 | 190,151 | 244,591 | 248,135 |
| General City Responsibilities ¹ | 96,336 | 88,755 | 99,274 | 86,527 | 96,975 | 102,802 |
| Total Expenditure Appropriations | \$2,503,169 | \$2,509,032 | \$2,686,691 | \$2,815,852 | \$3,075,105 | \$3,153,456 |
| Budgetary reserves and designations, net | \$16,653 | \$6,213 | \$11,112 | \$4,191 | \$69,883 | \$50,121 |
| Transfers In | \$94,678 | \$119,027 | \$160,187 | \$195,388 | \$217,982 | \$214,792 |
| Transfers Out | (564,945) | (504,740) | (567,706) | (646,018) | (804,777) | (843,708) |
| Net Transfers In/Out | (\$470,267) | (\$385,713) | (\$407,519) | (\$450,630) | (\$586,795) | (\$628,916) |
| Budgeted Excess (Deficiency) of Sources | | | | | | |
| Over (Under) Uses | \$173,270 | \$183,921 | \$257,550 | \$527,736 | \$0 | \$0 |
| Variance of Actual vs. Budget | 138,770 | 243,965 | 299,547 | 146,901 | | |
| Total Actual Budgetary Fund Balance³ | \$312,040 | \$427,886 | \$557,097 | \$674,637 | \$0 | \$0 |

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

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

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

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2013 was \$540.9 million (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$3.3 billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2009 through June 30, 2013.

TABLE A-3

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

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

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

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

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

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

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

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

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

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

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2013 are included herein as Appendix B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2013." Prior years' audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

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

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------------|--------------------|--------------------|--------------------|------------------------|
| Revenues: | | | | | |
| Property Taxes | \$999,528 | \$1,044,740 | \$1,090,776 | \$1,056,143 | \$1,122,008 |
| Business Taxes ² | 387,313 | 353,471 | 391,057 | 435,316 | 479,627 |
| Other Local Taxes | 479,194 | 520,733 | 608,197 | 751,301 | 756,346 |
| Licenses, Permits and Franchises | 24,750 | 24,249 | 25,252 | 25,022 | 26,273 |
| Fines, Forfeitures and Penalties | 5,618 | 17,279 | 6,868 | 8,444 | 6,226 |
| Interest and Investment Income | 9,193 | 7,900 | 5,910 | 10,262 | 2,125 |
| Rents and Concessions | 19,096 | 18,733 | 21,943 | 24,932 | 35,273 |
| Intergovernmental | 645,365 | 651,074 | 657,238 | 678,808 | 720,625 |
| Charges for Services | 135,926 | 138,615 | 146,631 | 145,797 | 164,391 |
| Other | 11,199 | 21,856 | 10,377 | 17,090 | 14,142 |
| Total Revenues | \$2,717,182 | \$2,798,650 | \$2,964,249 | \$3,153,115 | \$3,327,036 |
| Expenditures: | | | | | |
| Public Protection | \$889,594 | \$948,772 | \$950,548 | \$991,275 | \$1,057,451 |
| Public Works, Transportation & Commerce | 61,812 | 40,225 | 25,508 | 52,815 | 68,014 |
| Human Welfare and Neighborhood Development | 630,112 | 632,713 | 610,063 | 626,194 | 660,657 |
| Community Health | 487,638 | 473,280 | 493,939 | 545,962 | 634,701 |
| Culture and Recreation | 97,415 | 94,895 | 99,156 | 100,246 | 105,870 |
| General Administration & Finance | 170,109 | 169,980 | 175,381 | 182,898 | 186,342 |
| General City Responsibilities | 73,904 | 87,267 | 85,422 | 96,132 | 81,657 |
| Total Expenditures | \$2,410,584 | \$2,447,132 | \$2,440,017 | \$2,595,522 | \$2,794,692 |
| Excess of Revenues over Expenditures | \$306,598 | \$351,518 | \$524,232 | \$557,593 | \$532,344 |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | \$136,195 | \$94,115 | \$108,072 | \$120,449 | \$195,272 |
| Transfers Out | (550,910) | (559,263) | (502,378) | (553,190) | (646,912) |
| Other Financing Sources | 4,157 | 3,733 | 6,302 | 3,682 | 4,442 |
| Other Financing Uses | - | - | - | - | - |
| Total Other Financing Sources (Uses) | (\$410,558) | (\$461,415) | (\$388,004) | (\$429,059) | (\$447,198) |
| Extraordinary gain/(loss) from dissolution of the Redevelopment Agency | | | | (815) | - |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | (\$103,960) | (\$109,897) | \$136,228 | \$127,719 | \$85,146 |
| Total Fund Balance at Beginning of Year | 405,635 | \$301,675 | \$191,778 | \$328,006 | \$455,725 |
| Total Fund Balance at End of Year -- GAAP Basis⁴ | \$301,675 | \$191,778 | \$328,006 | \$455,725 | \$540,871 |
| Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End | | | | | |
| -- GAAP Basis | \$28,203 | (\$2,050) | \$48,070 | \$133,794 | \$135,795 ³ |
| -- Budget Basis | \$95,447 | \$105,328 | \$168,451 | \$220,277 | \$240,410 ⁴ |

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

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

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

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

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

Five-Year Financial Plan

The Five-Year Financial Plan is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the plan to forecast expenditures and revenues for the next five-fiscal years, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments. The first Five-Year Financial Plan, covering fiscal years 2011-12 through 2015-16, was prepared by the Mayor's Office and Controller's Office in collaboration with City departments and adopted by the Board of Supervisors on June 7, 2011 and updated on March 7, 2012.

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

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

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

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

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

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

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

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

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

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

Impact of the State of California Budget on Local Finances

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

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

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

On December 26, 2013, the President signed a two-year federal budget. The budget partially repeals sequester-related budget cuts for Fiscal Years 2013-14 and 2014-15. The City is currently reviewing the budget and the projected financial impact to the City is unknown at this time.

Budgetary Reserves and Economic Stabilization

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

The financial policies passed on April 13, 2010 codified the current practice of maintaining an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy set the reserve equal to one percent of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. The required starting balance of the General Reserve was \$32.2 million in fiscal year 2012-13 and is \$44.7 million and \$55.5 million in fiscal years 2013-14 and 2014-15 respectively.

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (\$13.1 million in fiscal year 2013-14 and \$13.5 million in fiscal year 2014-15), and the Litigation Reserve (\$11.0 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

Rainy Day Reserve

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

50 percent of the excess revenues to the Rainy Day Economic Stabilization account;
25 percent of the excess revenues to the Rainy Day One-Time or Capital Expenditures account; and
25 percent of the excess revenues to any lawful governmental purpose.

Fiscal year 2011-12 revenue exceeded the deposit threshold, resulting in a \$6.0 million deposit to the Rainy Day Reserve Economic Stabilization account and a \$3.0 million deposit to the One-Time Capital Expenditures account. The deposit threshold was not exceeded in fiscal year 2012-13 and the fiscal year 2013-14 and 2014-15 budgets do not anticipate deposits to the reserve.

Deposits to the Rainy Day Reserve's Economic Stabilization account are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in

any year will be allocated to capital and other one-time expenditures. Moneys in the Rainy Day Reserve's Economic Stabilization account are available to provide a budgetary cushion in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Moneys in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. Except for the transfer to SFUSD described below, no draw from the Rainy Day Reserve is budgeted in fiscal years 2013-14 and 2014-15.

If the City Controller projects that per-pupil revenues for the SFUSD will be reduced in the upcoming budget year, the Board of Supervisors and Mayor may appropriate funds from the Rainy Day Economic Stabilization account to the SFUSD. This appropriation may not exceed the dollar value of the total decline in school district revenues, or 25% of the account balance, whichever is less. The fiscal year 2012-13 ending balance of this account was \$23.3 million. The fiscal year 2013-14 and 2014-15 budgets include allocations of \$5.8 million and \$4.4 million, respectively, to the SFUSD. Assuming no other withdrawals or deposits, this would leave a balance remaining in the Rainy Day Reserve at the end of fiscal year 2014-15 of \$13.1 million.

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

Budget Stabilization Reserve

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

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

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately \$357 million for fiscal year 2013-14 based on fiscal year 2013-14 Original Budget. No further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve, however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn. In the second year, the maximum withdrawal is 50%, and in the third year, the entire remaining balance may be drawn.

San Francisco Redevelopment Agency Dissolution

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

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

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

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

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

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

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

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

AB 26 and Supreme Court Decision

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

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

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

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

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

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

Impact of Dissolution Act and Information concerning SFRDA

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

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

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

PROPERTY TAXATION

Property Taxation System – General

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

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

Assessed Valuations, Tax Rates and Tax Delinquencies

Table A-5 provides a recent history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion, and 2) all voter-approved overrides which fund debt service for general obligation bond indebtedness. The total tax rate shown in Table A-5 includes taxes assessed on behalf of the City as well as SFUSD, SFCCD, the Bay Area Air Quality Management District ("BAAQMD"), and the San Francisco Bay Area Rapid Transit District ("BART"), all of which are legal entities separate from the City. See also, Table A-25: "Direct and Overlapping Debt and Long-Term Obligations" below. In addition to *ad valorem* taxes, voter-approved special assessment taxes or direct charges may also appear on a property tax bill.

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor SFRDA (also known as the Office of Community Investment and Infrastructure or OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as "tax increment") within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations, causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor SFRDA received \$114 million of property tax increment in fiscal year 2012-13, diverting about \$65 million that would have otherwise been apportioned to the City's discretionary general fund.

The percent collected of property tax (current year levies excluding supplementals) has increased slightly from 98.18% for fiscal year 2011-12 to 98.65% for fiscal year 2012-13. This table has been modified from the corresponding table in previous disclosures in order to make the levy and collection figures consistent with statistical reports provided to the State of California. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, numbered 363 for fiscal year 2012-13 compared to 802 for fiscal year 2011-12, 927 in fiscal year 2010-11, 901 in fiscal year 2009-10, and 633 in fiscal year 2008-09. This represents 0.18%, 0.32%, 0.45%, 0.46%, and 0.40%, respectively, of total parcels in such fiscal years.

TABLE A-5

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

| Fiscal Year | Net Assessed Valuation (NAV) ¹ | % Change from Prior Year | Total Tax Rate per \$100 ² | Total Tax Levy ³ | Total Tax Collected ³ | % Collected June 30 |
|-------------|---|--------------------------|---------------------------------------|-----------------------------|----------------------------------|---------------------|
| 2009-10 | 150,233,436 | 6.3% | 1.159 | 1,808,505 | 1,764,100 | 97.54% |
| 2010-11 | 157,865,981 | 5.1% | 1.164 | 1,888,048 | 1,849,460 | 97.96% |
| 2011-12 | 158,649,888 | 0.5% | 1.172 | 1,918,680 | 1,883,666 | 98.18% |
| 2012-13 | 165,043,120 | 4.0% | 1.169 | 1,997,645 | 1,970,662 | 98.65% |
| 2013-14 | 172,489,208 | 4.5% | 1.188 | 2,049,172 | n/a | n/a |

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

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

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

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

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

For fiscal year 2013-14, the total net assessed valuation of taxable property within the City is \$172.5 billion. Of this total, \$162.6 billion (94.3%) represents secured valuations and \$9.87 billion (5.7%) represents unsecured valuations. (See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.)

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

Under Article XIII A of the State Constitution added by Proposition 13 in 1978, property sold after March 1, 1975 must be reassessed to full cash value at the time of sale. Every year, some taxpayers appeal the Assessor's determination of their properties' assessed value, and some of the appeals may be retroactive and for multiple years. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with counties' property assessments. With respect to the fiscal year 2012-13 levy, property owners representing approximately 18.2% of the total assessed valuation in the City filed appeals for a reduction of their assessed value.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in any

refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary general fund appeal reserve fund for fiscal years 2007-08 through 2012-13 are listed in Table A-6 below.

TABLE A-6

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

| Year Ended | Amount Refunded |
|---------------|-----------------|
| June 30, 2009 | \$7,288 |
| June 30, 2010 | 14,015 |
| June 30, 2011 | 41,730 |
| June 30, 2012 | 53,288 |
| June 30, 2013 | 36,744 |

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

As of July 1, 2013, the Assessor granted 18,409 temporary reductions in property assessed values worth a total of \$2.02 billion (equating to a reduction of about \$11.4 million in discretionary general fund taxes), compared to 21,228 temporary reductions with a value of \$2.82 billion (equating to a reduction of about \$16.0 million in discretionary general fund taxes) granted in Spring 2012. The fiscal year 2013-14 \$2.02 billion temporary reduction total represented 1.17% of the fiscal year 2013-14 Net Assessed Valuation of \$172.49 billion shown in Table A-5. The average temporary reduction in assessed value granted, excluding timeshare properties, decreased from \$175,980 in 2012 to \$151,559 in 2013. All of the temporary reductions granted are subject to review in the following year. Property owners who are not satisfied with the valuation shown on a Notice of Assessed Value may have a right to file an appeal with the Assessment Appeals Board (AAB) within a certain period of time. For regular, annual secured property tax assessments, the time period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of June 30, 2013, the total number of open appeals before the Assessment Appeals Board (AAB) was 7,421, compared to 7,729 open AAB appeals as of June 30, 2012, including 5,500 filed since July 1, 2012 with the balance pending from prior fiscal years. The difference between the current assessed value and the taxpayers' opinion of values for the open AAB appeals is \$42.3 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all of the taxpayers' requests, this represents a negative potential property tax impact of \$488.6 million with an impact on the discretionary general fund of about \$239.4 million. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals.

Tax Levy and Collection

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air Quality Management District, and BART. The total tax levy for all taxing entities in fiscal year 2013-14 is estimated to produce \$2.05 billion, not including supplemental, escape, and special assessments that may be assessed during the year. Of this amount, the City has budgeted to receive \$1.153 billion into the General Fund and \$127.9 million into special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD are estimated to receive \$125.0 million and \$23.5 million, respectively, and the local ERAF is estimated to receive \$411.3 million (before adjusting for the State's Triple Flip sales tax and vehicle license fees ("VLF") backfill shifts). The Successor SFRDA will receive about \$121.9 million. The remaining portion is allocated to various other

governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD, and BART may only be applied for that purpose.

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

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

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

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

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

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

TABLE A-7

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

| Year Ended | Amount Funded |
|---------------|---------------|
| June 30, 2009 | \$16,220 |
| June 30, 2010 | 17,507 |
| June 30, 2011 | 17,302 |
| June 30, 2012 | 17,980 |
| June 30, 2013 | 18,341 |

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

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year ending June 30, 2013 are shown in Table A-8. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
Fiscal Year 2012-13
(000s)

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

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

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

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

Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2013-14 valuation of property assessed by the State Board of Equalization is \$2.62 billion, as recorded on the fiscal year 2013-14 Certificate of Assessed Valuation.

OTHER CITY TAX REVENUES

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

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

Business Taxes

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

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

TABLE A-9

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

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

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and, beginning in FY 2014-15, Gross Receipts Tax revenues. Figures for FY 2008-09 through FY 2012-13 are audited actuals. Figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

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

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

The Gross Receipts Tax and Business Registration Fees Ordinance (Proposition E) was approved by San Francisco voters on November 6, 2012. The ordinance replaces the existing tax which is 1.5% of a business' payroll with a tax on a business' gross receipts at rates that vary by the size and type of business. The new tax structure will be phased-in over a five year period and at the end of the period the gross receipts tax rates will remain fixed. The new tax structure will generate annual tax revenues equal to what would have been generated under the existing tax structure plus the amount of the additional administrative cost of the new system. In addition, the existing business registration fee structure will be replaced by a new higher graduated registration fee structure projected to generate a net revenue increase to the City of approximately \$28.0 million beginning in fiscal year 2013-14. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. The ordinance increases the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 currently to 15,000. Current payroll tax exclusions will be converted into a gross receipts tax exclusion of the same size, terms and expiration dates.

Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (ADR) and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, reached a historic high averaging \$180 in fiscal year 2012-13. Increases in RevPAR are budgeted to continue albeit at a slower pace through fiscal year 2014-15. Total hotel tax revenue for fiscal year 2012-13 was \$241.9 million, and budgeted to be \$277.0 million in fiscal year 2013-14 and \$294.2 million in fiscal year 2014-15.

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. On February 6, 2013, the Los Angeles Superior Court issued a summary judgment concluding that there was no obligation on the part of online travel companies to remit hotel tax to the City. San Francisco received a similar judgment as to its hotel tax on February 6, 2013 overturning administrative hearings it conducted to require payment from online travel companies. San Francisco has received approximately \$63 million in disputed hotel taxes paid by the companies. Under State law, the City is required to accrue interest on such amounts. The portion of these remittances that will be retained or returned (including legal fees and interest) will depend on the ultimate outcome of these lawsuits. While the City plans to appeal the judgment, the City can give no assurance regarding the outcome of this litigation.

In fiscal years prior to 2013-14, the allocation of hotel tax revenues was set by the Administrative provisions of the Annual Appropriation Ordinance, and all of the gain or loss in revenue from budgeted levels fell to the General Fund, contributing to the large variances from prior periods. Table A-10 sets forth a history of transient occupancy tax receipts for fiscal years 2008-09 through 2014-15. Beginning in fiscal year 2013-14, hotel tax budgeted in the General Fund in fiscal year 2013-14 will increase by \$56.4 million because revenue previously budgeted in special revenue funds is now deposited to the General Fund.

TABLE A -10

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

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

Includes portion allocated to special revenue funds. Figures for FY 2008-09 through FY 2012-13 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Current rates are \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued at \$250,000 or less; \$6.80 per \$1,000 for properties valued more than \$250,000 and less than \$999,999; \$7.50 per \$1,000 for properties valued at \$1.0 million to \$5.0 million; \$20.00 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; and \$25 per \$1,000 for properties valued at more than \$10.0 million.

Real property transfer tax revenue in fiscal year 2012-13 was \$232.7 million, approximately \$0.9 million (0.4%) less than the revenue received in fiscal year 2011-12 due to flattening slight decline in real property sales from their fiscal year 2011-12 peak. Fiscal year 2013-14 and 2014-15 budgets for real property transfer tax revenues are \$225.2 million in each year, reflecting budgeting of continued slowing market activity.

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

TABLE A-11

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

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

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

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

Sales and Use Tax

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

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

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy. Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2008-09 through 2012-13, and budgeted receipts for fiscal years 2013-14 and 2014-15, as well as the imputed impact of the property tax shift made in compensation for the one-quarter of the sales tax revenue taken by the State.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2008-09 through 2014-15
(000s)

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

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

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

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

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

Utility Users Tax

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

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

Emergency Response Fee; Access Line Tax

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone line in the City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenues for fiscal year 2012-13 were \$42.6 million, \$0.4 million (0.9%) less than Original Budget and \$1.6 (3.9%) million more than fiscal year 2011-12 revenue. ALT revenues are budgeted to grow at a rate of approximately 1.0% in fiscal years 2013-14 and 2014-15 to \$42.6 million and \$43.0 million respectively.

Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code. The tax is paid by the occupants of the spaces, and then remitted monthly to the City by the operators of the parking facilities.

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

Original Budget for fiscal year 2013-14 parking tax revenue is \$83.3 million, a \$6.7 million increase (8.8%) from fiscal year 2012-13 Original Budget and \$1.7 million (2.1%) more than the fiscal year 2012-13 results. In fiscal year 2014-15, parking tax revenue is budgeted at \$85.7 million, \$2.5 million (3.0%) over the fiscal year 2013-14 budgeted amount. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the San Francisco Municipal Transportation Agency for public transit as mandated by Charter Section 16.110.

INTERGOVERNMENTAL REVENUES

State – Realignment

San Francisco receives three groups of allocations of State sales tax and VLF revenue: 1991 Health and Welfare Realignment, 2011 Health and Human Services Realignment, and Public Safety Realignment. The Governor's May Revise budget estimates statewide realignment funding savings of \$300 million in fiscal year 2013-14 and \$900 million in fiscal year 2014-15 as a result of Affordable Care Act (ACA) implementation. These savings are expected to be achieved by realigning additional responsibilities to counties without increasing funding for them. Fiscal year 2013-14 and 2014-15 realignment revenues are budgeted as follows:

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

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

Public Safety Realignment. Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. Based on revised allocation formulas, this revenue is budgeted at \$32.8 million in fiscal year 2013-14, a \$15.5 million (89.7%) increase over the fiscal year 2012-13 budget. The increase reflects state sales tax growth and the change in accounting of Trial Court Security revenue from a cost reimbursement to subvention format. The budget for fiscal year 2014-15 is \$30.8 million, a \$2.0 million (6.2%) decrease due to reductions to state funding for Local Community Corrections projected in fiscal year 2014-15 as described in the Governor's budget.

Public Safety Sales Tax

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

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, \$407.1 million is budgeted in fiscal year 2013-14 from grants and subventions from State and federal governments to fund public health, social services, and other programs in the General Fund. This represents a \$1.5 million (0.4%) increase from the fiscal year 2012-13 final revenue. The fiscal year 2014-15 budget is \$398.9 million, a decrease of \$8.2 million (2.0%) from fiscal year 2013-14.

Charges for Services

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

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

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for approximately 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children's services and public education, and libraries. Budgeted baseline and mandated funding is \$751.6 million in fiscal year 2013-14 and \$762.9 million in fiscal year 2014-15.

General Fund Expenditures by Major Service Area

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

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Expenditures by Major Service Area
Fiscal Years 2008-09 through 2014-15
(000s)

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

*Total may not add due to rounding

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

Public Protection primarily includes the Police Department, the Fire Department, and the Sheriff's Office. These departments are budgeted to receive \$406.4 million, \$215.1 million and \$139.4 million of General Fund support respectively in fiscal year 2013-14 and \$406.8 million, \$225.1 million, and \$146.2 million respectively in fiscal year 2014-15. Within Human Welfare & Neighborhood Development, the Department of Human Services, which includes aid assistance and aid payments and City grant programs, is budgeted to receive \$224.4 million of General Fund support in the fiscal year 2013-14 and \$234.8 million in fiscal year 2014-15.

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

For budgetary purposes, enterprise funds are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund the Gas Tax Fund, the Golf Fund, the Grants Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. The MTA is classified as a self-supported fund, although it is budgeted pursuant to a formula under the Charter to receive a \$232.0 million General Fund transfer in the fiscal year 2013-14 Original Budget.

Baselines

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

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO
Baselines & Set-Asides
Fiscal Years 2013-14 & 2014-15
(Millions)

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

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

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

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents approximately 50% of the City's expenditures, totaling \$3.5 billion in the fiscal year 2011-12 Original Budget (all-funds), and \$3.8 billion and \$4.0 billion in the fiscal year 2012-13 and fiscal year 2013-14 budgets. Looking only at the General Fund, the combined salary and benefits budget was \$1.7 billion in the fiscal year 2011-12 Original Budget and \$1.8 billion per year in the fiscal year 2012-13 and fiscal year 2013-14 budgets. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

Labor Relations

The City's budget for fiscal years 2013-14 and 2014-15 includes 27,722 and 27,855 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 (SEIU); the International Federation of Professional and Technical Engineers, Local 21(IFPTE); and the unions representing police, fire, deputy sheriffs and transit workers.

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

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

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

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

In June 2013, the City negotiated a contract extension with the Police Officers' Association (POA), through June 30, 2018, that includes wage increases of 1% on July 1, 2015; 2% on July 1, 2016; and 2% on July 1, 2017. In addition, the union agreed to lower entry rates of pay for new hires in entry Police Officer classifications. The lower entry rates will result in savings of approximately \$0.7 million in fiscal year 2013-14 and \$2.0 million in fiscal year 2014-15. Similar negotiations are underway with the City's firefighters' union.

Pursuant to Charter Section 8A.104, the MTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units. These contracts are subject to approval by the MTA Board. The MTA and the union representing the transit operators (TWU, Local 250-A) agreed to a three-year successor agreement that expires on June 30, 2014. The concessions are valued at \$41.1 million dollars over the life of the agreement.

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

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO (All Funds)
Employee Organizations as of July 1, 2013

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

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

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

San Francisco Employees' Retirement System ("SFERS" or "Retirement System")

History and Administration

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

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

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

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

Membership

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

The Retirement System estimates that the total active membership as of July 1, 2012 (the date of most recent valuation report) was 33,655, compared to 33,475 members a year earlier. Active membership includes 4,543 vested members and 1,015 reciprocal members. Vested members are individuals who (i) have separated from City service, (ii) have worked for the City for five or more years, and (iii) have elected to receive a deferred vested pension in the future. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. The total new enrollees in the Retirement System were 2,228 in fiscal year 2011-12 and 2,055 in fiscal year 2010-11. Retirement allowances are paid to approximately 25,000 retired members and beneficiaries monthly. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Beginning July 1, 2008, the Retirement System had a Deferred Retirement Option Program (DROP) program for Police Plan members who were eligible and elected participation. The program "sunset" on June 30, 2011. A total of 354 eligible Police Plan members elected to participate in DROP during the three-year enrollment window. As of June 30, 2012, approximately 184 police officers are enrolled in the program and all will retire over the next two fiscal years.

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

TABLE A-16

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

| As of 1-Jul | Active Members | Vested Members | Reciprocal Members | Total Non-retired | Retirees/ Continuants | Active to Retiree Ratio |
|------------------------|---------------------------|---------------------------|-------------------------------|------------------------------|----------------------------------|------------------------------------|
| 2008 | 30,650 | 3,877 | 869 | 35,396 | 21,514 | 1.425 |
| 2009 | 29,919 | 4,096 | 890 | 34,905 | 22,294 | 1.342 |
| 2010 | 28,222 | 4,515 | 978 | 33,715 | 23,500 | 1.201 |
| 2011 | 27,955 | 4,499 | 1,021 | 33,475 | 24,292 | 1.151 |
| 2012 | 28,097 | 4,543 | 1,015 | 33,655 | 25,190 | 1.115 |

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

Note: Table A-16 includes non-City employees

Funding Practices

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

At its December 2011 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board voted to phase in reductions to the Retirement System's long-term investment earnings assumption, long-term wage/inflation assumption and long-term consumer price index assumption over a three-year period as follows: long-term investment earnings assumption from 7.75% to 7.50% (fiscal year 2011-12 to 7.66%; fiscal year 2012-13 to 7.58%; fiscal year 2013-14 to 7.50%); long-term wage inflation assumption from 4.00% to 3.75% (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%); and long-term consumer price index assumption from 3.50% to 3.25% (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%). These economic assumptions together with demographic assumptions based on periodic demographic studies are utilized to prepare the actuarial valuation of the Retirement System each year. Upon receipt of the consulting actuarial firm's valuation report, Retirement System staff provides a recommendation to the Retirement Board for their acceptance of the consulting actuary's valuation report. In connection with such acceptance, the Retirement Board acts to set the annual employer contribution rates required by the Retirement System as determined by the consulting actuarial firm and approved by the Retirement Board. This process is mandated by the City Charter.

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

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

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

The UAAL is the difference between estimated liabilities and the value of smoothed plan assets and can be thought of as a snapshot of the funding of benefits as of the valuation date. There are a number of assumptions and calculation methods that bear on each side of this asset-liability comparison. On the asset side, the actuarial value of Retirement System assets is calculated using a five-year smoothing technique, so that gains or losses in asset value are recognized over that longer period rather than in the immediate time period such gain or loss is identified. On the liability side, assumptions must be made regarding future costs of pension benefits in addition to demographic assumptions regarding the Retirement System members including rates of disability, retirement, and death. When the actual experience of the Retirement System differs from the expected experience, the impacts on UAAL are called actuarial gains or losses. Under the Retirement Board's Actuarial Methods Policy any such gain or loss is amortized over a 15-year period. Similarly, if the estimated liabilities change due to an update in any of the assumptions, the impact on UAAL is also amortized over a 15-year period.

Third, Supplemental costs associated with the various SFERS benefit plans are amortized. Supplemental costs are additional costs resulting from the past service component of SFERS benefit increases. In other words, when the Charter is amended to increase benefits to some or all beneficiaries of the Retirement System, the Retirement System's liability is correspondingly increased in proportion to the amount of the new benefit associated with service time already accrued by the then-current beneficiaries. These supplemental costs are amortized over no more than 20 years.

The consulting actuarial firm combines the three calculations described above to arrive at a total contribution requirement for funding the Retirement System in that fiscal year. This total contribution amount is satisfied from a combination of employer and employee contributions. Employee contribution rates are mandated by the Charter. Sources of payment of employee contributions (i.e. City or employee) may be the subject of collective bargaining agreements with each union or bargaining unit. The employer contribution rate is established by Retirement Board action each year and is expressed as a percentage of salary applied to all wages covered under the Retirement System. The most recent voter-approved retirement changes are described below.

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

Recent Voter Approved Changes to the Retirement Plan

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

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

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

- a) created new SFERS benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%;
- b) provided that employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;
- c) effective July 1, 2012, provides for an increase or decrease of employee contributions to SFERS for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. (For example, Miscellaneous employees who earn less than \$50,000 per year would pay the minimum Charter-mandated employee contribution rate; Miscellaneous employees who earn between \$50,000 and \$100,000

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

- d) provides that, effective July 1, 2012, no Supplemental COLA will be paid unless SFERS is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire. A retiree organization has brought a legal action against the requirement to be fully funded in order to pay the Supplemental COLA; however, the City has prevailed at the Superior Court level to this challenge.

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

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

- Proposition D enacted in June 2010, which enacted new SFERS retirement plans for Miscellaneous and Safety employees commencing on or after July 1, 2010, which changed average final compensation used in the benefit formula from highest one-year average compensation to highest two-year average compensation, increased the employee contribution rate for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%, and provides that, in years when the City's required contribution to SFERS is less than the employer normal cost as described above, the amount saved would be deposited into the Retiree Health Care Trust Fund.
- The enactment of DROP, a Deferred Retirement Option Program available to certain police members effective July 1, 2008, authorized by City voters' approval on an initiative proposition in the February 2008 election. In June 2011, the Board of Supervisors voted to allow the program to sunset on June 30, 2011
- Proposition B enacted in June 2008 which increased the years of service required for City employees hired after January 10, 2009 to qualify for employer-funded retiree health benefits, established a separate Retiree Health Care Trust Fund to fund retiree health costs, and increased retirement benefits and retirement cost-of-living adjustments for "miscellaneous" employees (i.e., those covered under Charter Section A8.409).

SFERS Recent Funding Performance and City Employer Contribution History

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

Table A-17 shows Retirement System contributions for fiscal years 2007-08 through 2011-12. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Retirement System's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Retirement System. The "Market Percent Funded" column is determined by dividing the market value of assets by the Pension Benefit Obligation. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for fiscal years 2007-08 through 2011-12.

TABLE A-17

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

| As of <u>1-Jul</u> | Market Value <u>of Assets</u> | Actuarial Value <u>of Assets</u> | Pension Benefit <u>Obligation</u> | Market Percent <u>Funded</u> | Actuarial Percent <u>Funded</u> | Employee & Employer <u>Contribution</u> | Employer Contribution <u>Rates^[1]</u> |
|-----------------------|----------------------------------|-------------------------------------|--------------------------------------|------------------------------------|---------------------------------------|---|--|
| 2008 | 15,832,521 | 15,941,390 | 15,358,824 | 103.0 | 103.8 | 319,183 | 5.91% |
| 2009 | 11,886,729 | 16,004,730 | 16,498,649 | 72.3 | 97.0 | 312,715 | 4.99% |
| 2010 | 13,136,786 | 16,069,100 | 17,643,400 | 74.5 | 91.1 | 413,562 | 9.49% |
| 2011 | 15,598,839 | 16,313,100 | 18,598,700 | 83.9 | 87.7 | 490,578 | 13.56% |
| 2012 | 15,293,700 | 16,027,700 | 19,393,900 | 78.9 | 82.6 | 608,957 | 18.09% |

^[1] Net employer contribution rates in the Actuarial Valuation Report on July 1, 2012 for fiscal years 2012-2013 was 20.71%.

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

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

Asset Management and Actuarial Valuation

The assets of the Retirement System, (the "Fund") are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. See page 71 of the CAFR, attached as Appendix B to this Official Statement, for a breakdown of the asset allocation as of June 30, 2013. The Fund does not hold hedge funds. The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at www.sfers.org. These documents are not incorporated herein by reference.

The liabilities of the Retirement System (the Pension Benefit Obligation) are measured annually by an independent consulting actuary in accordance with Actuarial Standards of Practice. In addition, an actuarial audit is conducted every five years in accordance with Retirement Board policy.

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

As of June 30, 2013, the Retirement System estimated that the market value of its assets was approximately \$17.0 billion. The estimated market value represents, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are not subject to audit (other than at year end).

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

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

Other Employee Retirement Benefits

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Such payment from the General Fund equaled \$18.1 million in fiscal year 2009-10 and \$17.6 million in fiscal year 2010-11. For fiscal year 2011-12, the City prepaid its annual CalPERS obligation at a level of \$23.4 million. Further discussion of the City's CalPERS plan obligations are summarized in Note 9 to the City's CAFR, as of June 30, 2013, attached to this Official Statement as Appendix B. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – *Post-Employment Health Care Benefits and GASB 45.*"

Medical Benefits

Administration through Health Service System; Audited System Financial Statements

Medical benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the City's Health Service System (the "Health Service System" or "HSS") pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the Health Service System also administers medical benefits to active and retired employees of SFUSD, SFCCD, and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical benefits for City Beneficiaries. The Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The seven member Health Service Board is composed of members including a seated member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; and until May 15, 2013, four members of the Health Service System, active or retired, elected from among their members. After May 15, 2013 one of the members elected from among the members was replaced by a member nominated by the Controller and approved by the Health Service Board pursuant to Proposition C approved by the voters in November 2011. The plans (the "HSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "HSS Beneficiaries") are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

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

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

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

Determination of Employer and Employee Contributions for Medical Benefits

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

All City Beneficiaries receive a base contribution from the City toward the monthly cost of their medical benefits calculated pursuant to Charter Section A8.423. Under that section, the Health Service System conducts a survey annually of the 10 most populous counties in California (other than the City) to determine "the average contribution made by each such County toward the providing of health care plans, exclusive of dental or optical care, for each employee of such County." Under City Charter Section A8.428, the City is required to contribute to the Health Service Trust Fund an amount equal to such "average contribution" for each City Beneficiary.

In addition to the average contribution described above, the City makes additional medical and other benefit contributions on behalf of City Beneficiaries who are active employees as negotiated and agreed to by such employees' applicable collective bargaining units. City bargaining units have negotiated additional City contributions for enhanced single medical coverage, dependent medical coverage and for additional benefits such as dental care for the members of such bargaining units. These contribution amounts are also paid by the City into the Health Service Trust Fund.

Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*Post-Employment Health Care Benefits and GASB 45.*"

Contributions relating to Nonemployee City Beneficiaries include the City contribution of the "average contribution" corresponding to such Nonemployee City Beneficiaries as described in Charter Section A8.423 along with the following:

- Monthly contributions from Nonemployee City Beneficiaries in amounts equal to the monthly contributions required from active employees excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining. However, such monthly contributions from Nonemployee City Beneficiaries covered under Medicare are reduced by an amount equal to the amount contributed monthly by such persons to Medicare.
- In addition to the average contribution described in the second paragraph of this subsection, the City contributes additional amounts in respect of the Nonemployee City Beneficiaries sufficient to defray the difference in cost to the Health Service System in providing the same health coverage to Nonemployee City Beneficiaries as is provided for active employee City Beneficiaries, excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining.
- After application of the calculations described above, the City contributes 50% of monthly contributions required for the retired city participant and the first dependent.

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

In June 2013, the Health Service Board adopted a flat premium contribution model for unions that approve an MOU agreement with the City incorporating the changes by July 31, 2013. The net flat premium structure for 2015 will smooth increases in premiums with premium contributions from all employees. The long term impact of the flat premium contribution model is a reduction in the relative proportion of the projected increases in the City's contributions for Healthcare, stabilization of the medical plan membership and maintenance of competition among plans.

Health Care Reform

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

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

Provisions of Health Care Reform already implemented by HSS include discontinued eligibility for non-prescription drugs reimbursement through flexible spending accounts (FSAs) in 2011, eliminated copayments for wellness visits, eliminated life-time caps on coverage, and expanded eligibility to cover member dependent children up to age 26 in 2011, eliminated copayments for women's preventative health including contraception in 2012 and W-2 reporting on total healthcare premium costs for 2012 plan year and implementation of a medical loss ratio rebate on self-insured plans. In addition, a separate summary of benefits was required to be sent to every member and provided to every new member beginning in 2012. In 2014, healthcare flexible spending accounts (FSAs) will be limited to \$2,500 annually.

As a result of the federal Health Care Reform Law there are two direct fees and one tax that have been factored into the calculation of medical premium rates and premium equivalents for the 2014 plan year. The three fees are the Federal Health Insurer Tax (HIT), Patient Centered Outcomes Research Institute (PCORI) fee, and the Federal Transitional Pre-Existing Condition Fee. The Federal HIT tax is a fixed-dollar amount distributed across health insurance providers for fully insured plans. The 2014 plan year premiums for Kaiser Permanente and Blue Shield of California included the impact of the HIT tax.

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

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

Local Elections: Proposition C (2011)

On November 8, 2011, the San Francisco voters approved Proposition C, a charter amendment that changed the way the City and current and future employees share in funding SFERS pension and health benefits. With regard to health benefits, elected officials and employees hired on or before January 9, 2009, contribute up to 1% of compensation toward their retiree health care, with matching contribution by the City. For employees or elected officials who left the City workforce before June 30, 2001, and retire after January 6, 2012, Proposition C requires that the City contributions toward retiree health benefits remain at the same levels they were when the employee left the City workforce. Proposition C changes the Health Service System and Health Service Board (HSB) including the following: 1) replace one elected member of the HSB with a member nominated by the City Controller and approved by HSB; 2) change HSB's voting requirement for approving member health plans from two-third to a simple majority; 3) remove the requirement for a plan permitting the member to choose any licensed medical provider; 4) allow for the option to change to a calendar year plan year; and 5) allow HSB to spend money on ways to limit health care costs. Factors that could cause additional medical costs or savings include: 1) projected City savings might be reduced if future labor negotiations or arbitration awards result in any salary increases to offset higher employee retirement contributions; 2) to the extent that changes to pension formulas in this measure cause employees to delay or speed up retirement dates, this could provide additional City savings or costs related to retiree pension and health insurance subsidies; 3) to the extent that changes in the composition of the Health Service Board result in changes to approved health benefit programs, costs could be higher or lower; and 4) to the extent that changes in the composition of the Health Service Board result in changes to approved health benefit programs, costs could be higher or lower. Changing to a calendar plan year allows HSS to convert the City Plan retiree pharmacy benefit to a higher discounted federal program called Employer Group Waiver Plan (EGWP) as of 2013. This will save an estimated \$2.3 million annually, will lower the City's retiree pharmacy expenditures by \$8.5 million annually, and will lower the City's GASB 45 liability.

Employer Contributions for Health Service System Benefits

For fiscal year 2012-13, the Health Service System received approximately \$630.1 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately \$528.1 million; approximately \$156.0 million of this \$528.1 million amount was for health care benefits for approximately 26,564 retired City employees and their eligible dependents and approximately \$372.1 million was for benefits for approximately 61,428 active City employees and their eligible dependents. For fiscal year 2013-14, the Health Service System has budgeted to receive approximately \$642.9 million from participating employers for Health Service System benefit costs. The 2014 aggregate plan costs for the City will increase by only 2.4%. This flattening of the healthcare cost curve is due to a number of factors including lower use of healthcare during recessions, aggressive contracting by HSS, encouraging competition among our vendors, and changing our Blue Shield plan from a fully-funded to a flex-funded product. Flex-funding allows lower premiums to be set by our actuarial consultant, AON-Hewitt, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. In 2015, this flattened trend is anticipated to continue, and the Health Service Board has allocated the Early Retiree Reimbursement Program funds collected of \$3.8M to subsidize coverage based on percent paid by employee/retiree which will continue to stabilize risk pools

Post-Employment Health Care Benefits and GASB 45

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

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

- The City's account balance in any fiscal year is fully funded. The account is fully funded when it is large enough to pay then-projected retiree health care costs as they come due; and,

- The City's retiree health care costs exceed 10% of the City's total payroll costs in a fiscal year. The Controller, Mayor, Trust Board, and a majority of the Board of Supervisors must agree to allow payments from the Fund for that year. These payments can only cover retiree health care costs that exceed 10% of the City's total payroll cost. The payments are limited to no more than 10% of the City's account; or,
- The Controller, Mayor, Trust Board, and two-thirds of the Board of Supervisors approve changes to these limits.

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

City's Estimated Liability. The City is required by GASB 45 to prepare a new actuarial study of its post-retirement benefits obligation every two years. In its October 8, 2012 report, Cheiron, Inc. estimated that the City's unfunded liability was approximately \$4.42 billion as of July 1, 2010. This estimate assumed a 4.25% return on investments and had an ARC for fiscal year 2011-12 of approximately \$397.9 million. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excesses) amortized over thirty years. The ARC was determined based on the July 1, 2010 actuarial valuation. The covered payroll (annual payroll of active employees covered by the plan) was \$2.3 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 191.9%.

The difference between the estimated ARC and the amount expended on post-retirement medical benefits in any year is the amount by which the City's overall liability for such benefits increases in that year. The City's most recent CAFR estimated that the 2012-13 annual OPEB cost was \$418.5 million, of which the City funded \$160.3 million which caused, among other factors, the City's long-term liability to increase by \$258.2 million (as shown on the City's balance sheet and below). The annual OPEB cost consists of the ARC, one year of interest on the net OPEB obligation, and recognition of one year of amortization of the net OPEB obligation. While GASB 45 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB obligation. See Note 9(c) and (d) to the City's CAFR, as of June 30, 2013, included as Appendix B to this Official Statement. Four-year trend information is displayed in Table A-18 (dollars in thousands):

TABLE A-18

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

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

The October 2012 Cheiron Report estimates that the total long-term actuarial liability will reach \$5.7 billion by 2030. The calculations in the Cheiron Report are sensitive to a number of critical assumptions, including, but not limited to, the projected rate of increase in health plan costs.

Actuarial projections of the City's OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City's actuarial analysis shows that by 2031, Proposition B's

three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See "Retirement System – *Recent Voter Approved Changes to the Retirement Plan*" above. As of June 30, 2013, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$31.2 million. Future projections of the City's GASB 45 liability will be lowered by the HSS implementation of the Employer Group Waiver Plan (EGWP) prescription benefit program for City Plan retirees. See "– Local Elections: Proposition C (2011)."

Total City Employee Benefits Costs

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

The balance in the Retiree Health Care Trust Fund as of June 30, 2013 is approximately \$31.2 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-18 provides a five-year history for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. For all fiscal years shown, a "pay-as-you-go" approach was used by the City for health care benefits.

Table A-19 below provides a summary of the City's employee benefit actual and budgeted costs from fiscal years 2008-09 to fiscal year 2013-14.

TABLE A-19

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

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

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

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

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

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

INVESTMENT OF CITY FUNDS

Investment Pool

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

Investment Policy

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

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

Investment Portfolio

As of October 31, 2013, the City's surplus investment fund consisted of the investments classified in Table A-20, and had the investment maturity distribution presented in Table A-21.

TABLE A-20

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

October 2013 Earned Income Yield: 0.69%

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

TABLE A-21

CITY AND COUNTY OF SAN FRANCISCO
Investment Maturity Distribution
Pooled Funds
As of October 31, 2013

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

Weighted Average Maturity: 809 Days

Sources: Office of the Treasurer & Tax Collector, City and County of San Francisco

From Citibank-Custodial Safekeeping, SunGard Systems-Inventory Control Program.

Further Information

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

Additional information on the City's investments, investment policies, and risk exposure as of June 30, 2013 are described in Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2013," Notes 2(d) and 5.

CAPITAL FINANCING AND BONDS

Capital Plan

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

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

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2014-2023 Capital Plan was approved by the CPC on February 25, 2013 and was adopted by the Board of Supervisors in April 2013. The Capital Plan contains \$25.1 billion in capital investments over the coming decade for all City departments, including \$4.7 billion in projects for General Fund-supported departments. The Capital Plan proposes \$88.0 million for General Fund pay-as-you-go capital projects in fiscal year 2013-14. The amount for General Fund pay-as-you-go capital projects is assumed to grow to \$231 million in fiscal year 2022-23. The Capital Plan is not incorporated by reference herein but may be found at <http://onesanfrancisco.org/>. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, fire and park facilities; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the replacement of the Hall of Justice; and seismic upgrades to the Veteran's Memorial Building, among other capital projects. Approximately \$2.0 billion of the capital projects of General Fund supported departments are financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, the General Fund, and other sources.

In addition to the City General Fund-supported capital spending, the Capital Plan recommends \$14.5 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, and the Sewer System Improvement Program, among others. Approximately \$8.2 billion of enterprise fund department capital projects is financed with voter-approved revenue bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund, and other sources.

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

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

Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of December 1, 2013, the City had approximately \$1.89 billion aggregate principal amount of general obligation bonds outstanding.

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

TABLE A-22

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of December 1, 2013^{1 2}

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

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

² Totals reflect rounding to nearest dollar.

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

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

General Obligation Bonds

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

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

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

In November 2008, voters approved Proposition A, which authorized the issuance of up to \$887.4 million in general obligation bonds to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center. The City issued the first series of bonds under Proposition A in the amount of approximately \$131.7 million in March 2009. The City issued the second series in the amount of approximately \$294.6 million in March 2010. The City issued its third series in the amount of approximately \$251 million in August 2012.

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

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

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

jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately \$71.9 million in June 2013.

The Board of Supervisors adopted Resolution No. 272-04 on May 11, 2004 (the "2004 Resolution"). The Mayor approved the 2004 Resolution on May 13, 2004. The 2004 Resolution authorized the issuance of not to exceed \$800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's then outstanding General Obligation Bonds. On November 1, 2011, the Board of Supervisors adopted, and the Mayor approved, Resolution No. 448-11 (the "2011 Resolution," and together with the 2004 Resolution, the "Refunding Resolutions"). The 2011 Resolution authorized the issuance of not to exceed \$1,355,991,219 aggregate principal amount of the City's General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City.

Table A-23 below lists for each of the City's voter-authorized general obligation bond programs the amount originally authorized, the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of December 1, 2013, the City had authorized and unissued refunding general obligation bond authority of approximately \$751 million.

TABLE A-23

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

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

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

² Of the \$35,000,000 authorized by the Board of Supervisors in February 2007, \$30,315,450 has been drawn upon to date pursuant to the Credit Agreement described under "General Obligation Bonds ."

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

Lease Payments and Other Long-Term Obligations

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

Table A-24 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of December 1, 2013. Note that the annual payment obligations reflected in Table A-23 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-24

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

| Fiscal Year | Principal | Interest | Annual Payment Obligation |
|--------------------|-----------------|----------------------------|---------------------------|
| 2014 | \$32,446,550 | \$39,150,395 | \$71,596,945 |
| 2015 | 67,600,751 | 56,088,843 | 123,689,594 |
| 2016 | 66,510,000 | 48,156,382 | 114,666,382 |
| 2017 | 60,310,000 | 45,346,520 | 105,656,520 |
| 2018 | 58,785,000 | 42,610,401 | 101,395,401 |
| 2019 | 50,770,000 | 40,176,612 | 90,946,612 |
| 2020 | 42,015,000 | 38,098,182 | 80,113,182 |
| 2021 | 43,050,000 | 36,217,345 | 79,267,345 |
| 2022 | 44,160,000 | 34,329,701 | 78,489,701 |
| 2023 | 46,085,000 | 32,376,293 | 78,461,293 |
| 2024 | 47,610,000 | 30,311,319 | 77,921,319 |
| 2025 | 47,230,000 | 28,143,340 | 75,373,340 |
| 2026 | 46,960,000 | 26,040,319 | 73,000,319 |
| 2027 | 49,165,000 | 23,828,851 | 72,993,851 |
| 2028 | 49,670,000 | 21,521,169 | 71,191,169 |
| 2029 | 51,950,000 | 19,157,247 | 71,107,247 |
| 2030 | 51,510,000 | 16,710,856 | 68,220,856 |
| 2031 | 42,835,000 | 14,314,379 | 57,149,379 |
| 2032 | 32,105,000 | 12,125,573 | 44,230,573 |
| 2033 | 31,175,000 | 10,532,806 | 41,707,806 |
| 2034 | 32,670,000 | 8,879,731 | 41,549,731 |
| 2035 | 20,155,000 | 7,383,525 | 27,538,525 |
| 2036 | 18,420,000 | 6,313,469 | 24,733,469 |
| 2037 | 16,450,000 | 5,322,520 | 21,772,520 |
| 2038 | 17,180,000 | 4,404,563 | 21,584,563 |
| 2039 | 17,935,000 | 3,446,211 | 21,381,211 |
| 2040 | 18,735,000 | 2,441,919 | 21,176,919 |
| 2041 | 19,565,000 | 1,393,151 | 20,958,151 |
| 2042 | 11,490,000 | 499,471 | 11,989,471 |
| 2043 | 1,900,000 | 95,000 | 1,995,000 |
| TOTAL ¹ | \$1,136,442,301 | \$655,416,093 ² | \$1,791,858,394 |

¹ Totals reflect rounding to nearest dollar.

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

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

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

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

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, such amount increasing by five percent each fiscal year. As of December 1, 2013 the total authorized amount for such financings was \$61.4 million. The total principal amount outstanding as of December 1, 2013 was \$29.6 million.

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

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

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

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

Commercial Paper Program

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

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

Board Authorized and Unissued Long-Term Obligations

The Board of Supervisors authorized on October 26, 2010 and the Mayor approved on November 5, 2010 the issuance of not to exceed \$38,000,000 in City and County of San Francisco certificates of participation to partially finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project). The City anticipates issuing the certificates in the Summer of 2014.

The Board of Supervisors authorized on July 26, 2011 and the Mayor approved on August 1, 2011 the issuance of not to exceed \$170,000,000 in City and County of San Francisco certificates of participation to finance the construction and installation of certain improvements in connection with the renovation of the San Francisco War Memorial Veterans Building. The City anticipates issuing the certificates in the Summer of 2014.

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

Overlapping Debt

Table A-25 shows bonded debt and long-term obligations as of December 1, 2013 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

TABLE A-25

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

| | | |
|--|-------------------------------------|----------------------------|
| 2013-2014 Assessed Valuation (net of non-reimbursable & homeowner exemptions): | \$172,489,208,372 | |
| | Outstanding | |
| | 12/1/2013 | |
| <u>DIRECT GENERAL OBLIGATION BOND DEBT</u> | \$1,889,683,269 | |
| General City Purposes Carried on the Tax Roll | <u>\$1,889,683,269</u> | |
| GROSS DIRECT DEBT | \$1,889,683,269 | |
| <u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u> | | |
| San Francisco COPs, Series 2001A (30 Van Ness Ave. Property) | \$27,930,000 | |
| San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project) | 34,850,000 | |
| San Francisco Finance Corporation, Equipment LRBs Series 2008A, 2010A, 2011A, 2012A, and 2013A | 29,620,000 | |
| San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1 | 17,050,000 | |
| San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2 | 120,820,000 | |
| San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007 | 55,490,000 | |
| San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A | 30,870,000 | |
| San Francisco Redevelopment Agency Moscone Convention Center 1992 | 4,347,301 ¹ | |
| San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) | 18,670,000 | |
| San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties) | 139,945,000 | |
| San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital) | 148,545,000 | |
| San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project) | 35,200,000 | |
| San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt | 32,510,000 | |
| San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs | 129,550,000 | |
| San Francisco Refunding Certificates of Participation, Series 2010A | 122,060,000 | |
| San Francisco COPs, Refunding Series 2011AB (Moscone) | 80,585,000 | |
| San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project) | 41,860,000 | |
| San Francisco COPs, Series 2013A Moscone Center Improvement | 28,840,000 | |
| San Francisco COPs, Series 2013BC Port Facilities | 37,700,000 | |
| LONG-TERM OBLIGATIONS | \$1,136,442,301 | |
| GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS | \$3,026,125,570 | |
| <u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u> | | |
| Bayshore Hester Assessment District | \$660,000 | |
| San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds | 90,643,333 | |
| San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B | 106,311,000 | |
| San Francisco Community College District General Obligation Bonds - Election of 2001, 2005 | 343,720,000 | |
| San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011 | 41,750,000 | |
| San Francisco Redevelopment Agency Obligations (Property Tax Increment) | 846,357,806 | |
| San Francisco Redevelopment Agency Obligations (Special Tax Bonds) | 212,403,097 | |
| Association of Bay Area Governments Obligations (Special Tax Bonds) | 41,658,913 | |
| San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006, and 2011 | 647,360,000 | |
| TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS | \$2,330,864,149 | |
| GROSS COMBINED TOTAL OBLIGATIONS | \$5,356,989,719 ² | |
| <u>Ratios to Assessed Valuation:</u> | <u>Actual Ratio</u> | <u>Charter Req.</u> |
| Gross Direct Debt (General Obligation Bonds) | 1.10% | < 3.00% ³ |
| Gross Direct Debt & Long-Term Obligations | 1.75% | n/a |
| Gross Combined Total Obligations | 3.11% | n/a |

¹ The accreted value as of July 1, 2013 is \$19,298,279

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

³ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal property within the City's boundaries that is subject to

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

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

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

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

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

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

MAJOR ECONOMIC DEVELOPMENT PROJECTS

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

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

The Hunters Point Shipyard, a former naval base, is a master planned community of approximately 500 acres located on the southeastern waterfront of San Francisco. The first phase of development, which was conveyed from the Navy in 2005, is currently underway and includes up to 1,600 homes, 27% to 40% of which will be affordable, and 26 acres of parks and open space. Nearly all of the horizontal construction for Phase 1 is complete and the developer broke ground on the vertical development on the first two blocks of homes in June 2013. Two additional blocks are anticipated to break ground in Spring 2014.

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

Treasure Island

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

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

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

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

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

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

Transbay

The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open in August 2017. Demolition of existing structures on the site was completed in August 2011. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub and extend the Caltrain commuter rail line underground 1.3 miles into the Financial District. The area surrounding the Transbay Transit Center with is being redeveloped with 4,500 new homes, 1,200 to be "affordable" below-market homes, a 1.6 million square-foot tower, parks, and a retail main street. The Pelli Clarke Pelli Architects-designed Transit Center will serve more than 100,000 people per day through nine transportation systems, including future California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The Center is designed to embrace the goals of green architecture and sustainability. The heart of the Center, "City Park," a 5.4-acre public park will sit atop the facility, and there will be a living green roof for the transit facility. The Center will have a LEED rating of Silver. The project is estimated to create more than 48,000 jobs in its first phase of construction, which will last seven years. The \$4.2 billion Transbay Transit Center Project is funded by various public and private funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others. In November 2012, the TJPA finalized the agreement to sell TJPA property to Hines Corporation, paving the way for construction of the 61-story Transbay Transit Tower, which will contain 1.4 million square feet of office space, for \$190 million.

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

Mission Bay

The development plans for Mission Bay include a new University of California-San Francisco (UCSF) research campus containing 2.65 million square feet of building space on 43 acres donated by Catellus and the City; UCSF's 550-bed hospital; 4.4 million square feet of biotech, 'cleantech' and health care office space; 6,350 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 400,000 square feet of retail space; a 250-room hotel with up to 25,000 square feet of retail entertainment uses; 49 acres of public open space, including parks along Mission Creek and San Francisco Bay and eight acres of open space within the UCSF campus; a new 500-student public school; and a new fire and police station and police headquarters. Mission Bay is approximately 50% complete.

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

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

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

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

Pier 70

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

Current development plans for the Pier 70 Waterfront Site call for 7 acres of parks and up to 3.25 million square feet of above-grade construction (not including parking) which may include between 1.0 to 2.25 million square feet of office space; up to 400,000 square feet of retail, small-scale production, arts space intended to establish the new district as destination with unique character; and between 950 and 2000 housing units, with 15 to 20 percent of them made available to low-income households. This built area includes three historic industrial buildings that will be rehabilitated as part of the Waterfront Site development.

Cruise Terminal

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

The proposed size of the terminal was defined to serve current and anticipated ship berthing requirements and associated passenger flows. The Pier 27 cruise terminal was designed to optimally handle vessels carrying 2,600 passengers and will have the capacity to serve vessels carrying up to 4,000 passengers, totaling 40-80 cruise calls a year. The facility will continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ship festivals and visits by oceanic research vessels. When there are no cruise calls, the cruise terminal will provide approximately 60,000 square feet of designated space for shared uses, including meetings and special events.

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

America's Cup

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

Moscone Convention Center

The Moscone Center Expansion Project would add up to 350,000 square feet to the portion of the existing Moscone Center located on Howard Street between 3rd and 4th Streets in the Yerba Buena Gardens neighborhood of San Francisco. Nearly 140,000 square feet of this additional space would be created by excavating and expanding the existing below-grade exhibition halls that connect the Moscone North and South buildings under Howard Street, with the remaining consisting of new and repurposed lobby area, new multi-purpose/meeting room area, and new and repurposed building support area.

In addition to adding new rentable square footage, the project architects seek to create an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian entrance, or 'paseo' from Third St and a new, enclosed pedestrian bridges connecting the upper levels of the new Moscone North and Moscone South. This would provide enhanced circulation for Moscone convention attendees and reduce on-street congestion while maintaining from the successful activity in Yerba Buena Gardens and the children's cultural facilities.

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

The proposed project is a joint partnership between the City and the hotel industry, acting through the Tourist Improvement District Management Corporation, with the City paying approximately one-third of all expansion costs and the hotel community paying approximately two-thirds. The Board of Supervisors unanimously approved the creation of the Moscone Expansion District and the issuance of \$507 million in Certificates of Participation on February 5, 2013. Project sponsors initiated environmental review in March 2013 with the goal of starting construction in late 2014, continuing intermittently around existing convention reservations through 2018.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

Article XIII A of the California Constitution

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

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

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

Article XIII B of the California Constitution

Article XIII B was enacted by California voters as an initiative constitutional amendment in November 1979. Article XIII B limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population, and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

Articles XIII C and XIII D of the California Constitution

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal

problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

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

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

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement purposes and community benefit purposes, and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other things, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v. City of Brawley*, 59 Cal. App. 4th 1441 (1997), the Court of Appeal, Fourth District, concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Courts of Appeal have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See *Fielder v. City of Los Angeles*, 14 Cal. App. 4th 137 (1993) and *Fisher v. County of Alameda*, 20 Cal. App. 4th 120 (1993).

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, it is subordinate to the authority of charter cities to impose taxes derived from the State Constitution. Proposition 218 (discussed above), however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution.

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure under Proposition 62 may not be significant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes

on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. See "OTHER CITY TAX REVENUES" herein. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to the requirements of Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city.

Proposition 1A

Proposition 1A, a constitutional amendment proposed by the State Legislature and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate, or change the allocation of local sales tax revenues, subject to certain exceptions. As set forth under the laws in effect as of November 3, 2004, Proposition 1A generally prohibits the State from shifting any share of property tax revenues allocated to local governments for any fiscal year to schools or community colleges. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing aid to cities and spending on other State programs, or other actions, some of which could be adverse to the City.

Proposition 22

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies (but see "San Francisco Redevelopment Agency Dissolution" above). While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing

sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

Proposition 26

On November 2, 2010, the voters approved Proposition 26 ("Proposition 26"), revising certain provisions of Articles XIII A and XIII C of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

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

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

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

Future Initiatives and Changes in Law

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

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

LITIGATION AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2013, attached as Appendix B to this Official Statement. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not impair the ability of the City to make debt service payments or otherwise meet its General Fund lease or debt obligations, nor materially impair the City's ability to fund current operations.

Risk Retention Program

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

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

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

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

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