

*In the opinion of Jones Hall, A Professional Law Corporation, and Amira Jackmon, Attorney at Law, Co-Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the 2022A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. For tax years beginning after December 31, 2022, interest on the 2022A Bonds may be subject to the corporate alternative minimum tax. Interest on the 2022B Bonds is not intended to be excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the 2022 Bonds is exempt from California personal income taxes. Co-Bond Counsel express no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2022 Bonds. See "TAX MATTERS" herein.*



**\$78,570,000**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**COMMUNITY FACILITIES DISTRICT NO. 2014-1**  
**(TRANSBAY TRANSIT CENTER)**



**\$31,190,000**  
**Special Tax Bonds, Series 2022A**  
**(Tax-Exempt)**

**\$47,380,000**  
**Special Tax Bonds, Series 2022B**  
**(Federally Taxable – Green Bonds)**

**Dated: Date of Delivery**

**Due: September 1, as shown on inside cover**

**This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.**

The City and County of San Francisco, California (the "City") on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the "District") will be issuing Special Tax Bonds, Series 2022A (Tax-Exempt) (the "2022A Bonds") and Special Tax Bonds, Series 2022B (Federally Taxable – Green Bonds) (the "2022B Bonds" and, together with the 2022A Bonds, the "2022 Bonds"). The 2022 Bonds are being issued pursuant to a Fiscal Agent Agreement, dated as of November 1, 2017, as supplemented, including by the Fourth Supplement to Fiscal Agent Agreement, dated as of December 1, 2022 (collectively, the "Fiscal Agent Agreement"), by and between the City and Zions Bancorporation, National Association, as fiscal agent (the "Fiscal Agent"), and will be secured as described herein. The 2022A Bonds are being issued to: (i) finance, refinance or reimburse a portion of the costs of the planning, design, engineering, and construction of streetscape and pedestrian improvements around the Salesforce Transit Center, acquisition of transit vehicles, and enhancements at the San Francisco Bay Area Rapid Transit District ("BART") Embarcadero Station, including modifying a stairway and modernizing an elevator; (ii) fund a contribution to a debt service reserve fund securing the 2022A Bonds and certain other bonds that may be issued in the future, as described in this Official Statement; and (iii) fund costs of issuance, all as further described herein. The 2022B Bonds are being issued to: (i) finance, refinance or reimburse a portion of the costs of the planning, design, engineering, right of way acquisition and construction of certain capital improvements (defined in the Fiscal Agent Agreement as "Transbay Facilities") that are part of the Transbay Program (as further described herein); (ii) fund a contribution to a debt service reserve fund securing the 2022B Bonds, certain outstanding parity bonds and certain other bonds that may be issued in the future, as described in this Official Statement; and (iii) fund costs of issuance, all as further described herein. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE FINANCING PLAN" herein.

The 2022 Bonds will be issued in denominations of \$5,000 or any integral multiple in excess thereof and shall mature on September 1 in each of the years and in the amounts and shall bear interest as shown on the inside front cover hereof. Interest on the 2022 Bonds shall be payable on each March 1 and September 1, commencing March 1, 2023 (each an "Interest Payment Date") to the Owner thereof as of the Record Date (as defined herein) immediately preceding each such Interest Payment Date. The 2022 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2022 Bonds. Individual purchases of the 2022 Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the 2022 Bonds will be payable by DTC through the DTC participants. See "THE BONDS – Book-Entry System" herein. Purchasers of the 2022 Bonds will not receive physical delivery of the 2022 Bonds purchased by them.

**The 2022 Bonds are subject to redemption prior to maturity as described herein. See "THE 2022 BONDS" herein.**

**The 2022 Bonds are limited obligations of the City, secured by and payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. The 2022 Bonds are payable from Special Tax Revenues and certain other funds specified in the Fiscal Agent Agreement on a parity basis with certain outstanding bonds, and the City may issue additional parity bonds in the future. The 2022 Bonds are not payable from any other source of funds other than Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. The General Fund of the City is not liable for the payment of the principal of or interest on the 2022 Bonds, and neither the credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California or any political subdivision thereof is pledged to the payment of the 2022 Bonds.**

*The 2022 Bonds are offered when, as and if issued, subject to approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney, and by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel to the City with respect to the issuance of the 2022 Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel Nixon Peabody LLP, Los Angeles, California. It is anticipated that the 2022 Bonds will be available for delivery through the facilities of DTC on or about December 15, 2022.*

**Stifel**

**Piper Sandler & Co.**

## MATURITY SCHEDULE

**\$31,190,000**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**COMMUNITY FACILITIES DISTRICT NO. 2014-1**  
**(TRANSBAY TRANSIT CENTER)**  
**SPECIAL TAX BONDS, SERIES 2022A**  
**(TAX-EXEMPT)**

**Serial Bonds \$7,735,000**

<b><u>Maturity Date</u></b> <b><u>(September 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>CUSIP<sup>†</sup></u></b> <b><u>(Base No. 79772E)</u></b>
2023	\$ 545,000	5.000%	2.600%	101.676	EV7
2024	155,000	5.000	2.780	103.680	EW5
2025	200,000	5.000	2.920	105.379	EX3
2026	240,000	5.000	3.050	106.788	EY1
2027	290,000	5.000	3.170	107.945	EZ8
2028	345,000	5.000	3.240	109.104	FA2
2029	395,000	5.000	3.320	110.027	FB0
2030	455,000	5.000	3.390	110.839	FC8
2031	515,000	5.000	3.400	111.970	FD6
2032	580,000	5.000	3.410	113.045	FE4
2033	645,000	5.000	3.500	112.254 <sup>C</sup>	FF1
2034	720,000	5.000	3.670	110.777 <sup>C</sup>	FG9
2035	800,000	5.000	3.830	109.408 <sup>C</sup>	FH7
2036	880,000	5.000	3.980	108.143 <sup>C</sup>	FJ3
2037	970,000	5.000	4.050	107.559 <sup>C</sup>	FK0

\$6,335,000 5.000% Term Bonds due September 1, 2042 – Yield: 4.260% Price: 105.828<sup>C</sup> CUSIP<sup>†</sup> No. 79772EFL8

\$9,410,000 5.000% Term Bonds due September 1, 2047 – Yield: 4.400% Price: 104.693<sup>C</sup> CUSIP<sup>†</sup> No. 79772EFM6

\$7,710,000 5.000% Term Bonds due September 1, 2052 – Yield: 4.470% Price: 104.131<sup>C</sup> CUSIP<sup>†</sup> No. 79772EFN4

<sup>C</sup> Price calculated to the first optional redemption date of September 1, 2032 at par.

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of investors. None of the City, the Underwriters, or the Municipal Advisor are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the 2022A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2022A Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2022A Bonds.

## MATURITY SCHEDULE

**\$47,380,000**

**CITY AND COUNTY OF SAN FRANCISCO  
COMMUNITY FACILITIES DISTRICT NO. 2014-1  
(TRANSBAY TRANSIT CENTER)  
SPECIAL TAX BONDS, SERIES 2022B  
(FEDERALLY TAXABLE – GREEN BONDS)**

**Price: 100%**

**Serial Bonds \$10,960,000**

<b><u>Maturity Date</u></b> <b><u>(September 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP<sup>†</sup></u></b> <b><u>(Base No. 79772E)</u></b>
2023	\$ 860,000	4.798%	4.798%	EC9
2024	125,000	4.928	4.928	ED7
2025	200,000	5.034	5.034	EE5
2026	270,000	5.123	5.123	EF2
2027	350,000	5.173	5.173	EG0
2028	430,000	5.337	5.337	EH8
2029	520,000	5.437	5.437	EJ4
2030	600,000	5.535	5.535	EK1
2031	710,000	5.585	5.585	EL9
2032	825,000	5.685	5.685	EM7
2033	945,000	5.785	5.785	EN5
2034	1,060,000	5.835	5.835	EP0
2035	1,210,000	5.885	5.885	EQ8
2036	1,355,000	5.935	5.935	ER6
2037	1,500,000	5.985	5.985	ES4

\$10,335,000 6.162% Term Bonds due September 1, 2042 – Yield: 6.162% CUSIP<sup>†</sup> No. 79772EET2

\$26,085,000 6.332% Term Bonds due September 1, 2051 – Yield: 6.332% CUSIP<sup>†</sup> No. 79772EEU9

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of investors. None of the City, the Underwriters, or the Municipal Advisor are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the 2022B Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2022B Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2022B Bonds.

**CITY AND COUNTY OF SAN FRANCISCO**

**MAYOR**

London N. Breed

**BOARD OF SUPERVISORS<sup>(1)</sup>**

Shamann Walton, *Board President, District 10*

Connie Chan, *District 1*

Catherine Stefani, *District 2*

Aaron Peskin, *District 3*

Gordon Mar<sup>(2)</sup>, *District 4*

Dean Preston, *District 5*

Matt Dorsey, *District 6*

Myrna Melgar, *District 7*

Rafael Mandelman, *District 8*

Hillary Ronen, *District 9*

Ahsha Safai, *District 11*

**CITY ATTORNEY**

David Chiu

**CITY TREASURER**

José Cisneros

**OTHER CITY AND COUNTY OFFICIALS**

Carmen Chu, *City Administrator*

Benjamin Rosenfield, *Controller*

Anna Van Dagna, *Director, Controller's Office of Public Finance*

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**PROFESSIONAL SERVICES**

**Co-Bond Counsel**

Jones Hall, A Professional Law Corporation  
San Francisco, California

**Disclosure Counsel**

Norton Rose Fulbright US LLP  
Los Angeles, California

Amira Jackmon, Attorney at Law  
Berkeley, California

**Special Tax Consultant**

Goodwin Consulting Group, Inc.  
Sacramento, California

**Municipal Advisor**

Del Rio Advisors, LLC  
Modesto, California

**Fiscal Agent**

Zions Bancorporation, National Association  
Los Angeles, California

<sup>(1)</sup> The Board of Supervisors serves as the governing body for the District.

<sup>(2)</sup> Reportedly Joel Engardio will replace Gordon Mar as the District 4 Board Supervisor.

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## **GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT**

The information set forth herein has been obtained from the City and other sources believed to be reliable. This Official Statement is not to be construed as a contract with the purchasers of the 2022 Bonds. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. No dealer, broker, salesperson or any other person has been authorized by the City, the Municipal Advisor or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriters.

This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any offer or solicitation of such offer or any sale of the 2022 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale of the 2022 Bonds made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the District or the City or in any other information contained herein, since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2022 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2022 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access ("EMMA") website.

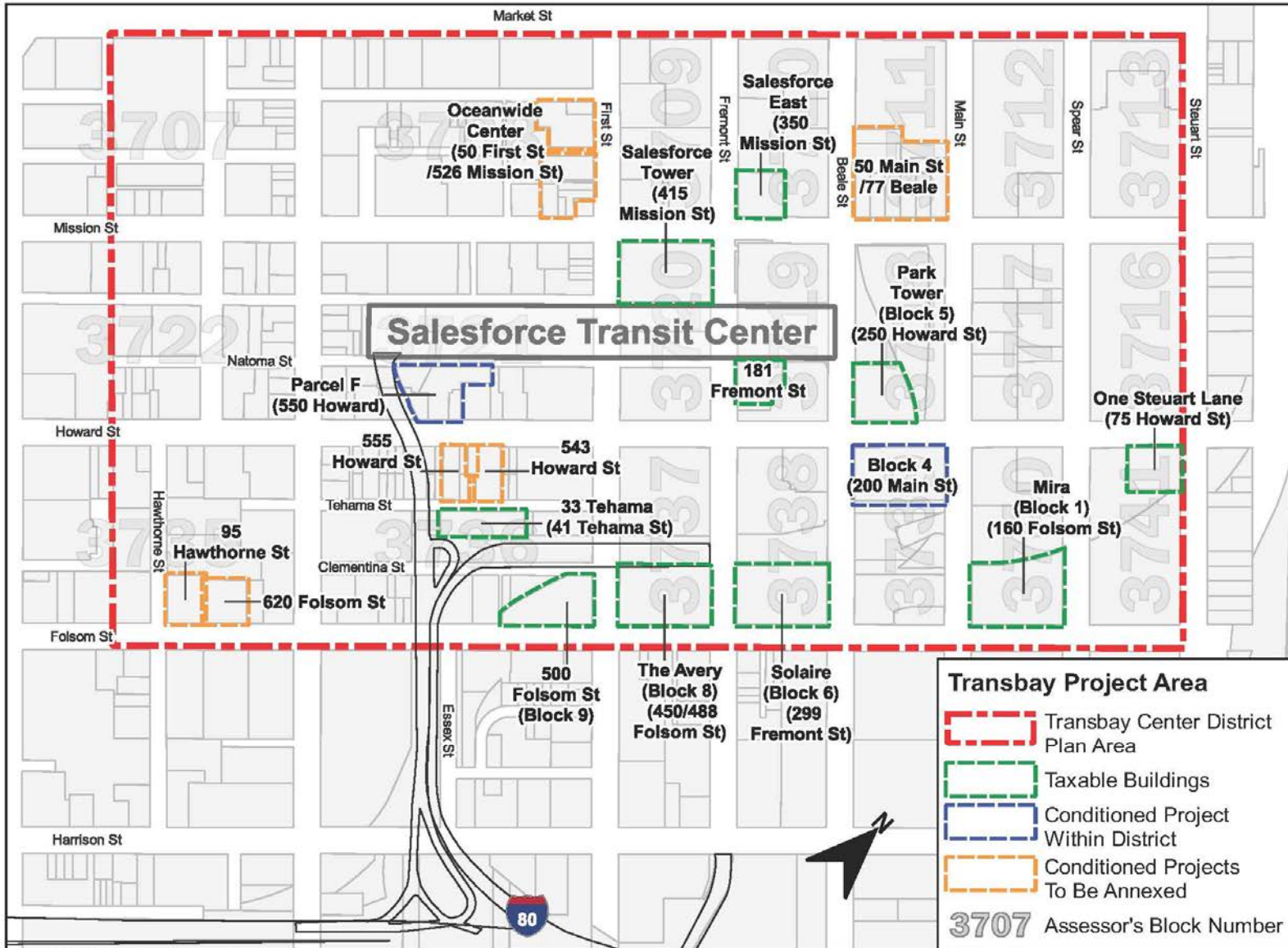
The City maintains a website with information pertaining to the City. However, the information presented therein is not incorporated into this Official Statement and should not be relied upon in making investment decisions with respect to the 2022 Bonds.



## **FORWARD LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or similar words.

*The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.*



Goodwin Consulting Group, Inc.

The District currently consists of approximately 15.01 gross acres located in downtown San Francisco. Only those buildings identified in green are currently subject to the imposition of the Special Tax (as defined herein). See “The DISTRICT” herein.

## OFFICIAL STATEMENT

**\$78,570,000**

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

**\$31,190,000**

**Special Tax Bonds, Series 2022A  
(Tax-Exempt)**

**\$47,380,000**

**Special Tax Bonds, Series 2022B  
(Federally Taxable – Green Bonds)**

## INTRODUCTION

### General

*This Official Statement, including the cover page, the inside cover page and the Appendices hereto, is provided to furnish certain information in connection with the issuance and sale by the City and County of San Francisco (the “City”) of its City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2022A (Tax-Exempt) (the “2022A Bonds”) and Special Tax Bonds, Series 2022B (Federally Taxable – Green Bonds) (the “2022B Bonds” and, together with the 2022A Bonds, the “2022 Bonds”).*

### Recent Developments

On December 1, 2022, the City Controller provided a memorandum to the Board of Supervisors which contained the City’s unaudited financial statements for fiscal year 2021-22, which ended June 30, 2022 (the “Fiscal Year 2021-22 Unaudited Financial Statements”). The fund balance identified in the Fiscal Year 2021-22 Unaudited Financial Statements is consistent with the City’s prior expectations. See APPENDIX A - “CITY BUDGET - Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report; Preliminary Fiscal Year 2021-22 Year End Analysis.” The Controller noted in the memorandum that: “At the time of the preparation of this fiscal year’s budget, we projected an ending available balance from the prior year of \$620.8 million in the General Fund, which was assumed as a source in balancing the current and future year’s budgets. These final unaudited results are \$39.8 million higher, representing a 0.6% variance versus General Fund revenues for the year. We will incorporate this positive starting balance in our upcoming forecast of the current and future fiscal years, expected in coming weeks.”

The Fiscal Year 2021-22 Unaudited Financial Statements, which are available on the website of the City’s Office of Public Finance at <https://sf.gov/sites/default/files/2022-12/FY%202022%20Unaudited%20Financial%20Report.pdf>, are subject to revision prior to finalization and the issuance of the Fiscal Year 2021-22 Annual Comprehensive Financial Report, which is expected to be available within the next several weeks. There can be no assurances that the audited financial statements contained in the Fiscal Year 2021-22 Annual Comprehensive Financial Report will not materially adversely differ from the Fiscal Year 2021-22 Unaudited Financial Statements, and are not incorporated by reference in this Official Statement.

### Authority for the 2022 Bonds

The 2022 Bonds will be issued by the City on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the “District”) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of

the State of California) (the “Act”), provisions of a Fiscal Agent Agreement, dated as of November 1, 2017, as supplemented, including by the Fourth Supplement to Fiscal Agent Agreement, dated as of December 1, 2022 (the “Fourth Supplement” and, collectively with all prior supplements, the “Fiscal Agent Agreement”), by and between the City and Zions Bancorporation, National Association, as fiscal agent (the “Fiscal Agent”), and Resolution No. 2-15, which was approved by the Board of Supervisors on January 13, 2015 and signed by the Mayor on January 20, 2015, as supplemented by Resolution No. 247-17 adopted by the Board of Supervisors on June 13, 2017 and signed by the Mayor on June 22, 2017, Resolution No. 419-18 adopted by the Board of Supervisors on December 4, 2018 and signed by the Mayor on December 12, 2018, Resolution No. 172-20 adopted by the Board of Supervisors on April 28, 2020 and signed by the Mayor on May 1, 2020, Resolution No. 439-21 adopted by the Board of Supervisors on September 21, 2021 and signed by the Mayor on September 29, 2021, and Resolution No. 469-22 adopted by the Board of Supervisors on November 8, 2022 and signed by the Mayor on November 17, 2022 (collectively, the “Resolution”).

### **Use of Proceeds**

The 2022A Bonds are being issued to: (i) finance, refinance or reimburse a portion of the costs of the planning, design, engineering, and construction of streetscape and pedestrian improvements around the Salesforce Transit Center, acquisition of transit vehicles, and enhancements at the San Francisco Bay Area Rapid Transit District (“BART”) Embarcadero Station located at 298 Market Street (“Embarcadero Station”), including modifying a stairway and modernizing an elevator; (ii) fund a contribution to a debt service reserve fund securing the 2022A Bonds and certain other bonds that may be issued in the future, as described in this Official Statement; and (iii) fund costs of issuance, all as further described herein. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE FINANCING PLAN” herein.

The 2022B Bonds are being issued to: (i) finance, refinance or reimburse a portion of the costs of the planning, design, engineering, right of way acquisition and construction of certain capital improvements (defined in the Fiscal Agent Agreement as “Transbay Facilities”) that are part of the Transbay Program (as further described herein), including the Downtown Rail Extension capital improvement project, by the Transbay Joint Powers Authority (the “TJPA”), a joint exercise of powers authority, including the engineering of the train components of the Salesforce Transit Center (defined herein) building and engineering work related to a new station at Fourth and Townsend; (ii) fund a contribution to a debt service reserve fund securing the 2022B Bonds, certain outstanding parity bonds and certain other bonds that may be issued in the future, as described in this Official Statement; and (iii) fund costs of issuance, all as further described herein. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE FINANCING PLAN” herein.

### **The District**

The District currently consists of approximately 15.01 gross acres located in downtown San Francisco immediately south of Market Street near the Salesforce Transit Center. See “THE DISTRICT” herein. The Salesforce Transit Center has been designed to be a hub of transit connections serving regional commuters. At the time it established the District, the City also established a larger future annexation area (the “Future Annexation Area”) for the District. The Future Annexation Area enables properties to annex into the District with fewer procedural requirements than would otherwise be required under the Act. Several properties have annexed into the District since its initial formation.

### **Special Taxes**

In general, Special Taxes (defined herein) can only be levied on a property within the District if: (i) the property is a “Conditioned Project,” which is generally defined in the Rate and Method as a

Development Project (as defined herein) that is required to participate in funding Authorized Facilities (as defined in the Rate and Method) through the District because it received a zoning bonus to exceed the height and floor-to-area ratios that otherwise would have been applicable under the City’s Planning Code as defined in the Rate and Method; (ii) a Certificate of Occupancy (defined herein) has been issued for the property; and (iii) a Tax Commencement Authorization (defined herein) for the property has been executed by the Director, Controller’s Office of Public Finance. See APPENDIX B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto. See “THE DISTRICT” herein.

## Development Status Summary

The District now includes ten Taxable Buildings which are Conditioned Projects that have received both a Certificate of Occupancy and a Tax Commencement Authorization (each a “Taxable Building”) and are therefore subject to the Special Tax. The aggregate Special Tax levy for the current Taxable Buildings is approximately \$32 million for fiscal year 2022-23 and is estimated to be approximately \$32.7 million for fiscal year 2023-24.

Certain information regarding the current Taxable Buildings is summarized below.

<b>Project<sup>(1)</sup></b>	<b>Land Use Category</b>	<b>Taxable Square Feet</b>	<b>FY 2022-23 Special Tax Levy</b>	<b>Percent of FY 2022-23 Special Tax Levy</b>
1. <u>Salesforce East (350 Mission Street)</u>	Office	47,645	\$263,151	0.8%
	Retail	4,355	17,544	0.1
2. <u>Solaire (Block 6) (299 Fremont Street)</u>	Rental Residential	288,937	1,762,881	5.5
	Retail	7,204	29,020	0.1
3. <u>Salesforce Tower (415 Mission Street)</u>	Office	1,413,397	9,139,302	28.5
	Retail	6,789	28,432	0.1
4. <u>33 Tehama (41 Tehama Street)</u>	Rental Residential	236,375	1,503,544	4.7
	Retail	788	3,300	0.0
5. <u>181 Fremont (181 Fremont Street)</u>	For Sale Residential	121,328	1,175,997	3.7
	Retail/Office	436,332	2,815,341	8.8
6. <u>Park Tower (Block 5) (250 Howard Street)</u>	Office	755,914	4,760,426	14.8
	Retail	8,745	37,341	0.1
7. <u>The Avery (Block 8) (450/488 Folsom Street)</u>	For Sale Residential	210,102	2,076,388	6.5
	Rental Residential/Retail	208,350	1,365,020	4.3
8. <u>500 Folsom (Block 9) (500 Folsom Street)</u>	Rental Residential	316,671	2,133,079	6.7
	Retail	5,678	24,720	0.1
9. <u>Mira (Block 1) (160 Folsom Street)</u>	For Sale Residential	301,097	2,885,614	9.0
	Retail	10,201	44,412	0.1
10. <u>One Steuart Lane (75 Howard Street)</u>	For Sale Residential	218,704	1,982,639	6.2
	Retail	4,910	22,116	0.1

<sup>(1)</sup> Indicates Marketing Name/Block Number (if applicable)/Initial Street Address.  
Source: San Francisco Planning Department; OCII; Special Tax Consultant.

See also Table 1 and Table 2 herein.

In addition to the Taxable Buildings, there are currently two Conditioned Projects in the District and six Conditioned Projects in the Future Annexation Area, planned for residential, commercial or mixed use development that may become Taxable Buildings subject to the Special Tax following their completion. There may also be additional projects within the Future Annexation Area or the District that become Conditioned Projects. No assurance can be provided that any particular property will become a Conditioned Project, be annexed into the District, and become a Taxable Building required to pay Special Taxes. See “THE DISTRICT” herein and “SPECIAL RISK FACTORS – Concentration of Property Ownership” herein.

## **The 2022 Bonds**

The 2022 Bonds will be issued in denominations of \$5,000 or any integral multiple in excess thereof, will mature on September 1 in each of the years and in the amounts, and will bear interest as shown on the inside front cover hereof. Interest on the 2022 Bonds will be payable on each March 1 and September 1, commencing March 1, 2023 (the “Interest Payment Dates”) to the Owner thereof as of the Record Date (as defined herein) immediately preceding each such Interest Payment Date, by check mailed on such Interest Payment Date or by wire transfer to an account in the United States of America made upon instructions of any Owner of \$1,000,000 or more in aggregate principal amount of 2022 Bonds delivered to the Fiscal Agent prior to the applicable Record Date. The 2022 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the 2022 Bonds. Individual purchases of the 2022 Bonds will be made in book-entry form only. Principal of and interest and premium, if any, on the 2022 Bonds will be payable by DTC through the DTC participants. See “THE 2022 BONDS – Book-Entry System” herein. Purchasers of the 2022 Bonds will not receive physical delivery of the 2022 Bonds purchased by them.

## **“Green Bond” Designation**

The City is designating the 2022B Bonds as “Green Bonds” (also known as “Climate Bonds”). The purpose of designating the 2022B Bonds as Green Bonds is to allow investors to invest directly in bonds which finance environmentally beneficial projects (“Green Projects”). The particular capital improvements that the City has defined as “Green Projects” in connection with the 2022B Bonds are part of the development of the Transbay Program and its related facilities. *The City will undertake reasonable efforts to ensure that any adjustment of capital expenditures or other actions taken with respect to the 2022B Bonds will not result in revision or withdrawal of the Climate Bonds Initiative (the “CBI”) certification described herein; however, there can be no guarantee that such adjustment or other action or a future revision to the CBI’s criteria for certifying bonds will not result in a withdrawal or revision of the CBI’s certification.* See “THE BONDS – 2022 Bonds Designated as Green Bonds” herein.

## **Outstanding Parity Bonds and Future Financings**

The City is authorized to issue on behalf of the District bonded indebtedness in an aggregate amount not to exceed \$1.4 billion (although Bonds that constitute refunding bonds under the Act will not count against this \$1.4 billion limit). The City has previously issued \$514,165,000 under this authorization, as described below. On November 9, 2017, the City, on behalf of the District, issued the first series of Bonds issued under the Fiscal Agent Agreement designated as the Special Tax Bonds, Series 2017A (Federally Taxable) (the “2017A Bonds”) and Special Tax Bonds, Series 2017B (Federally Taxable – Green Bonds) (the “2017B Bonds” and, together with the 2017A Bonds, the “2017 Bonds”). On February 26, 2019, the City, on behalf of the District, issued Special Tax Bonds, Series 2019A (Federally Taxable) (the “2019A Bonds”) and Special Tax Bonds, Series 2019B (Federally Taxable – Green Bonds) (the “2019B Bonds” and, together with the 2019A Bonds, the “2019 Bonds”). On May 14, 2020, the City, on behalf of the District, issued Special Tax Bonds, Series 2020B (Federally Taxable – Green Bonds) (the “2020B Bonds”).

On November 3, 2021, the City, on behalf of the District, issued Special Tax Bonds, Series 2021B (Federally Taxable – Green Bonds) (the “2021B Bonds”). No bonds designated “Series 2020A” or “Series 2021A” have been or are expected to be issued on behalf of the District.

## BONDS OUTSTANDING

Series	Issue Date	Original Par Amount	Outstanding Par Amount <sup>(1)</sup>	Final Maturity	Reserves <sup>(2)</sup>
Series 2017A (Federally Taxable)	11/9/2017	\$ 36,095,000	\$ 34,710,000	9/1/2048	2017 Reserve Fund
Series 2017B (Federally Taxable – Green Bonds)	11/9/2017	171,405,000	164,865,000	9/1/2048	2017 Reserve Fund
Series 2019A (Federally Taxable)	2/26/2019	33,655,000	32,485,000	9/1/2049	2017 Reserve Fund
Series 2019B (Federally Taxable – Green Bonds)	2/26/2019	157,310,000	151,975,000	9/1/2049	2017 Reserve Fund
Series 2020B (Federally Taxable – Green Bonds)	5/14/2020	81,820,000	80,060,000	9/1/2050	2017 Reserve Fund
Series 2021B (Federally Taxable – Green Bonds)	11/3/2021	33,880,000	33,450,000	9/1/2050	2017 Reserve Fund
<b>Subtotal Previously Issued</b>		<b>\$ 514,165,000</b>	<b>\$497,545,000</b>		
Series 2022A (Tax-Exempt)	12/15/2022	\$ 31,190,000	\$ 31,190,000	9/1/2052	2022 Reserve Fund
Series 2022B (Federally Taxable – Green Bonds)	12/15/2022	47,380,000	47,380,000	9/1/2051	2017 Reserve Fund
<b>Subtotal</b>		<b>\$ 78,570,000</b>	<b>\$ 78,570,000</b>		
<b>Total</b>		<b>\$ 592,735,000</b>	<b>\$576,115,000</b>		
<b>Total Bond Authorization</b>		<b>\$1,400,000,000</b>			
<b>Amounts Remaining Under Authorization</b>		<b>\$ 807,265,000</b>			

<sup>(1)</sup> As of November 1, 2022 for 2017 Bonds, 2019 Bonds, 2020B Bonds and 2021B Bonds.

<sup>(2)</sup> See “– Reserve Funds” below.

The outstanding 2017 Bonds, 2019 Bonds, 2020B Bonds and 2021B Bonds (“outstanding Parity Bonds”) and any bonds issued in the future on a parity basis with the outstanding Parity Bonds and the 2022 Bonds under the Fiscal Agent Agreement are referred to in this Official Statement collectively as the “Bonds.” The Bonds are secured by and payable from Special Tax Revenues under the Fiscal Agent Agreement on a parity basis. See “SECURITY FOR THE BONDS – Parity Bonds” herein.

### Security for the Bonds

The Bonds are secured by the pledge of Special Tax Revenues and all moneys deposited in the Bond Fund and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund.

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

“Special Taxes” means the special taxes levied by the Board of Supervisors within the District under the Act, the Ordinance, the Amended and Restated Rate and Method of Apportionment of Special Tax for the District (the “Rate and Method”) and the Fiscal Agent Agreement.

“Special Tax Prepayments” means the proceeds of any Special Tax prepayments received by the City, as calculated pursuant to the Rate and Method, less any administrative fees or penalties collected as part of any such prepayment. See “SECURITY FOR THE BONDS – General” herein.

See the section of this Official Statement captioned “SPECIAL RISK FACTORS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the 2022 Bonds.

### **Reserve Funds**

The City, on behalf of the District, established a debt service reserve fund for the 2017 Bonds pursuant to the Fiscal Agent Agreement (called the “Reserve Fund” in the Fiscal Agent Agreement, and referred to herein as the “2017 Reserve Fund”), which was initially funded with proceeds of the 2017 Bonds at the Reserve Requirement (defined herein). See “SECURITY FOR THE BONDS – Reserve Funds” herein. The 2019 Bonds, the 2020B Bonds and the 2021B Bonds were issued as Related Parity Bonds (defined below) under the Fiscal Agent Agreement and a portion of the proceeds of the 2019 Bonds, the 2020B Bonds and the 2021B Bonds, respectively, were used to make deposits to the 2017 Reserve Fund.

The Fiscal Agent Agreement authorizes the City to issue additional Parity Bonds that are Related Parity Bonds, and it also authorizes the City to issue additional Parity Bonds that are not Related Parity Bonds (in which case they may be secured by a separate debt service reserve fund or not secured by a debt service reserve fund). “Related Parity Bonds” are defined as any series of Bonds issued as Parity Bonds to the 2017 Bonds for which (i) the proceeds are deposited into the 2017 Reserve Fund so that the balance therein is equal to the Reserve Requirement following issuance of such Parity Bonds and (ii) the related Supplemental Agreement specifies that the 2017 Reserve Fund will act as a reserve for the payment of the principal of, and interest and any premium on, such series of Parity Bonds. The 2022B Bonds will be issued as “Related Parity Bonds” and will be secured by a first pledge of all moneys deposited in the 2017 Reserve Fund under the Fiscal Agent Agreement on a parity with the 2017 Bonds and existing Related Parity Bonds (i.e., 2019 Bonds, 2020B Bonds and 2021B Bonds).

The Fourth Supplement establishes a “2022 Reserve Fund” under the Fiscal Agent Agreement that will be initially funded with the proceeds of the 2022A Bonds at the 2022 Reserve Requirement (defined herein). The 2022A Bonds will be secured by a first pledge of all moneys deposited in a new 2022 Reserve Fund established under the Fourth Supplement to the Fiscal Agent Agreement. The moneys in the 2022 Reserve Fund (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the 2022A Bonds and all “2022 Related Parity Bonds” that may be issued in the future. *Amounts on deposit in the 2017 Reserve Fund are not available to support the 2022A Bonds and amounts on deposit in the 2022 Reserve Fund are not available to support the 2022B Bonds, the 2017 Bonds or outstanding Related Parity Bonds. See “SECURITY FOR THE BONDS – Reserve Funds” herein.*

### **Foreclosure Covenant**

The City, on behalf of the District, has covenanted for the benefit of the owners of the Bonds that, under certain circumstances described herein, the City will commence judicial foreclosure proceedings with respect to delinquent Special Taxes on property within the District, and will diligently pursue such proceedings to completion. See “SECURITY FOR THE BONDS – The Special Taxes” and “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure” herein.

### **Teeter Plan**

The District is currently on the City’s “Teeter Plan.” Under the Teeter Plan, the City maintains a tax loss reserve fund for the purpose of paying each taxing agency 100% of the amounts of secured taxes (including the Special Taxes of the District) levied on the tax bill irrespective of any delinquent taxes. The City has the power to unilaterally discontinue the Teeter Plan or remove the District from the Teeter Plan



by a majority vote of the Board of Supervisors. The Teeter Plan may also be discontinued by petition of two-thirds (2/3rds) of the participant taxing agencies. Discontinuation of the Teeter Plan could adversely affect the rating on the 2022 Bonds. See “SECURITY FOR THE BONDS – Teeter Plan” herein. For Fiscal Year 2021-22, there were 5 parcels with a total delinquency amount of \$36,601.42 (0.12% delinquency). There were no delinquencies in earlier fiscal years.

### **Limited Obligations**

*The 2022 Bonds are limited obligations of the City, secured by and payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. The 2022 Bonds are payable from Special Tax Revenues and certain other funds specified in the Fiscal Agent Agreement on a parity basis with the Outstanding Parity Bonds, and the City may issue additional Parity Bonds in the future. The 2022 Bonds are not payable from any other source of funds other than Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. The General Fund of the City is not liable for the payment of the principal of or interest on the 2022 Bonds, and neither the credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California or any political subdivision thereof is pledged to the payment of the 2022 Bonds.*

### **Public Health Emergencies**

The COVID-19 pandemic has had significant adverse health and financial impacts throughout the City, increasing costs and challenges to the City’s public health system, reductions in tourism and disruption of the regional and local economy, widespread business closures, worker migration out of the City due to permissive remote work policies, and unemployment concentrated recently in the tech-heavy information and professional and business services sectors. See “SPECIAL RISK FACTORS – Public Health Emergencies” herein.

### **Further Information**

Brief descriptions of the 2022 Bonds, the security for the Bonds, special risk factors, the District, the City and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the 2022 Bonds, the Fiscal Agent Agreement, resolutions and other documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2022 Bonds, the Fiscal Agent Agreement, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors’ rights. For definitions of certain capitalized terms used herein and not otherwise defined, and a description of certain terms relating to the 2022 Bonds, see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT” attached hereto.

## **THE TRANSBAY PROGRAM**

The Transbay Program (the “Transbay Program”) is a multi-billion dollar transportation infrastructure investment that includes three interconnected elements: (1) replacing the former Transbay Terminal at First and Mission Streets (“Phase 1”), (2) extending Caltrain rail tracks underground from its current terminus at 4th and King streets into the new downtown Salesforce Transit Center and accommodating planned high-speed rail (“Phase 2” or the “Downtown Rail Extension”), and (3) creating a new neighborhood with homes, offices, parks, and shops surrounding the new transit center. TJPA is charged with the responsibility of delivering the first two of these three interconnected elements and the Office of Community Investment and Infrastructure, the Successor Agency to the former Redevelopment Agency of the City and County of San Francisco, is responsible for delivering the third.

## **Transbay Terminal History**

The City's former terminal (the "Former Terminal") was built in 1939 at First and Mission Streets as the terminal for trains crossing the then newly-opened Bay Bridge. For the first time, San Francisco was directly linked by rail to the East Bay, Central Contra Costa County and even Sacramento. At the time, trucks and trains used the lower deck of the Bay Bridge, and automobiles operated in both directions on the upper deck. In its heyday at the end of World War II, the Former Terminal's rail system served 26 million passengers annually. Regional commuter buses from the East Bay, Marin County and San Mateo County, local buses within the City and long-distance buses such as Greyhound also used the Former Terminal. As automobile usage increased after the war ended and gas rationing was eliminated, the Former Terminal's use began to steadily decline. In 1958, the lower deck of the Bay Bridge was converted to automobile traffic only and the train tracks crossing the Bay Bridge were dismantled. In 1959, the inter-modal Former Terminal was converted into a bus-only facility. In 1989, the Former Terminal suffered structural damage in the Loma Prieta earthquake that required its replacement. In 1999, San Francisco voters approved a ballot measure to extend the northern terminus of Caltrain, the commuter rail line serving the San Francisco peninsula, from its current location at 4th & King Streets to a new or rebuilt transit station at the site of the Former Terminal. In 2001, the Transbay Joint Powers Authority (previously defined as the "TJPA"), a joint exercise of powers authority, was created by the City, the Alameda-Contra Costa Transit District, the Peninsula Corridor Joint Powers Board, and Caltrans (*ex officio*) to develop a new regional transit hub to replace the Former Terminal. In 2010, the Former Terminal was demolished to make way for the construction of the Salesforce Transit Center and its related facilities. A temporary terminal at Howard and Main Streets (the "Temporary Terminal") served bus passengers during such construction.

## **Transbay Redevelopment Plan and Transit Center District Plan**

After the Loma Prieta earthquake, the Embarcadero Freeway connecting the Bay Bridge to the City's northeastern waterfront Embarcadero was demolished, creating several blocks of land available for development. In 2003, the State donated to the City and the TJPA approximately 12 acres of developable land in the vicinity of the Former Terminal. The sale and development of these parcels helped to finance a portion of the Salesforce Transit Center and its related facilities.

In 2005, the City established the Transbay Redevelopment Area encompassing portions of the area surrounding the Salesforce Transit Center, generally bounded by Mission Street and Folsom Street between Spear Street and Second Street. Tax increment generated and forecast to be generated in this approximately 40 acre Redevelopment Area helped to finance portions of the Salesforce Transit Center and ancillary neighborhood improvements. The Redevelopment Plan specifically laid out development parameters for most of the formerly-State owned parcels that once held the Embarcadero Freeway.

In 2012, the City adopted the Transit Center District Plan (the "TCDP") to shape growth on the southern side of downtown San Francisco to respond to and support the construction of the Salesforce Transit Center. The TCDP provides policy recommendations to accommodate additional transit-oriented growth, sculpt the downtown skyline, improve streets and open spaces, and expand protection of historic resources. The TCDP encourages development around the Salesforce Transit Center and its related facilities by eliminating density caps and increasing certain height limits, primarily for privately-owned parcels and a small number of formerly-State owned parcels donated to the TJPA in the area.

The District was formed in 2014 to raise funds to finance certain public improvements, including the Salesforce Park, the Train Box and the Downtown Rail Extension, as well as other capital improvements relating to the development of the area around the Salesforce Transit Center. See "THE DISTRICT" herein.

## **Phase 1 of the Transbay Program: Salesforce Transit Center and Related Facilities**

**General.** The Salesforce Transit Center is a six-story modern, regional transportation hub connecting eight Bay Area counties through eleven bus and rail transit systems. It includes retail space and an innovative rooftop park, an above-grade bus deck level and space for planned regional and high speed rail. A new off-site bus storage facility and bus ramp connects the Salesforce Transit Center with the San Francisco-Oakland Bay Bridge.

**Train Box.** The core and shell of the two below-grade levels of the Salesforce Transit Center, collectively referred to as the “Train Box,” were built during the first phase of the Transbay Program to accommodate the planned Downtown Rail Extension. The bottom level will have three passenger platforms to accommodate six train tracks for Caltrain and California High Speed Rail. The lower concourse is one level below grade and will serve as the passenger connection between the Salesforce Transit Center building ground floor and the train platforms. Space will be provided in the concourse for retail, ticketing and bike storage. Fit-out of the Train Box is planned to be completed in Phase 2.

**Salesforce Park.** Constructed during Phase 1, the Salesforce Transit Center’s roof is a 5.4 acre, 1,400-foot long public elevated park (the “Salesforce Park”) that includes, an outdoor amphitheater, gardens, trails, open grass areas, and children’s play space, as well as a restaurant and cafe. The Salesforce Park serves as a “green roof” or “living” roof for the Salesforce Transit Center. It provides shade to much of the ground-level sidewalk when the sun is strongest and provides biological habitat for flora and fauna and public open space for transit passengers, neighborhood residents, and employees. It also acts as insulation for interior spaces, moderating heat build-up in warm weather and retaining heat during cooler weather. Unlike asphalt paving or dark colored roofing surfaces, planting on the green roof cools the surrounding environment and improves air quality by acting as a carbon sink. As a biological organism itself, the park helps to capture and filter the exhaust in the area and helps to improve the air quality of the neighborhood. In July 2019, a new privately-owned and operated gondola opened that provides access to Salesforce Park from the plaza in front of Salesforce Tower.

**Status of the Salesforce Transit Center.** The Salesforce Transit Center’s grand opening was August 12, 2018, but the building temporarily closed in September 2018 for repairs. Subsequently, crews repaired two fissured beams, conducted a thorough facility-wide review, cooperated with an independent review, recommissioned the facility and reopened it to the public in July 2019. The City has no indication that there is a regional settling or subsidence issue that contributed to the fissures.

## **Phase 2 of the Transbay Program: Downtown Rail Extension and Related Facilities**

The Downtown Rail Extension will extend Caltrain commuter rail from its current terminus at 4th and King streets into the Train Box within the Salesforce Transit Center. It will also deliver the California High-Speed Rail Authority’s planned high-speed rail service to the Salesforce Transit Center. The 1.3-mile rail extension (1.95 miles of total construction length) will be constructed principally below grade using cut-and-cover and mined tunneling methods underneath Townsend and Second Streets. The project includes an underground station at 4th and Townsend streets, six structures for emergency exit, ventilation along the alignment, utility relocation, rail systems work, and the completion of the tracks, systems, and passenger facilities within the Train Box within the Salesforce Transit Center. Two elements of Phase 2, a pedestrian tunnel from the Salesforce Transit Center to the BART Embarcadero Station and additional intercity bus facilities, have been deferred. The completion date for Phase 2 is dependent on funding availability.

## THE FINANCING PLAN

The 2022A Bonds are being issued to: (i) finance, refinance or reimburse a portion of the costs of the planning, design, engineering, and construction of streetscape and pedestrian improvements around the Salesforce Transit Center, acquisition of transit vehicles, and enhancements at BART Embarcadero Station, including modifying a stairway and modernizing an elevator; (ii) fund a contribution to a debt service reserve fund securing the 2022A Bonds and certain other bonds that may be issued in the future, described in this Official Statement; and (iii) fund costs of issuance, all as further described herein. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The 2022B Bonds are being issued to: (i) finance, refinance or reimburse a portion of the costs of the planning, design, engineering, right of way acquisition and construction of certain capital improvements that are part of the Transbay Program, including the Downtown Rail Extension capital improvement project, by the TJPA, including the engineering of the train components of the Salesforce Transit Center building and engineering work related to a new station at Fourth and Townsend; (ii) fund a contribution to a debt service reserve fund securing the 2022B Bonds, certain outstanding parity bonds and certain other bonds that may be issued in the future, as described in this Official Statement; and (iii) fund costs of issuance, all as further described herein. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

### ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are set forth below:

	<u>2022A Bonds</u>	<u>2022B Bonds</u>	<u>Total</u>
<b><u>Sources of Funds</u></b>			
Principal Amount	\$31,190,000.00	\$47,380,000.00	\$78,570,000.00
Premium	1,828,759.90	-	1,828,759.90
Total Sources	\$33,018,759.90	\$47,380,000.00	\$80,398,759.90
<b><u>Uses of Funds</u></b>			
2022A Improvement Account <sup>(1)</sup>	\$28,227,220.39	\$ -	\$28,227,220.39
BART Improvement Account, 2022A Subaccount	1,747,753.74	-	1,747,753.74
Deposit to Allocated Bond Proceeds Account	-	43,457,508.31	43,457,508.31
Deposit to Reserve Funds	2,592,547.68 <sup>(2)</sup>	3,235,908.53 <sup>(3)</sup>	5,828,456.21
Costs of Issuance <sup>(4)</sup>	451,238.09	686,583.16	1,137,821.25
Total Uses	\$33,018,759.90	\$47,380,000.00	\$80,398,759.90

<sup>(1)</sup> Of this amount, \$28,170,765.95 will be used to pay Project costs and \$56,454.44, which represents 0.2% of the deposit to the 2022A Improvement Account, will be used to pay for the City’s Office of the Controller’s audit costs related to Project costs.

<sup>(2)</sup> The deposit into the 2022 Reserve Fund will cause the balance in the 2022 Reserve Fund to equal the 2022 Reserve Requirement as of the date of issuance of the 2022A Bonds.

<sup>(3)</sup> The deposit into the existing 2017 Reserve Fund will cause the balance in such 2017 Reserve Fund to equal the Reserve Requirement as of the date of issuance of the 2022B Bonds, which will be \$41,406,927.00. The 2022B Bonds constitute Related Parity Bonds and will be secured by the 2017 Reserve Fund on a parity basis with the 2017 Bonds and the outstanding Related Parity Bonds.

<sup>(4)</sup> Includes Underwriters’ discount, fees and expenses for Co-Bond Counsel, Disclosure Counsel, Municipal Advisor, the Special Tax Consultant, the Fiscal Agent and its counsel, costs of printing the Official Statement, rating agency fees, and other costs of issuance of the 2022 Bonds.

## THE 2022 BONDS

### Description of the 2022 Bonds

The 2022 Bonds will be issued as fully registered bonds, in denominations of \$5,000 or any integral multiple in excess thereof within a single maturity and will be dated and bear interest from the date of their delivery, at the rates set forth on the inside cover page hereof. The 2022 Bonds will be issued in fully registered form, without coupons. The 2022 Bonds will mature on September 1 in the principal amounts and years as shown on the inside cover page hereof.

The 2022 Bonds will bear interest at the rates set forth on the inside cover page hereof, payable on the Interest Payment Dates in each year. Interest on all Bonds shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Dated Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer to an account located in the United States of America made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date, which instructions shall continue in effect until revoked in writing, or until such Bonds are transferred to a new Owner. "Record Date" means the fifteenth day of the calendar month next preceding the applicable Interest Payment Date, whether or not such day is a Business Day. The interest, principal of and any premium on the Bonds are payable in lawful money of the United States of America, with principal and any premium payable upon surrender of the Bonds at the Principal Office of the Fiscal Agent. All Bonds paid by the Fiscal Agent pursuant this Section shall be canceled by the Fiscal Agent.

### Redemption

***Optional Redemption.*** The 2022A Bonds maturing on or after September 1, 2033 are subject to redemption prior to their stated maturities, on any date on and after September 1, 2032, in whole or in part, at a redemption price equal to the principal amount of the 2022A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The 2022B Bonds maturing on or after September 1, 2033 are subject to redemption prior to their stated maturities, on any date on and after September 1, 2032, in whole or in part, at a redemption price equal to the principal amount of the 2022B Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

***Mandatory Sinking Fund Redemption.*** The Term Bonds are subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal

to the principal amount thereof to be redeemed, together with accrued interest to the redemption date, without premium, in the aggregate respective principal amounts all as set forth in the following tables:

2022A Bonds Maturing September 1, 2042

Sinking Fund Redemption Date (September 1)	Principal Amount Subject to Redemption
2038	\$1,060,000
2039	1,155,000
2040	1,260,000
2041	1,370,000
2042*	1,490,000

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\* Maturity.

2022A Bonds Maturing September 1, 2047

Sinking Fund Redemption Date (September 1)	Principal Amount Subject to Redemption
2043	\$1,605,000
2044	1,740,000
2045	1,875,000
2046	2,020,000
2047*	2,170,000

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\* Maturity.

2022A Bonds Maturing September 1, 2052

Sinking Fund Redemption Date (September 1)	Principal Amount Subject to Redemption
2048	\$3,080,000
2049	2,365,000
2050	1,230,000
2051	500,000
2052*	535,000

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\* Maturity.

[Remainder of page intentionally left blank.]

2022B Bonds Maturing September 1, 2042

Sinking Fund Redemption Date (September 1)	Principal Amount Subject to Redemption
2038	\$1,675,000
2039	1,855,000
2040	2,060,000
2041	2,260,000
2042*	2,485,000

\* Maturity.

2022B Bonds Maturing September 1, 2051

Sinking Fund Redemption Date (September 1)	Principal Amount Subject to Redemption
2043	\$2,725,000
2044	2,990,000
2045	3,265,000
2046	3,565,000
2047	3,580,000
2048	3,145,000
2049	2,085,000
2050	2,270,000
2051*	2,460,000

\* Maturity.

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

***Redemption from Special Tax Prepayments.*** Special Tax Prepayments and any corresponding transfers from the respective reserve fund shall be used to redeem 2022 Bonds on the next Interest Payment Date for which notice of redemption can timely be given, among series and maturities as provided in the Fiscal Agent Agreement (see “ – *Partial Redemption*” below), at a redemption price (expressed as a percentage of the principal amount of the 2022 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption. Special Tax Prepayments would be allocated among all Outstanding Bonds.

<u>Redemption Date</u>	<u>Redemption Price</u>
Any Interest Payment Date on or before March 1, 2030	103%
On September 1, 2030 and March 1, 2031	102
On September 1, 2031 and March 1, 2032	101
On September 1, 2032 and any Interest Payment Date thereafter	100

***Notice of Redemption.*** The Fiscal Agent shall cause notice to be sent at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the Securities Depositories, to one or more Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books in the Principal Office of the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to send or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds. Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption shall state as to any Bond called in part the principal amount thereof to be redeemed, and shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date. The cost of mailing any such redemption notice and any expenses incurred by the Fiscal Agent in connection therewith shall be paid by the City from amounts in the Administrative Expense Fund.

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

***Partial Redemption.*** Whenever provision is made in the Fiscal Agent Agreement for the redemption of less than all of the Bonds, unless otherwise directed by the City, the Fiscal Agent shall select the Bonds to be redeemed, from all Bonds or such given portion thereof not previously called for redemption, among series and maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption, and by lot within a maturity. In connection with a redemption under “Redemption from Special Tax Prepayments” above, the City shall deliver to the Fiscal Agent a certificate of an Independent Financial Consultant to the effect that, for each Fiscal Year after the proposed redemption, the maximum amount of the Special Taxes that, based on Taxable Parcels following the related Special Tax Prepayment, may be levied for such Fiscal Year under the Ordinance, the Fiscal Agent Agreement and any Supplemental Agreement shall be at least 110% of the total Annual Debt Service of the remaining Outstanding Bonds following such Special Tax Prepayment and redemption for the Bond Year that commences in such Fiscal Year.

***Purchase of Bonds in Lieu of Redemption.*** In lieu of redemption under the Fiscal Agent Agreement, moneys in the Bond Fund or other funds provided by the City may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer’s Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer’s Certificate may provide, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such Bonds were to be redeemed in accordance with the Fiscal Agent Agreement. Any Bonds purchased shall be treated as Outstanding Bonds under this Fiscal Agent Agreement, except to the extent otherwise directed by the Finance Director.

## **The Fiscal Agent**

Zions Bancorporation, National Association has been appointed as the Fiscal Agent for all of the Bonds under the Fiscal Agent Agreement. For a further description of the rights and obligations of the



Fiscal Agent pursuant to the Fiscal Agent Agreement, see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT” attached hereto.

### **Book-Entry System**

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC’s partnership nominee), and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the Owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Fiscal Agent, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC’s Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM” attached hereto.

### **2022B Bonds Designated as Green Bonds**

**General.** The City is designating the 2022B Bonds as “Green Bonds” (also known as “Climate Bonds”). The purpose of designating the 2022B Bonds as Green Bonds is to allow investors to invest directly in bonds that finance environmentally beneficial projects (“Green Projects”). The particular capital improvements that the City has defined as “Green Projects” in connection with the 2022B Bonds are part of the development of the Transbay Program, including the Downtown Rail Extension, a facility that is expected to deliver rail service directly to downtown San Francisco and eliminate 36,000 metric tons of carbon dioxide emissions annually, when completed.

Because the 2022B Bonds have been designated as Green Bonds, proceeds of the 2022B Bonds in the Allocated Bond Proceeds Account are expected to be spent only on Green Projects, including the Downtown Rail Extension. If any moneys in the Allocated Bond Proceeds Account are not spent on Green Project costs of the Transbay Program the City shall, within thirty (30) days after such expenditure, provide written notice of such expenditure to The Climate Bonds Initiative in accordance with the Fiscal Agent Agreement.

The terms “Green Project,” “Green Bonds” and “Climate Bonds” are neither defined in, nor related to, provisions in the Resolution or the Fiscal Agent Agreement. Owners of the 2022B Bonds do not have any security other than as provided in the Fiscal Agent Agreement.

**Climate Bonds Initiative and Certification.** The CBI is an international, investor-focused non-profit organization working to focus the global bond market on climate change solutions through the development and promotion of an efficient Green Bond market. The CBI has established and manages the Climate Bonds Standard (the “Climate Bonds Standard”) under which the 2022B Bonds have been certified, in accordance with the “Low Carbon Land Transport Criteria” under the Climate Bonds Standard and the programmatic certification process described below. The certification of the 2022B Bonds reflects only the views of the CBI and no assurance can be provided that CBI standards with respect to the Green Projects identified herein will not change. The explanation of the significance of this certification may be obtained from the CBI. The City has provided certain information and materials to the CBI, including information concerning the Salesforce Transit Center, Train Box and Downtown Rail Extension. The City expects to spend the proceeds of the Green Bonds specifically to finance portions of the Downtown Rail Extension.

As part of the certification process in 2017, Sustainalytics U.S., Inc., a subsidiary of Sustainalytics Holding, B.V, Netherlands (collectively, “Sustainalytics”), provided a programmatic certification that the City’s Green Projects are consistent with the Low Carbon Land Transport Criteria of the Climate Bonds Standard. As part of their process, Sustainalytics provided a pre-issuance verification letter regarding the use of the 2017B Bonds, the first bond series issued for this programmatic certification. Since then, Sustainalytics has provided a post-issuance review and post-issuance verification letter for the 2017B Bonds, the 2019B Bonds, the 2020B Bonds and the 2021B Bonds that they were issued consistent with this program. CBI’s certification on a programmatic basis does not require a pre-issuance verification for the 2022B Bonds to be included in the programmatic certification. The City expects Sustainalytics will provide a similar post-issuance verification letter for the 2022B Bonds in the timeframe required under the programmatic certification process.

The certification of the 2022B Bonds as Green Bonds by the CBI is based solely on the Climate Bond Standard and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the 2022B Bonds or any project, including but not limited to this Official Statement, the transaction documents, the City or the management of the City.

**The pre-issuance verification letter delivered by the CBI was addressed solely to the City and is not a recommendation to any person to purchase, hold or sell any bonds and such verification letter or any post-issuance verification with respect to any bonds does not address the market price or suitability of any bonds for a particular investor, including to fulfill environmental and/or sustainability criteria that may be required by such investor.** In particular, no assurance is given by the City or any Underwriter that the use of such proceeds will satisfy, in whole or in part, any present or future investor expectations or requirements as to any investment criteria or guidelines with such investor or its investments are required to comply, whether by any present or future applicable law or regulations, or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental impact of any uses of the proceeds of the Bonds. The programmatic certification also does not address the merits of the decision by the City or any third party to participate in any project and does not express and should not be deemed to be an expression of an opinion as to the City or any aspect of any project (including, but not limited, to the financial viability of any project) other than with respect to conformance of a project with the Climate Bond Standard.

The 2022B Bonds will not constitute “exempt facility bonds” issued to finance “green building and sustainable design projects” within the meaning of Section 142(1) of the Internal Revenue Code of 1986.

In issuing or monitoring, as applicable, the certification, the CBI has assumed and relied upon and will assume and rely upon the accuracy and completeness in all material respects of the information supplied or otherwise made available to the CBI. The CBI does not assume or accept any responsibility to any person for independently verifying (and it has not verified) such information or to undertake (and it has not undertaken) any independent evaluation of any project of the City. In addition, the CBI does not assume any obligation to conduct (and it has not conducted) any physical inspection of a project. The programmatic certification may only be used with respect to the 2017B Bonds, the 2019B Bonds, the 2020B Bonds, the 2021B Bonds and the 2022B Bonds and may not be used for any other purpose without the CBI’s prior written consent.

The certification does not and is not in any way intended to address the likelihood of timely payment of interest when due on the 2022B Bonds and/or the payment of principal at maturity or any other date. The certification may be withdrawn at any time in the CBI’s sole and absolute discretion and there can be no assurance that such certification will not be withdrawn.

The CBI is not a licensed broker-dealer or a nationally recognized statistical ratings organization. Certification by the CBI is not a recommendation to buy, sell or hold securities, and such certification may be subject to revision or withdrawal, including, without limitation, if the City's future capital expenditures from the proceeds of the 2022B Bonds vary from the anticipated expenditures reviewed by the CBI. The City will undertake reasonable efforts to ensure that any adjustment of capital expenditures or other actions taken with respect to the 2022B Bonds will not result in revision or withdrawal of the CBI's certification; however, there can be no guarantee that such adjustment or other action or a future revision to the CBI's criteria for certifying bonds will not result in a withdrawal or revision of the CBI's certification.

The Fiscal Agent Agreement does not restrict the use of proceeds of the 2022B Bonds or future issuances of bonds to the financing of Green Projects. Also, in the future, the City, on behalf of the District, may issue additional bonds which are not designated as Green Bonds or certified by the CBI. The repayment obligations with respect to the 2022B Bonds are not conditioned on the completion of any particular project or the satisfaction of any condition relating to the status of the 2022B Bonds as Green Bonds or the certification of such bonds by the CBI. See "SECURITY FOR THE BONDS" herein.

Pursuant to the Continuing Disclosure Certificate, the City will provide to the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access website ("EMMA") an annual report with a statement confirming, if applicable, that during the most recent fiscal year, proceeds of the 2022B Bonds were spent only on the Green Projects identified herein. In addition, under the Continuing Disclosure Certificate, within 10 days after the City receives a written statement from the Climate Bonds Initiative to the effect that the 2022B Bonds are no longer certified in accordance with the "Low Carbon Land Transport Criteria" under the Climate Bonds Standard, the City will post, or cause to be posted, notice of such written statement on EMMA. See APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

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## DEBT SERVICE

### Debt Service Schedule

The following is the debt service schedule for the 2022A Bonds and the 2022B Bonds, assuming no redemptions other than mandatory sinking fund redemptions.

Bond Year Ending (September 1)	2022A Bonds			2022B Bonds			Grand Total
	Principal	Interest	Total	Principal	Interest	Total	
2023	\$ 545,000.00	\$ 1,108,977.78	\$ 1,653,977.78	\$ 860,000.00	\$ 2,067,115.77	\$ 2,927,115.77	\$ 4,581,093.55
2024	155,000.00	1,532,250.00	1,687,250.00	125,000.00	2,865,618.76	2,990,618.76	4,677,868.76
2025	200,000.00	1,524,500.00	1,724,500.00	200,000.00	2,859,458.76	3,059,458.76	4,783,958.76
2026	240,000.00	1,514,500.00	1,754,500.00	270,000.00	2,849,390.76	3,119,390.76	4,873,890.76
2027	290,000.00	1,502,500.00	1,792,500.00	350,000.00	2,835,558.66	3,185,558.66	4,978,058.66
2028	345,000.00	1,488,000.00	1,833,000.00	430,000.00	2,817,453.16	3,247,453.16	5,080,453.16
2029	395,000.00	1,470,750.00	1,865,750.00	520,000.00	2,794,504.06	3,314,504.06	5,180,254.06
2030	455,000.00	1,451,000.00	1,906,000.00	600,000.00	2,766,231.66	3,366,231.66	5,272,231.66
2031	515,000.00	1,428,250.00	1,943,250.00	710,000.00	2,733,021.66	3,443,021.66	5,386,271.66
2032	580,000.00	1,402,500.00	1,982,500.00	825,000.00	2,693,368.16	3,518,368.16	5,500,868.16
2033	645,000.00	1,373,500.00	2,018,500.00	945,000.00	2,646,466.90	3,591,466.90	5,609,966.90
2034	720,000.00	1,341,250.00	2,061,250.00	1,060,000.00	2,591,798.66	3,651,798.66	5,713,048.66
2035	800,000.00	1,305,250.00	2,105,250.00	1,210,000.00	2,529,947.66	3,739,947.66	5,845,197.66
2036	880,000.00	1,265,250.00	2,145,250.00	1,355,000.00	2,458,739.16	3,813,739.16	5,958,989.16
2037	970,000.00	1,221,250.00	2,191,250.00	1,500,000.00	2,378,319.92	3,878,319.92	6,069,569.92
2038	1,060,000.00	1,172,750.00	2,232,750.00	1,675,000.00	2,288,544.90	3,963,544.90	6,196,294.90
2039	1,155,000.00	1,119,750.00	2,274,750.00	1,855,000.00	2,185,331.40	4,040,331.40	6,315,081.40
2040	1,260,000.00	1,062,000.00	2,322,000.00	2,060,000.00	2,071,026.30	4,131,026.30	6,453,026.30
2041	1,370,000.00	999,000.00	2,369,000.00	2,260,000.00	1,944,089.10	4,204,089.10	6,573,089.10
2042	1,490,000.00	930,500.00	2,420,500.00	2,485,000.00	1,804,827.90	4,289,827.90	6,710,327.90
2043	1,605,000.00	856,000.00	2,461,000.00	2,725,000.00	1,651,702.20	4,376,702.20	6,837,702.20
2044	1,740,000.00	775,750.00	2,515,750.00	2,990,000.00	1,479,155.20	4,469,155.20	6,984,905.20
2045	1,875,000.00	688,750.00	2,563,750.00	3,265,000.00	1,289,828.40	4,554,828.40	7,118,578.40
2046	2,020,000.00	595,000.00	2,615,000.00	3,565,000.00	1,083,088.60	4,648,088.60	7,263,088.60
2047	2,170,000.00	494,000.00	2,664,000.00	3,580,000.00	857,352.80	4,437,352.80	7,101,352.80
2048	3,080,000.00	385,500.00	3,465,500.00	3,145,000.00	630,667.20	3,775,667.20	7,241,167.20
2049	2,365,000.00	231,500.00	2,596,500.00	2,085,000.00	431,525.80	2,516,525.80	5,113,025.80
2050	1,230,000.00	113,250.00	1,343,250.00	2,270,000.00	299,503.60	2,569,503.60	3,912,753.60
2051	500,000.00	51,750.00	551,750.00	2,460,000.00	155,767.20	2,615,767.20	3,167,517.20
2052	535,000.00	26,750.00	561,750.00	-	-	-	561,750.00
<b>Total</b>	<b>\$31,190,000.00</b>	<b>\$30,431,977.78</b>	<b>\$61,621,977.78</b>	<b>\$47,380,000.00</b>	<b>\$58,059,404.31</b>	<b>\$105,439,404.31</b>	<b>\$167,061,382.09</b>

## Projected Debt Service Coverage

The following table sets forth projected debt service coverage with respect to the outstanding Parity Bonds and the 2022 Bonds, assuming Special Taxes are collected when levied on only the current Taxable Buildings and no optional redemptions.

<b>Fiscal Year Ending<sup>(1)</sup></b>	<b>Outstanding Parity Bonds Debt Service<sup>(2)</sup></b>	<b>2022 Bonds Debt Service<sup>(3)</sup></b>	<b>Total 2022 Bonds and Parity Bonds Debt Service</b>	<b>Projected Maximum Special Tax Revenue<sup>(3)(4)</sup></b>	<b>Projected Debt Service Coverage<sup>(5)</sup></b>
2023	\$ 24,528,627	\$ 4,581,094	\$ 29,109,720	\$ 32,070,269	110%
2024	25,019,608	4,677,869	29,697,477	32,711,674	110
2025	25,517,358	4,783,959	30,301,317	33,365,907	110
2026	26,029,669	4,873,891	30,903,560	34,033,226	110
2027	26,546,777	4,978,059	31,524,836	34,713,890	110
2028	27,080,675	5,080,453	32,161,128	35,408,168	110
2029	27,619,355	5,180,254	32,799,609	36,116,331	110
2030	28,174,701	5,272,232	33,446,932	36,838,658	110
2031	28,737,890	5,386,272	34,124,162	37,575,431	110
2032	29,310,376	5,500,868	34,811,244	38,326,940	110
2033	29,900,666	5,609,967	35,510,633	39,093,479	110
2034	30,496,466	5,713,049	36,209,515	39,875,348	110
2035	31,104,789	5,845,198	36,949,986	40,672,855	110
2036	31,728,818	5,958,989	37,687,807	41,486,312	110
2037	32,362,656	6,069,570	38,432,226	42,316,038	110
2038	33,010,283	6,196,295	39,206,578	43,162,359	110
2039	33,669,475	6,315,081	39,984,556	44,025,606	110
2040	34,341,739	6,453,026	40,794,766	44,906,118	110
2041	35,031,836	6,573,089	41,604,925	45,804,241	110
2042	35,731,241	6,710,328	42,441,569	46,720,326	110
2043	36,445,300	6,837,702	43,283,002	47,654,732	110
2044	37,172,943	6,984,905	44,157,848	48,607,827	110
2045	37,920,671	7,118,578	45,039,250	49,579,983	110
2046	38,674,617	7,263,089	45,937,706	50,571,583	110
2047	36,732,958	7,101,353	43,834,311	48,249,375	110
2048	37,464,789	7,241,167	44,705,956	49,214,362	110
2049	18,192,568	5,113,026	23,305,593	25,656,440	110
2050	7,084,850	3,912,754	10,997,604	12,106,233	110
2051	-	3,167,517	3,167,517	3,490,329	110
2052	-	561,750	561,750	3,560,136	634
<b>Total</b>	<b>\$845,631,701</b>	<b>\$167,061,382</b>	<b>\$1,012,693,083</b>	<b>\$1,117,914,176</b>	

Totals may not add due to rounding.

(1) Projected maximum Special Tax Revenues are presented for the fiscal year ending on June 30 of each year; debt service is presented for the bond year ending September 1 of each year.

(2) Includes debt service payable on the outstanding 2017 Bonds, 2019 Bonds, 2020B Bonds and 2021B Bonds, net of any capitalized interest.

(3) Special Taxes may only be levied on any individual parcel in the District for a maximum term of 30 years. Accordingly, certain of the parcels with Taxable Buildings will no longer be subject to the Special Tax levy prior to the final maturity of the 2022 Bonds. Debt service on the Bonds has been structured to maintain coverage from projected maximum Special Tax Revenues of at least 110%, reflecting the termination of the levy on Taxable Buildings within the District. See "SPECIAL RISK FACTORS – Maximum Term of Levy" herein.

(4) Projection reflects only the current Taxable Buildings.

(5) Represents projected Special Tax Revenues divided by the total annual debt service for the outstanding Parity Bonds and the 2022 Bonds.

## SECURITY FOR THE BONDS

### General

The Bonds will be secured by a first pledge pursuant to the Fiscal Agent Agreement of all of the Special Tax Revenues and all moneys deposited in the Bond Fund (including the Special Tax Prepayments Account) and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. The Special Tax Revenues and all moneys deposited into such funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under the Fiscal Agent Agreement. “Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments thereof and any Special Tax Prepayments, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon, but shall not include any interest in excess of the interest due on the Bonds or any penalties collected in connection with any such foreclosure.

The 2022A Bonds are secured by the 2022 Reserve Fund, and the 2017 Bonds, the 2022B Bonds and the outstanding Related Parity Bonds are secured by the 2017 Reserve Fund. See “– Reserve Funds” below. *Amounts on deposit in the 2017 Reserve Fund are not available to support the 2022A Bonds and amounts on deposit in the 2022 Reserve Fund are not available to support the 2022B Bonds, the 2017 Bonds or outstanding Related Parity Bonds.*

The Special Taxes are to be apportioned, levied and collected according to the Rate and Method on Parcels developed with Taxable Buildings. In general, Special Taxes can only be levied on a property within the District if: (i) the property is a “Conditioned Project,” as defined in the Rate and Method; (ii) a Certificate of Occupancy has been issued for the property; and (iii) a Tax Commencement Authorization for the property has been executed by the Director, Controller’s Office of Public Finance. A Conditioned Project is a Development Project that is required to participate in funding Authorized Facilities through the District, because it received a zoning bonus to exceed the height and floor-to-area ratios that would have otherwise been applicable under the City’s Planning Code. See APPENDIX B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto.

### Limited Obligation

*The Bonds are limited obligations of the City, secured by and payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. The 2022 Bonds are payable from Special Tax Revenues and certain other funds specified in the Fiscal Agent Agreement on a parity basis with certain outstanding bonds, and the City may issue additional parity bonds in the future. The Bonds are not payable from any other source of funds other than Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. The General Fund of the City is not liable for the payment of the principal of or interest on the Bonds, and neither the credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.*

### Teeter Plan

The Board of Supervisors of the City adopted the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds” (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, in 1993 pursuant to Resolution No. 830-93. The Teeter Plan provides for the allocation and distribution of property tax levies and collections and of tax sale proceeds. *Under the Teeter Plan, the City will maintain a tax loss reserve fund for the purpose of paying*

*each taxing agency 100% of the amounts of secured taxes (including the Special Taxes of the District) levied on the tax bill irrespective of any delinquent taxes.* By Resolution No. 245-17, adopted on June 13, 2017, the Board of Supervisors extended the Teeter Plan to the allocation and distribution of Special Taxes.

The City also maintains a Tax Loss Reserve. The Tax Loss Reserve set aside is equal to 1% of the total of all taxes and assessments levied for which the Teeter Plan is the applicable distribution method. The purpose of the Tax Loss Reserve is to cover losses that may occur. The amount has grown in recent years as the assessed values on the secured roll has grown. For a discussion of the status of the City's Tax Loss Reserve, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Tax Levy and Collection" attached hereto.

The Special Taxes levied in the District are the only community facilities district special taxes in the City that are currently distributed based upon the Teeter method. There are also four city-wide parcel taxes, which are similarly billed as direct charges on property tax bills, that are distributed based upon the Teeter method. The extension of the Teeter Plan to Special Taxes levied in the District shall remain in effect unless otherwise discontinued in accordance with applicable law. The City has the power to include additional taxing agencies on the Teeter Plan. The Teeter Plan may be discontinued by petition of two-thirds (2/3rds) of the participant taxing agencies. In addition, the City has the power to unilaterally discontinue the Teeter Plan or remove the District from the Teeter Plan by a majority vote of the Board of Supervisors. The City currently has no plan to remove the District from the Teeter Plan. Discontinuation of the Teeter Plan in respect of the Special Taxes levied in the District could adversely affect the rating on the 2022 Bonds. Such rating reflects only the views of Fitch Ratings and any desired explanation of the significance of such rating should be obtained from Fitch Ratings. See "RATING" herein.

### **Special Tax Fund**

***Special Tax Fund.*** Pursuant to the Fiscal Agent Agreement, there is established a "Special Tax Fund" to be held by the Fiscal Agent, to the credit of which the Fiscal Agent will deposit amounts received from or on behalf of the City consisting of Special Tax Revenues and amounts transferred from the Administrative Expense Fund and the Bond Fund. The City has agreed in the Fiscal Agent Agreement that it will promptly remit any Special Tax Revenues received by it to the Fiscal Agent for deposit by the Fiscal Agent to the Special Tax Fund. Notwithstanding the foregoing,

(i) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be separately identified by the Finance Director and shall be disposed of by the Fiscal Agent as follows:

- first, for transfer to the Bond Fund to pay any past due debt service on the Bonds;
- second, without preference or priority for transfer to (a) the 2017 Reserve Fund to the extent needed to increase the amount then on deposit in the 2017 Reserve Fund up to the then Reserve Requirement, (b) the 2022 Reserve Fund to the extent needed to increase the amount then on deposit in the 2022 Reserve Fund up to the then 2022 Reserve Requirement and (c) the reserve account for any Parity Bonds that are not Related Parity Bonds or 2022 Related Parity Bonds to the extent needed to increase the amount then on deposit in such reserve account up to the amount then required to be on deposit therein (and in the event the collection of delinquencies in payment of Special Taxes are not sufficient for the purposes of this clause, such amounts shall be applied to the 2017 Reserve Fund, the 2022 Reserve Fund and any other reserve accounts ratably based on the then Outstanding principal amount of the Bonds); and

- third, to be held in the Special Tax Fund for use as described in below under “– *Disbursements from the Special Tax Fund*”; and

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

Moneys in the Special Tax Fund shall be held by the Fiscal Agent for the benefit of the City and Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

***Disbursements from the Special Tax Fund.*** At least seven (7) days prior to each Interest Payment Date or redemption date, as applicable, the Fiscal Agent will withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

(i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Improvement Fund, the 2017 Reserve Fund, the 2022 Reserve Fund and any reserve account for Parity Bonds that are not Related Parity Bonds and the Special Tax Prepayments Account to the Bond Fund such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date or redemption date, and any past due principal or interest on the Bonds not theretofore paid from a transfer described in clause second of subparagraph (ii) above under “– *Special Tax Fund*”; and

(ii) without preference or priority (a) to the 2017 Reserve Fund an amount, taking into account amounts then on deposit in the 2017 Reserve Fund, such that the amount therein is equal to the Reserve Requirement, (b) to the 2022 Reserve Fund an amount, taking into account amounts then on deposit in the 2022 Reserve Fund, such that the amount therein is equal to the 2022 Reserve Requirement, and (c) to the reserve account for any Parity Bonds that are not Related Parity Bonds or 2022 Related Parity Bonds, as applicable, taking into account amounts then on deposit in such reserve account, such that the amount in such reserve account is equal to the amount required to be on deposit therein (and in the event that amounts in the Special Tax Fund are not sufficient for the purposes of this paragraph, such amounts shall be applied to the 2017 Reserve Fund, the 2022 Reserve Fund and any other reserve accounts ratably based on the then Outstanding principal amount of the Bonds).

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



## **Administrative Expense Fund**

The Fiscal Agent will transfer from the Special Tax Fund and deposit in the Administrative Expense Fund established under the Fiscal Agent Agreement an amount equal to the amount specified in an Officer's Certificate to be used to pay an Administrative Expense or a Cost of Issuance. Amounts deposited in the Administrative Expense Fund are not pledged to the repayment on the Bonds.

## **Bond Fund**

The Bond Fund is established under the Fiscal Agent Agreement as a separate fund to be held by the Fiscal Agent. Moneys in the Bond Fund will be held by the Fiscal Agent for the benefit of the Owners of the Bonds, and shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below.

***Flow of Funds for Payment of Principal and Interest.*** At least ten (10) days before each Interest Payment Date, the Fiscal Agent shall notify the Finance Director in writing as to the principal and premium, if any, and interest due on the Bonds on the next Interest Payment Date (whether as a result of scheduled principal of and interest on the Bonds, optional redemption of the Bonds or a mandatory sinking fund redemption). On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds. Notwithstanding the foregoing, amounts in the Bond Fund as a result of a transfer of the collections of delinquent Special Taxes will be immediately disbursed by the Fiscal Agent to pay past due amounts owing on the Bonds.

At least five (5) days prior to each Interest Payment Date, the Fiscal Agent shall determine if the amounts then on deposit in the Bond Fund are sufficient to pay the debt service due on the Bonds on the next Interest Payment Date. If amounts in the Bond Fund are insufficient for such purpose, the Fiscal Agent promptly will notify the Finance Director by telephone (and confirm in writing) of the amount of the insufficiency.

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

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

(ii) Withdraw from the 2022 Reserve Fund, in accordance with the provisions of the Fiscal Agent Agreement, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to the 2022A Bonds and any 2022 Related Parity Bonds. Amounts so withdrawn shall be deposited in the Bond Fund.

(iii) Withdraw from the reserve funds, if any, established under a Supplemental Agreement related to Parity Bonds that are not Related Parity Bonds or 2022 Related Parity Bonds, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to such Parity Bonds. Amounts so withdrawn from the reserve fund shall be deposited in the Bond Fund.

If, after the foregoing transfers and application of such funds for their intended purposes, there are insufficient funds in the Bond Fund to make the payments provided for in the Fiscal Agent Agreement, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the

payment of principal due on the Bonds other than by reason of sinking payments, if any, and then to payment of principal due on the Bonds by reason of sinking payments. Each such payment shall be made ratably to the Owners of the Bonds based on the then Outstanding principal amount of the Bonds, if there are insufficient funds to make the corresponding payment for all of the then Outstanding bonds, subject to the restrictions on the uses of any funds as set forth in the Fiscal Agent Agreement. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

Any failure by the Fiscal Agent to provide the notices required by the Fiscal Agent Agreement will not alter the obligation of the City to make the scheduled payments from amounts in the Bond Fund.

***Special Tax Prepayments Account.*** Within the Bond Fund a separate account will be held by the Fiscal Agent, designated the “Special Tax Prepayments Account.” Moneys in the Special Tax Prepayments Account will be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given under the Fiscal Agent Agreement and will be used (together with any amounts transferred for the purpose) to redeem Bonds on the redemption date selected in accordance with the Fiscal Agent Agreement.

### **Reserve Funds**

The District established the 2017 Reserve Fund for the benefit of the 2017 Bonds, the outstanding Related Parity Bonds and any future Bonds issued as Related Parity Bonds pursuant to the Fiscal Agent Agreement. The 2022B Bonds will be Related Parity Bonds. Upon the delivery of the 2022B Bonds, the Reserve Fund will be funded in the amount of \$41,406,927.00 to satisfy the Reserve Requirement.

Under the Fourth Supplement, the District is establishing a 2022 Reserve Fund for the benefit of the 2022A Bonds and any future 2022 Related Parity Bonds. Upon the delivery of the 2022A Bonds, the 2022 Reserve Fund will be funded in the amount of \$2,592,547.68 to satisfy the 2022 Reserve Requirement.

*Amounts on deposit in the 2017 Reserve Fund are not available to support the 2022A Bonds and amounts on deposit in the 2022 Reserve Fund are not available to support the 2022B Bonds or Related Parity Bonds.*

Except as otherwise provided in the Fiscal Agent Agreement, all amounts deposited in the 2017 Reserve Fund and the 2022 Reserve Fund will be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the 2017 Bonds, the Related Parity Bonds, the 2022A Bonds or the 2022 Related Parity Bonds, as applicable, in accordance with the Fiscal Agent Agreement.

See “INTRODUCTION – Reserve Funds” and APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT” attached hereto for further information about the 2017 Reserve Fund, the 2022 Reserve Fund and the funding requirements for each fund.

### **Rate and Method of Apportionment of Special Taxes**

*The following is a brief summary of certain provisions of the Rate and Method. This summary does not purport to be comprehensive and reference should be made to the full Rate and Method attached hereto as Appendix B.*

***Certain Definitions.*** All capitalized terms not defined in this section have the meanings set forth in the Rate and Method attached hereto as Appendix B.

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

“Affordable Housing Project” means a residential or primarily residential project, as determined by the Zoning Authority, within which all Residential Units are Below Market Rate Units.

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

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

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

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

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

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

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

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

“Taxable Parcel” means, within a Taxable Building, any Parcel that is not exempt from the Special Tax pursuant to law or the Rate and Method. If, in any Fiscal Year, a Special Tax is levied on only Net New Square Footage in a Taxable Building, only the Parcel(s) on which the Net New Square Footage is located shall be Taxable Parcel(s) for purposes of calculating and levying the Special Tax pursuant to the Rate and Method. “Net New Square Footage” means any Square Footage added to a Taxable Building after the Initial Square Footage in the Building has paid Special Taxes in one or more Fiscal Years.

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

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

**General.** A Special Tax applicable to each Taxable Parcel in the District shall be levied and collected according to the tax liability determined by the Administrator through the application of the appropriate amount or rate for Square Footage of a Taxable Parcel, as described below. All Taxable Parcels in the District shall be taxed for the purposes, to the extent, and in the manner provided in the Rate and Method, including property subsequently annexed to the District unless a separate Rate and Method of Apportionment of Special Tax is adopted for the Future Annexation Area.

In general, Special Taxes can only be levied on a property within the District if: (i) the property is a “Conditioned Project,” as defined in the Rate and Method, (ii) a Certificate of Occupancy has been issued for the property and (iii) a Tax Commencement Authorization for the property has been executed by the Director, Controller’s Office of Public Finance. Special Taxes cannot be levied on: (i) undeveloped property within the District or (ii) any parcel that has not met the conditions specified in the first sentence of this paragraph.

See APPENDIX B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto.

**Special Tax Rates.** The Rate and Method provides how the Special Tax Rates are determined generally based on a maximum tax rate per square foot that varies based on type of building, height of building, year of initial taxation and an annual escalator. See APPENDIX B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto.

**Maximum Special Tax.** Upon issuance of a Tax Commencement Authorization and the first Certificate of Occupancy for a Taxable Building within a Conditioned Project that is not an Affordable Housing Project, the Administrator shall coordinate with the Zoning Authority to determine the Square Footage of each Land Use on each Taxable Parcel. The Administrator shall then apply the steps set forth in the Rate and Method to determine the Maximum Special Tax for the next succeeding Fiscal Year for each Taxable Parcel in the Taxable Building.

**Annual Escalation in Special Tax Rates.** The Maximum Annual Special Tax Rates applicable to a Taxable Building escalate annually at 2% per year. Until a Maximum Annual Special Tax Rate is established for a Taxable Building, the Initial Annual Adjustment Factor is used to increase or decrease the Base Special Tax each July 1 by not more than four percent (4%) of the amount in effect in the prior Fiscal Year. The Base Special Tax rates are used to calculate the Maximum Special Tax for each Taxable Parcel in a Taxable Building for the first Fiscal Year in which the Building is a Taxable Building. See APPENDIX

B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto. The Initial Annual Adjustment Factor, subject to the limits described in the Rate and Method, is equal to the Annual Infrastructure Construction Cost Inflation Estimate (the “AICCIE”), as of July 1 of the applicable Fiscal Year, published by the Office of the City Administrator’s Capital Planning Group and used to calculate the annual adjustment to the City’s development impact fees that took effect as of January 1 of the prior Fiscal Year pursuant to the City’s Planning Code. The AICCIE and the Initial Annual Adjustment Factors since Fiscal Year 2014-15 are summarized on the following table.

<u>(Fiscal Year)</u>	<u>AICCIE</u>	<u>Initial Annual Adjustment</u>
2014-15	4.50%	4.00%
2015-16	5.00	4.00
2016-17	5.00	4.00
2017-18	5.00	4.00
2018-19	5.75	4.00
2019-20	6.00	4.00
2020-21	5.50	4.00
2021-22	3.50	3.50
2022-23	6.00	4.00

Source: City; Special Tax Consultant.

For a discussion of changes to the Maximum Special Tax under the Rate and Method, see APPENDIX B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto.

### **Covenant for Superior Court Foreclosure**

**General.** In the event of a delinquency in the payment of any installment of Special Taxes, the City is authorized by the Act to order institution of an action in the Superior Court of the State to foreclose any lien therefor. In such action, the real property subject to the Special Taxes may be sold at a judicial foreclosure sale. The ability of the City to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner in the event the property is owned by or in receivership of the Federal Deposit Insurance Corporation (the “FDIC”) or other similar federal agencies. See “SPECIAL RISK FACTORS – Bankruptcy and Foreclosure” and “SPECIAL RISK FACTORS – Tax Delinquencies” herein. Such judicial foreclosure proceedings are not mandatory under the Act.

There could be a default or a delay in payments to the owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the City of foreclosure sale proceeds, if any, and subsequent transfer of those proceeds to the City. Special Taxes may be levied on all property within the District up to the maximum amount permitted under the Rate and Method to provide the amount required to pay debt service on the Bonds, however, the Special Tax levy on property used for private residential purposes may not increase by more than 10% above the amount that would have been levied in that Fiscal Year as a consequence of delinquencies or defaults by the owners of any other parcels in the District.

Under current law, a judgment debtor (property owner) has at least 120 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action a foreclosure sale is set aside, the judgment is revived, the judgment creditor is entitled to interest on the revived judgment and any liens extinguished by the sale are revived as if the sale had not been made (Section 701.680 of the Code of Civil Procedure of the State of California).

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

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

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

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

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

### **No Obligation of the City Upon Delinquency**

The City is under no obligation to transfer any funds of the City into the Special Tax Fund or any other funds or accounts under the Fiscal Agent Agreement for the payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes, other than Special Tax Revenues. See “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure” herein, for a discussion of the City’s obligation to foreclose Special Tax liens upon delinquencies, and “SECURITY FOR THE BONDS – Reserve Funds” herein, for a discussion of the reserve funds established under the Fiscal Agent Agreement. Notwithstanding the foregoing, so long as the District is included in the Teeter Plan, the Fiscal Agent will receive 100% of the Special Tax levy regardless of any delays in the payment or collection of the Special Taxes.

The City has the power to unilaterally discontinue the Teeter Plan or remove the District from the Teeter Plan by a majority vote of the Board of Supervisors. The Teeter Plan may also be discontinued by petition of two-thirds (2/3rds) of the participant taxing agencies. Discontinuation of the Teeter Plan could adversely affect the rating on the 2022 Bonds. See “– Teeter Plan” above.

## Parity Bonds

The City may issue Bonds in addition to the outstanding Parity Bonds and the 2022 Bonds under a Supplemental Agreement entered into by the City and the Fiscal Agent. Any such Parity Bonds shall be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds under the Fiscal Agent Agreement on a parity with all other Bonds Outstanding under the Fiscal Agent Agreement. The principal amount of the 2022 Bonds and all Parity Bonds cannot exceed \$1.4 billion (although Parity Bonds that constitute refunding bonds under the Act will not count against this \$1.4 billion limit). The City may issue such Parity Bonds, on a parity basis with the 2022 Bonds and the outstanding Parity Bonds, subject to the following specific conditions precedent:

(A) *Compliance.* The City shall be in compliance with all covenants set forth in the Fiscal Agent Agreement and all Supplemental Agreements, and issuance of the Parity Bonds shall not cause the City to exceed the District's \$1.4 billion limitation on debt (Bonds that constitute refunding bonds under the Act will not count against this \$1.4 billion limit).

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

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

The Supplemental Agreement providing for issuance of the Parity Bonds shall provide for one of the following:

(i) a deposit to a then- existing reserve fund (such as the 2017 Reserve Fund or the 2022 Reserve Fund) in an amount necessary such that the amount deposited therein shall equal the applicable reserve requirement following issuance of the Parity Bonds;

(ii) a deposit to a reserve account for the Parity Bonds (and such other series of Parity Bonds identified by the City) other than a then-existing reserve fund in an amount defined in such Supplemental Agreement, as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to the 2017 Reserve Fund or the 2022 Reserve Fund and that the Owners of the Bonds covered by such reserve account will have no interest in or claim to any other reserve account; or

(iii) no deposit to either the 2017 Reserve Fund, the 2022 Reserve Fund or another reserve account as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to a then-existing reserve.

The Supplemental Agreement may provide that the City may satisfy the reserve requirement for a series of Parity Bonds by the deposit into the reserve account established pursuant to such Supplemental Agreement of an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company as described in the Supplemental Agreement.

(D) *Value.* The CFD Value shall be at least three (3) times the sum of: (i) the aggregate principal amount of all Bonds then Outstanding, plus (ii) the aggregate principal amount of the series of Parity Bonds proposed to be issued, plus (iii) the aggregate principal amount of any fixed assessment liens on the parcels in the District subject to the levy of Special Taxes, plus (iv) a portion of the aggregate

principal amount of any and all other community facilities district bonds then outstanding and payable at least partially from special taxes to be levied on parcels of land within the District (the “Other District Bonds”) equal to the aggregate outstanding principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on parcels of land within the District, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land against which the special taxes are levied to pay the Other District Bonds (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent available Fiscal Year.

(E) *Coverage.* For each Fiscal Year after issuance of the Parity Bonds, the maximum amount of the Special Taxes that, based on Taxable Parcels as of the date of issuance of such Parity Bonds, may be levied for such Fiscal Year under the Ordinance, the Agreement and any Supplemental Agreement for each respective Fiscal Year, shall be at least 110% of the total Annual Debt Service of the then Outstanding Bonds and the proposed Parity Bonds for each Bond Year that commences in each such Fiscal Year, and the aggregate Special Tax Prepayments that could occur after the issuance of the Parity Bonds shall be not less than the principal amount of the Outstanding Bonds and the proposed Parity Bonds. “Bond Year” means the one-year period beginning on September 2nd in each year and ending on September 1 in the following year.

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

Notwithstanding the foregoing, the City may issue Refunding Bonds as Parity Bonds without the need to satisfy the requirements of clauses (D) or (E) above, and, in connection therewith, the Officer’s Certificate in clause (F) above need not make reference to clauses (D) and (E). The City is not prohibited from issuing any other bonds or otherwise incurring debt secured by a pledge of the Special Tax Revenues subordinate to the pledge under the Fiscal Agent Agreement.

## **THE CITY**

### **General**

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (previously defined as the “Bay”). The City is located at the northern tip of the San Francisco Peninsula, generally bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the Napa and Sonoma “wine country” is about an hour’s drive to the north. The City is among the most populous cities in California as well as the country. As of January 1, 2022, the State estimated the City’s population to be more than 876,000.

The City has historically benefited from a broad economic base, anchored by several major technology companies. In addition, the City is near Silicon Valley, a region regarded as a global center for technology and innovation, and concentrations of biotechnology companies and institutions in the City, as well as neighboring South San Francisco and Emeryville. San Francisco has historically ranked among the highest average income counties in the country. The City is served by two major airports: San Francisco International Airport and Oakland International Airport. There are multiple universities located in or near the City, such as University of California, Berkeley, Stanford University, University of San Francisco, San Francisco State University and University of California, San Francisco.



For additional information regarding the City, see APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO” attached hereto.

### **General Impact of COVID-19 Pandemic on San Francisco**

The COVID-19 pandemic has resulted in reductions in tourism and disruption of the regional and local City economy, widespread business closures, worker migration out of the City due to permissive remote work policies, and unemployment concentrated recently in the tech-heavy information and professional and business services sectors. The effects of COVID-19 have negatively impacted in particular the City’s the real estate market. The demand for, and value of, office, retail and residential space in the Taxable Buildings has been, and may continue to be, adversely effected. While significant portions of the population of the State of California (including the City) have been vaccinated, COVID-19 variants have resulted and may continue to result in increased infection rates from time to time and the imposition of certain restrictions on commercial and other activities. See “SPECIAL RISK FACTORS – Public Health Emergencies” and APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES” attached hereto.

### **Office Vacancy in San Francisco**

On October 19, 2022, the Chief Economist of the City’s Office of the Controller released a memorandum regarding the impact of remote work on commercial property and tax revenue in the City. The following summarizes limited portions of such memorandum.

While office attendance continues its slow recovery, at about 40% of pre-pandemic levels, the City continues to lag most other metro areas. The City has reportedly experienced the largest increase in office vacancy among major urban office markets in the United States. Because of the prevalence of long-term leases in the commercial real estate industry, sudden reductions in demand often result in increases in sublease vacancy, instead of direct vacancy. Sublease vacancy occurs when existing tenants vacate their space and seek to find sub-lessees, but continue to pay rent under the original lease. A direct vacancy occurs when the original lease has been broken, or has expired and not been renewed. In this case, the property’s income declines until a new lease is signed. In San Francisco, sublease vacancies were a very high percentage (80-90%) of office vacancies during 2020 and 2021. In 2022, the sublease vacancy rate has declined, while the direct vacancy rate has continued to rise.

By mid-2022, direct vacancies accounted for most of the vacant office space in San Francisco according to Jones Lang LaSalle IP, Inc. (“JLL”). The increase in the vacancy rate since 2020 has influenced office market forecasts generally, in ways that can inform property tax revenue forecasts. For example, JLL has developed a series of office vacancy rate forecasts for the San Francisco market through the year 2026. In the forecast, JLL generally shows historically high office vacancy rates persisting. JLL forecasts office vacancy in the City to remain between 19.5% and 25.3% by 2026, a range which is as high, or higher than any previous peak in office vacancy dating back to the 1990s. JLL also forecasts rents to rise again by the end of the forecast period, but at a slower rate than was seen in the 2010s. If vacancy rates remain at this elevated level, and a large share of these are direct vacancies, then the income, and market value, of office buildings in the City are likely to be negatively affected. The market value of commercial real estate reflects the current and future income that the market expects the property to generate. If expectations of future income streams are reduced, then the market value of office properties will be reduced. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES” attached hereto.

## **THE DISTRICT**

### **Formation**

On July 15, 2014, the Board of Supervisors of the City adopted Resolution No. 247-14 stating its intent to form the District under the Act and Resolution No. 246-14, in which it declared its intention to incur bonded indebtedness on behalf of the District in an aggregate amount not to exceed \$1.4 billion (Bonds that constitute refunding bonds under the Act will not count against this \$1.4 billion limit). On September 23, 2014, after holding a noticed public hearing, the Board of Supervisors adopted Resolution Nos. 350-14 and 351-14, forming the District and, subject to approval by the qualified electors, approving the levy of special taxes within the District according to the Rate and Method, an annual appropriations limit for the District not to exceed \$300,000,000 and bonded indebtedness in an amount not to exceed \$1.4 billion. On December 29, 2014, an election was held within the District pursuant to the Act at which at least two-thirds of the qualified landowner electors approved the levy of special taxes according to the Rate and Method, incurrence of bonded indebtedness in an aggregate amount not to exceed \$1.4 billion and the appropriations limit. On January 13, 2015, the Board of Supervisors adopted Ordinance No. 1-15, levying special taxes in the District. The Mayor approved the Ordinance on January 20, 2015. See “SECURITY FOR THE BONDS” herein and APPENDIX B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto.

At the time it established the District, the City also established the Future Annexation Area for the District to enable properties to annex into the District with fewer procedural requirements than would otherwise be required under the Act. Property owners in the Future Annexation Area annex into the District by executing a unanimous approval. Under the Act, a unanimous approval constitutes the vote of a qualified elector in favor of the matters addressed in the unanimous approval for purposes of the California Constitution.

### **Taxable Buildings**

In general, Special Taxes can only be levied on a property within the District if: (i) the property is a “Conditioned Project,” as defined in the Rate and Method, (ii) a Certificate of Occupancy has been issued for the property and (iii) a Tax Commencement Authorization for the property has been executed by the City through the Director, Controller’s Office of Public Finance. There are currently ten Taxable Buildings which are subject to the District’s Special Tax levied by the Board of Supervisors of the City. In addition to the ten Taxable Buildings, there are currently two additional Conditioned Projects in the District and six Conditioned Projects in the Future Annexation Area planned for residential, commercial or mixed use development that may become subject to the Special Tax. See “SPECIAL RISK FACTORS – Concentration of Property Ownership” herein.

The following table sets forth the Taxable Buildings contributing to the Special Tax Revenues that are available to pay debt service on the Bonds, taxable square footage of each Taxable Building used to calculate Maximum Annual Special Tax Revenues, and the first year in which each Taxable Building became subject to the Special Tax levy.

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**Table 1**  
**Community Facilities District No. 2014-1**  
**(Transbay Transit Center)**  
**Taxable Buildings<sup>(1)</sup>**

<b>Projects</b>	<b>Street Address</b>	<b>Office (sq. ft.)</b>	<b>Retail (sq. ft.)</b>	<b>Hotel (sq. ft.)</b>	<b>Rental Residential (sq. ft.)</b>	<b>For-Sale Residential (sq. ft.)</b>	<b>Building Stories</b>	<b>First Fiscal Year of Special Tax Levy</b>	<b>Final Fiscal Year of Special Tax Levy</b>
Salesforce East	350 Mission Street	47,645	4,355	-	-	-	30	2016-17	2045-46
Solaire (Block 6)	299 Fremont Street	-	7,204	-	288,937	-	32	2016-17	2045-46
Salesforce Tower	415 Mission Street	1,413,397	6,789	-	-	-	61	2018-19	2047-48
33 Tehama	41 Tehama Street	-	788	-	236,375	-	34	2018-19	2047-48
181 Fremont Street	181 Fremont Street	433,669	2,663	-	-	121,328	54	2018-19	2047-48
Park Tower (Block 5)	250 Howard Street	755,914	8,745	-	-	-	43	2019-20	2048-49
The Avery (Block 8)	450/488 Folsom Street	-	16,988	-	191,362	210,102	55	2019-20	2048-49
500 Folsom (Block 9)	500 Folsom Street	-	5,678	-	316,671	-	42	2020-21	2049-50
Mira (Block 1)	160 Folsom Street	-	10,201	-	-	301,097	39	2020-21	2049-50
One Steuart Lane	75 Howard Street	-	4,910	-	-	218,704	20	2022-23	2051-52
<b>Total</b>		<b>2,650,625</b>	<b>68,321</b>	<b>-</b>	<b>1,033,345</b>	<b>851,231</b>			

<sup>(1)</sup> Only square footage subject to the Special Tax is displayed. Total square footage may differ. Building stories information is based on the Rate and Method's designation of the "Building Height," which is the highest story occupied by a land use subject to the Special Tax. Total building stories may differ.  
Source: San Francisco Planning Department; OCII; Special Tax Consultant.

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## Description of Existing Taxable Buildings

Each of the ten buildings in the District listed on Table 1 above have received a Certificate of Occupancy and a Tax Commencement Authorization and thus constitute “Taxable Buildings.” The Special Tax will be levied on the Taxable Buildings based on all or a portion of the square footage of each building, not on the building’s assessed valuation. See “SECURITY FOR THE BONDS” herein. The levy of the Special Tax is not contingent upon the leasing or sale of space in any of the Taxable Buildings. **The City has obtained certain information relating to the following buildings from publicly available information. However, the City does not guarantee such information, which is provided for general reference only.** The information below regarding ownership, number of condominium sales and ranges of assessed values for condominium units sold were derived from the tax roll reported as of July 1, 2022 and reflect assessed values as of January 1, 2022. Ownership, condominium sales, leasing information and ranges of assessed values for condominium units may have changed and remain subject to change. See “– Taxable Buildings Summary, Special Tax Levy, Assessed Values and Value to Lien Ratios” below and “SPECIAL RISK FACTORS - Value to Lien Ratios; Future Indebtedness; Parity Liens” herein.

***Solaire (Block 6) (299 Fremont Street).*** The buildings located at 299 Fremont Street include a 32-story residential tower and 7 townhomes with a total of 409 rental units marketed as Solaire. The total leasable square feet in the buildings is 296,141. All of the residential units are intended to serve as rental housing with unit sizes ranging from 422 square foot studio units to 1,562 square foot, two-bedroom, two-and-a-half bath units. Amenities include a fitness center, community room and kitchen, media room, game room, yoga studio, and a roof deck lounge and spa. The buildings were completed in February 2017 and opened in March 2017. The City understands that the building was developed by an affiliate of Golub Real Estate Corporation. According to the most recent Assessor’s tax roll, the owner of the 299 Fremont Street property is Block 6 Joint Venture LLC. The residential tower contains 7,204 square feet of retail space on the ground floor. Solaire also includes affordable housing that is not subject to the Special Tax. The Special Tax was first levied for these buildings in Fiscal Year 2016-17. An assessment appeal has been filed for tax year 2022. The City cannot predict what if any reduction may be made to the assessed value of this property.

***Salesforce East (350 Mission Street).*** The building located at 350 Mission Street is a 30-story LEED® Platinum-certified office tower completed in 2015 containing approximately 420,000 square feet of floor area. The Special Tax was first levied for this building in Fiscal Year 2016-17. The lobby features a cantilever, with 90 feet of glass panels that slide open and closed, adjoining the lobby to the street. The lobby includes a cafe and restaurant, amphitheater seating, and space that can be configured for pop-up events. A commissioned work of digital art in the lobby animates a 70-by-38-foot LED screen that is visible from the street. The City understands that salesforce.com, inc. (“Salesforce.com”), a global cloud computing company (publicly traded as CRM on the New York Stock Exchange), was originally the primary tenant in the building. According to news reports, Salesforce.com has reportedly offered for sublease some portion of its space since the onset of the COVID-19 pandemic.

According to the most recent Assessor’s tax roll, KR 350 Mission LLC is the owner of the 350 Mission Street property. According to the annual filing for the fiscal year ended December 31, 2021 with the Securities and Exchange Commission, KR 350 Mission LLC is a subsidiary of Kilroy Realty Corporation and Kilroy Realty, L.P.

The Special Tax for 350 Mission Street is calculated based solely on the square footage of three floors that allowed a zoning bonus, which constitutes a Conditioned Project under the Rate and Method. Prior to adoption of the TCDP and the levy of the Special Tax, the 350 Mission Street project was entitled at approximately 24 stories and 375 feet in height, which was the maximum density allowed at that time,

despite the fact that the height limit for the planned building was 550 feet. After the TCDP was approved, while the project was already under construction, the developer was able to re-entitle the project to add several stories to permit a higher building. This sequencing is why only a few floors are subject to the Special Tax. If the project had first been entitled after the TCDP was adopted, the entire building would have been subject to the Special Tax. However, the Special Tax levy is secured by the full 350 Mission Street parcel.

***Salesforce Tower (415 Mission Street).*** The building located at 415 Mission Street contains a mix of office and retail uses. The building is currently the tallest in the City and the second-tallest west of the Mississippi River with a top roof height of 970 feet and an overall height of 1,070 feet. The building has 61 floors with 13-foot high ceilings. The building is LEED® Core and Shell Platinum certified and contains a number of environmentally friendly features. The total leasable square feet in the building is 1,420,186. The City believes that most of the office space was initially leased upon completion, with Salesforce.com leasing approximately 50% of the space. The City is aware, however, that some spaces in the building are currently offered for lease or sublease. The City is not aware of how much space in the building is currently offered for lease or sublease, which could be substantial. Salesforce.com also purchased the naming rights for the building. According to the most recent Assessor's tax roll, the owner of the 415 Mission Street property is Transbay Tower LLC. According to the annual filing for the fiscal year ended December 31, 2021 with the Securities and Exchange Commission, Transbay Tower LLC is a subsidiary of Boston Properties, Inc. and Boston Properties Limited Partnership. Occupancy of the building began in 2018. The Special Tax for this building was first levied in Fiscal Year 2018-19.

***33 Tehama (41 Tehama Street).*** The building located at 41 Tehama Street is 34 stories and contains 403 units of multi-family luxury apartments and a small retail space, 343 of which are subject to the Special Tax. The building is marketed as "33 Tehama." Building amenities include a gym and the entire top floor developed with lounges, co-working space, a kitchen for entertaining, outdoor terraces, barbeque areas and a game room. The total leasable square feet in the building is 278,663. The building opened in January 2018. In early June 2022, an estimated 20,000 gallons of water from a sprinkler main failure flooded the building, which forced its evacuation and relocation of tenants. Another water leak occurred on August 10, 2022 resulting in another evacuation of the building, including construction workers. Reportedly, the building will remain uninhabitable until late 2022 or early 2023. The City can offer no assurance about when the building will be habitable again. The City understands that the building was developed by an affiliate of Hines, a real estate management and investment firm. According to the most recent Assessor's tax roll, the owner of the 33 Tehama property is 41 Tehama LP. An assessment appeal has been filed for tax year 2022. The City cannot predict what if any reduction may be made to the assessed value of this property.

***181 Fremont (181 Fremont Street).*** The building located at 181 Fremont Street is 54 stories and includes 557,660 square feet of taxable space. The building is marketed as "181 Fremont." The lower 34 floors include 433,669 square feet of leasable office space and 2,663 square feet of leasable retail space. The City understands that all of the office space in the building was originally leased by Facebook (now owned by Meta Platforms), but may now be subleased at least in part. The upper floors include 67 luxury condominiums (121,328 square feet of taxable space) marketed as 55 for-sale condominiums and 12 accessory units for guest quarters. The residential lobby is twenty-five feet tall and enclosed in glass. Amenities encompass an entire floor and feature a wrap-around observation terrace, The Conservatory, Bay Terrace, fitness center with yoga room, two lounges, a library, catering kitchen, and conference room. The building opened in April 2018. The City understands that the building was developed by an affiliate of Jay Paul Company. According to the most recent Assessor's tax roll, the owners of 181 Fremont include 181 Fremont Office LLC (office portion), 181 Fremont Street LLC (remaining unsold condominium units), and individual condominium owners. The Special Tax was first levied for this building in Fiscal Year 2018-19.

Minor assessment appeals have been filed for tax year 2022. The City cannot predict what if any reduction may be made to the assessed value of this property.

As of July 1, 2022, 36 condominiums and 5 accessory units have reportedly been purchased, with Fiscal Year 2022-23 assessed values ranging from approximately \$2.2 million to \$16.1 million for the condominium units and \$1.5 million to \$1.9 million for the accessory units.

***Park Tower (Block 5) (250 Howard Street).*** The building located at 250 Howard Street is a 43-story, 605-foot tower containing 755,914 square feet of office space and 8,745 of retail space. The building is marketed as “Park Tower.” The City understands that all of the office space in the building was leased to Facebook, Inc. (now Meta Platforms, Inc., doing business as Meta). The City understands that the building was developed by MetLife, the John Buck Co. and Golub & Co. through a limited liability company. According to the most recent Assessor’s tax roll, the owner of the 250 Howard Street property is Park Tower Owner LLC. The building received its Temporary Certificate of Occupancy and a Tax Commencement Authorization in October 2018. The Special Tax was first levied for this building in Fiscal Year 2019-20.

***The Avery (Block 8) (450/488 Folsom Street).*** The buildings, marketed as “The Avery,” include a 56-story tower that contains 280 market rate apartment units (subject to the Special Tax), and a podium building that contains 150 affordable apartment units (not subject to the Special Tax). In addition, there are 118 for-sale condominiums and 16,988 square feet of ground floor retail (both subject to the Special Tax) set around an open space. The buildings include a lobby, shared laundry facility, rooftop community garden, community room, an outdoor play area, and bicycle parking available in the parking garage. The City understands that the Related Companies and Tenderloin Neighborhood Development Corporation, through a limited partnership, collectively developed the 100% affordable podium building and that an affiliate of the Related Companies developed the tower building. According to the most recent Assessor’s tax roll, the owners at The Avery include T8 Urban Housing Associates LLC (apartments and retail), T8 Urban Condo Owner LLC (unsold condominium units), and individual condominium owners. The buildings received a Temporary Certificate of Occupancy and a Tax Commencement Authorization in April 2019. The Special Tax was first levied for this building in Fiscal Year 2019-20.

As of July 1, 2022, 62 condominiums have reportedly been purchased, with Fiscal Year 2022-23 assessed values ranging from approximately \$1.6 million to \$11.2 million. Aggregate Fiscal Year 2022-23 assessed values for the building declined materially from Fiscal Year 2021-22, with an estimated 20% decline in aggregate condominium values and 5% decline in aggregate apartment rental values. Minor assessment appeals have been filed for tax year 2022. The City cannot predict what if any reduction may be made to the assessed value of this property.

***500 Folsom (Block 9) (500 Folsom Street).*** The building located at 500 Folsom Street is a 42-story tower with 537 rental apartments and ground floor retail space. The building is marketed as “500 Folsom.” The residential units include studios, one- and two-bedroom apartment homes, of which 428 units are market rate and subject to the Special Tax. The building contains social spaces and amenities such as a spa, gated underground parking, community gardens, fitness center, yoga and spin rooms, as well as a community room. The City understands that the building was developed by Essex Property Trust, Inc. and TMG. According to the most recent Assessor’s tax roll, the owners of 500 Folsom are Block 9 MRU Residential LLC (certain apartments) and Block 9 Upper MRU & Retail LLC (certain other apartments and retail). The building received its Temporary Certificate of Occupancy and a Tax Commencement Authorization in September 2019. The Special Tax was first levied for this building in Fiscal Year 2020-21.

***Mira (Block 1) (160 Folsom Street).*** The development features a tower and two townhome/podium structure buildings, a central courtyard and a roof deck accessible to all residents. The tower building located at 280 Spear Street (previously part of 160 Folsom Street) is a 39-story tower that contains 236 for-sale market rate condominium units (subject to the Special Tax). The tower contains 80 inclusionary for-sale affordable condominium units (not subject to the Special Tax). An additional 76 for-sale affordable condominium units are located in the adjacent podium building located at 285 Main Street. The project also features about 10,201 square feet of ground-floor retail space. The Block 1 development is marketed as “Mira” and includes condominiums with studios, one, two and three-bedroom homes, including 20 penthouse homes on the top five floors of the building. Amenities include a rooftop deck space, central courtyard, private dining room, club lounge, gym, children’s playroom, business and conference center, dog-washing station, valet parking, electric vehicle charging stations and bike parking. The project has LEED Gold certification, a high sustainability mark, and includes a graywater harvesting system, green roof, and high-efficiency fixtures.

As of July 1, 2022, 174 market rate condominiums have reportedly been purchased, with Fiscal Year 2022-23 assessed values ranging from approximately \$724,000 to \$7.3 million. The City understands that the building was developed by Tishman Speyer. According to the most recent Assessor’s tax roll, the owners at Mira include Block One Property Holder LP (remaining unsold condominium units) and individual condominium owners. The building received its Temporary Certificate of Occupancy in May 2020 and Tax Commencement Authorization in June 2020. The Special Tax was first levied for this building in Fiscal Year 2020-21. Minor assessment appeals have been filed for tax year 2022. The City cannot predict what if any reduction may be made to the assessed value of this property.

***One Stuart Lane (75 Howard Street).*** The building located at 75 Howard Street is a 220-foot-tall tower containing 120 condominium residential units on 20 floors above a 5,000-square-foot premier restaurant space. The project has LEED Gold certification. According to the most recent Assessor’s tax roll, the owners at One Stuart Lane include 75 Howard Owner LP (holding the remaining unsold condominium units) and individual condominium owners. The building received its Temporary Certificate of Occupancy in July 2021 and Tax Commencement Authorization in March 2022. The Special Tax was first levied for this building in Fiscal Year 2022-23.

As of July 1, 2022, 20 condominiums have reportedly been purchased, with Fiscal Year 2022-23 assessed values ranging from approximately \$1.2 million to \$7.4 million.

### **Taxable Buildings Summary, Special Tax Levy, Assessed Values and Value to Lien Ratios**

The table below reflects assessed values for Fiscal Year 2022-23 reported by the Assessor on July 1, 2022. As assessment appeals are processed or as a result of property sales, assessed values could decline. The Assessor may also process additional temporary Proposition 8 reductions in subsequent years. The impact of the COVID-19 pandemic on the City and the District, a downturn of the economy or other market factors may depress assessed values in subsequent years and result in lower value-to-lien ratios than presented below. As a consequence, the City cannot predict or give any assurance whether property values may decline and whether any such declines would adversely affect the willingness of property owners to timely pay their Special Taxes. See “SPECIAL RISK FACTORS – Value to Lien Ratios; Future Indebtedness; Parity Liens” herein.

**Table 2**  
**Community Facilities District No. 2014-1**  
**(Transbay Transit Center)**  
**Taxable Buildings, Assessed Values and Value to Lien Ratios**

<b>Building and Land Use Category</b>	<b>Square Feet</b>	<b>FY 2022-23 Special Tax Levy</b>	<b>Percent of FY 2022-23 Special Tax Levy</b>	<b>Allocable Share of Bonds <sup>(1)</sup></b>	<b>FY 2022-23 Assessed Value</b>	<b>Value-to-Lien Ratio</b>
Salesforce East (350 Mission Street) <sup>(2)</sup>						
Office	47,645	\$263,151	0.8%	\$4,727,281	--	--
Retail	4,355	17,544	0.1%	315,154	--	--
Subtotal	52,000	\$280,694	0.9%	\$5,042,435	\$424,753,163	84.24
Solaire (Block 6) (299 Fremont Street) <sup>(3)</sup>						
Rental Residential	288,937	\$1,762,881	5.5%	\$31,668,658	--	--
Retail	7,204	29,020	0.1%	521,325	--	--
Subtotal	296,141	\$1,791,902	5.6%	\$32,189,984	\$317,724,061	9.87
Salesforce Tower (415 Mission Street)						
Office	1,413,397	\$9,139,302	28.5%	\$164,179,767	--	--
Retail	6,789	28,432	0.1%	510,748	--	--
Subtotal	1,420,186	\$9,167,734	28.6%	\$164,690,515	\$1,839,390,574	11.17
33 Tehama (41 Tehama Street) <sup>(3)</sup>						
Rental Residential	236,375	\$1,503,543	4.7%	\$27,009,867	--	--
Retail	788	3,300	0.0%	59,283	--	--
Subtotal	237,163	\$1,506,843	4.7%	\$27,069,149	\$295,559,704	10.92
181 Fremont (181 Fremont Street) <sup>(3)</sup>						
For Sale Residential	121,328	\$1,175,997	3.7%	\$21,125,784	\$330,354,907	15.64
Retail/Office	436,332	2,815,341	8.8%	50,575,202	504,809,720	9.98
Subtotal	557,660	\$3,991,338	12.4%	\$71,700,985	\$835,164,627	11.65
Park Tower (Block 5) (250 Howard Street)						
Office	755,914	\$4,760,426	14.8%	\$85,516,984	--	--
Retail	8,745	37,341	0.1%	670,802	--	--
Subtotal	764,659	\$4,797,767	15.0%	\$86,187,786	\$1,118,038,941	12.97
The Avery (Block 8) (450/488 Folsom Street) <sup>(3)</sup>						
For Sale Residential	210,102	\$2,076,388	6.5%	\$37,300,541	\$411,665,909	11.04
Rental Residential/Retail	208,350	1,365,020	4.3%	24,521,422	112,020,425	4.57
Subtotal	418,452	\$3,441,408	10.7%	\$61,821,963	\$523,686,334	8.47
Block 9 (500 Folsom Street)						
Rental Residential	316,671	\$2,133,080	6.7%	\$38,318,954	--	--
Retail	5,678	24,720	0.1%	444,082	--	--
Subtotal	322,349	\$2,157,800	6.7%	\$38,763,036	\$349,463,016	9.02
Mira (Block 1) (160 Folsom Street) <sup>(3)</sup>						
For Sale Residential	301,097	\$2,885,614	9.0%	\$51,837,590	--	--
Retail	10,201	44,412	0.1%	797,830	--	--
Subtotal	311,298	\$2,930,026	9.1%	\$52,635,419	\$504,748,633	9.59
One Steuart Lane (75 Howard Street)						
For Sale Residential	218,704	\$1,982,639	6.2%	\$35,616,424	--	--
Retail	4,910	22,116	0.1%	397,303	--	--
Subtotal	223,614	\$2,004,756	6.3%	\$36,013,727	\$360,530,958	10.01
<b>Total</b>	<b>4,603,522</b>	<b>\$32,070,268</b>	<b>100.0%</b>	<b>\$576,115,000</b>	<b>\$6,569,060,011</b>	<b>11.40</b>

Source: San Francisco Assessor's Office; San Francisco Planning Department; OCII; Special Tax Consultant.

<sup>(1)</sup> Represents the debt lien of \$199,575,000 in 2017 Bonds, \$184,460,000 for the 2019 Bonds, \$80,060,000 for the 2020B Bonds, \$33,450,000 for the 2021B Bonds, and, \$78,570,000 for the Series 2022 Bonds, allocated based on the proportionate share of the estimated fiscal year 2022-23 Special Tax levy.

<sup>(2)</sup> The special tax for 350 Mission Street is calculated based solely on the square footage of three floors, which constitutes a Conditioned Project under the Rate and Method. But the fact that the Special Tax is calculated based on just the square footage on those three floors does not limit foreclosure remedies otherwise available on the entire building.

<sup>(3)</sup> Assessment appeals are pending in the aggregate amount of \$246,181,504. However, the City cannot predict what if any reduction may be made to the assessed value of any Taxable Building. See "THE DISTRICT – Historical Assessed Value" and "SECURITY FOR THE BONDS – Teeter Plan" herein.



## Historical Assessed Value

The following table summarizes the historical assessed value for the Taxable Buildings.

**Table 3**  
**Community Facilities District No. 2014-1**  
**(Transbay Transit Center)**  
**Historical Assessed Value for Taxable Buildings**

<b>Fiscal Year</b>	<b>Taxable Buildings</b>	<b>Taxable Parcels</b>	<b>Land Value</b>	<b>Improvement Value</b>	<b>Other Value</b>	<b>Total Value</b>	<b>Percent Change</b>
2016-17	2	2	\$ 79,357,624	\$ 131,453,860	\$ 22,421	\$ 210,833,905	-
2017-18	2	2	80,944,775	447,657,073	20,225	528,622,073	151%
2018-19	5	72	419,801,300	2,345,359,906	12,644	2,765,173,850	423
2019-20	7	202	758,957,509	3,594,787,973	14,517	4,353,759,999	57
2020-21	9	212	893,845,094	4,528,487,940	7,445,070	5,429,778,104	25
2021-22	9	450	927,425,107	4,735,356,930	7,529,411	5,670,311,448	4
2022-23	10	571	1,225,719,899	5,336,967,349	6,372,763	6,569,060,011	16

Source: San Francisco Assessor's Office; Special Tax Consultant.

Although aggregate assessed values for the Taxable Buildings increased in Fiscal Year 2022-23 from Fiscal Year 2021-22, one building, The Avery (Block 8), declined by 17% in assessed value due to reductions by the Assessor or subsequent sale at prices less than their Fiscal Year 2021-22 assessed values.

A downturn of the economy or other market factors may depress assessed values and motivate appeals seeking downward reductions of prior assessed values. Based on information regarding pending appeals, the owners of approximately 15 parcels within Taxable Buildings have filed appeals seeking assessed value reductions. In aggregate, applicants have contested nearly \$246 million in assessed value, primarily in the rental residential buildings 33 Tehama (41 Tehama) and Solaire (Block 6). The City cannot predict or give any assurance whether property values may decline further and that any such declines would adversely affect the willingness of property owners to timely pay their Special Taxes. See "SPECIAL RISK FACTORS – Value to Lien Ratios; Future Indebtedness; Parity Liens" herein.

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## Fiscal Year 2022-23 Special Tax Levy by Land Use Category

The following table sets forth the Fiscal Year 2022-23 Special Tax levy by land use category.

**Table 4**  
**Community Facilities District No. 2014-1**  
**(Transbay Transit Center)**  
**Estimated Fiscal Year 2022-23 Special Tax Levy by Land Use Category**

<u>Land Use Category</u>	<u>Taxable Square Feet</u>	<u>FY 2022-23 Special Tax Levy</u>	<u>Percent of FY 2022-23 Special Tax Levy</u>
<u>Residential</u>			
For Sale Residential	851,231	\$ 8,120,638	25.3%
Rental Residential	1,033,345	6,691,985	20.9%
Subtotal	1,884,576	\$14,812,624	46.2%
<u>Commercial</u>			
Retail	68,321	\$ 290,577	0.9%
Office	2,650,625	16,967,068	52.9%
Hotel	-	-	-
Subtotal	2,718,946	\$17,257,644	53.8%
<b>Total</b>	<b>4,603,522</b>	<b>\$32,070,268</b>	<b>100.0%</b>

Source: San Francisco Planning Department; OCII; Special Tax Consultant.

## Conditioned Projects

The following table sets forth the current Conditioned Projects in various stages of planning and development which are not yet Taxable Buildings. From time to time, additional properties in the District or Future Annexation Area may become Conditioned Projects because they receive zoning bonuses to exceed certain height limits and floor-to-area ratios established pursuant to the City's Planning Code. **No assurance can be provided that any particular property will be annexed into the District or become a Conditioned Project or become a Taxable Building subject to Special Taxes. Any particular property may not be developed.**

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**Table 5**  
**Community Facilities District No. 2014-1**  
**(Transbay Transit Center)**  
**Conditioned Projects<sup>(1)</sup>**

<b>Projects<sup>(2)</sup></b>	<b>Street Address</b>	<b>Office (sq. ft.)</b>	<b>Retail (sq. ft.)</b>	<b>Hotel (sq. ft.)</b>	<b>Residential (sq. ft.)<sup>(3)</sup></b>	<b>Residential (type)<sup>(4)</sup></b>	<b>Building Stories</b>	<b>Estimated First FY of Tax Levy<sup>(1)(5)</sup></b>
<b>Conditioned Projects Not Yet Under Construction Within the District</b>								
Parcel F <sup>(7)</sup>	550 Howard Street	275,657	0	247,765	325,554	Rental	61	2026-27
Block 4 <sup>(6)</sup>	200 Main Street	-	1,958	-	384,449	Rental	47	2029-30
<b>Subtotal</b>		<b>275,657</b>	<b>1,958</b>	<b>247,765</b>	<b>710,003</b>			
<b>Conditioned Projects to be Annexed into the District</b>								
95 Hawthorne <sup>(7)</sup>	95 Hawthorne	-	3,425	-	357,191	Rental	42	2026-27
543 Howard	543 Howard Street	52,000	-	-	21,750	Rental	21	2028-29
555 Howard <sup>(7)</sup>	555 Howard Street	-	-	369,000	-	-	35	2027-28
Oceanwide Center <sup>(7)</sup>	50 First Street/526 Mission Street							
Tower 1		1,034,000	2,044	-	306,750	For sale	52	2030-31
Tower 2		-	2,033	255,000	283,500	Rental	56	2035-36
50 Main St/77 Beale	50 Main Street/77 Beale	49,954	18,767	-	747,000	Rental	89	2030-31
620 Folsom	620 Folsom Street	-	2,000	-	525,000	Rental	62	2028-29
<b>Subtotal</b>		<b>1,135,954</b>	<b>28,269</b>	<b>624,000</b>	<b>2,241,191</b>			
<b>Total</b>		<b>1,411,611</b>	<b>30,227</b>	<b>871,765</b>	<b>2,951,194</b>			

Source: San Francisco Planning Department; OCII; Special Tax Consultant.

<sup>(1)</sup> **Conditioned Projects listed on this Table are currently not Taxable Buildings. All projects include preliminary estimates and are subject to change until project completion.** Projects do not include square footage of below market rate units or affordable housing projects, which are not subject to the Special Tax under the Rate and Method. Building stories information is based on the Rate and Method's designation of the "Building Height," which is the highest story occupied by a land use subject to the Special Tax. Total building stories may differ.

<sup>(2)</sup> A "Conditioned Project" means a Development Project that, pursuant to Section 424 of the Planning Code, is required to participate in funding authorized facilities through the District and, therefore, is subject to the levy of the Special Tax when Buildings (or portions thereof) within the District become Taxable Buildings.

<sup>(3)</sup> Assumes 25% of expected residential square footage is reserved for below market rate ("BMR") units. BMR units are not subject to the Special Tax.

<sup>(4)</sup> All unknown projects are assumed to be developed with rental residential units.

<sup>(5)</sup> Reflects the fiscal year in which projects are expected to have received their first certificate of occupancy by June 30 of the prior fiscal year.

<sup>(6)</sup> Project is not yet entitled for development.

<sup>(7)</sup> Project is entitled for development.

## Estimated Effective Tax Rate

The following table sets forth an illustrative tax bill of for-sale residential property in the District.

**Table 6**  
**Community Facilities District No. 2014-1**  
**(Transbay Transit Center)**  
**Fiscal Year 2022-23 - For Sale Residential Property Illustrative Tax Bill**

<b><u>Assumptions</u></b>		<b><u>181 Fremont</u></b>	<b><u>The Avery</u></b>	<b><u>Mira</u></b>	<b><u>One Steuart Lane</u></b>
Average Assessed Value <sup>(1)</sup>		\$5,702,080	\$3,517,671	\$1,945,666	\$3,582,695
Homeowners Exemption		(\$7,000)	(\$7,000)	(\$7,000)	(\$7,000)
<b>Net Assessed Value</b>		<b>\$5,695,080</b>	<b>\$3,510,671</b>	<b>\$1,938,666</b>	<b>\$3,575,695</b>
<b><u>Ad Valorem Tax Rate</u><sup>(2)</sup></b>					
Base Tax Rate	1.0000%	\$56,951	\$35,107	\$19,387	\$35,757
Other Ad Valorem Property Taxes	0.1825%	10,393	6,406	3,538	6,525
<b>Total Ad Valorem Taxes</b>	<b>1.1825%</b>	<b>\$67,343</b>	<b>\$41,513</b>	<b>\$22,924</b>	<b>\$42,282</b>
<b><u>Direct Charges</u></b>					
GTR Rincon Hill CBD		\$ 282	\$ 172	\$ 123	\$ 188
LWEA 2018 Tax		288	288	288	288
SF Bay RS Parcel Tax		12	12	12	12
SFUSD Facility District		40	40	40	40
SFCCD Parcel Tax		99	99	99	99
SF - Teacher Support		275	275	275	275
Transbay CFD No. 2014-1 <sup>(3)</sup>		19,773	17,779	11,682	17,696
<b>Total Direct Charges</b>		<b>\$20,769</b>	<b>\$18,665</b>	<b>\$12,519</b>	<b>\$18,598</b>
<b>Total Taxes and Direct Charges</b>		<b>\$88,113</b>	<b>\$60,178</b>	<b>\$35,444</b>	<b>\$60,880</b>
<b>Percentage of Net Assessed Value</b>		<b>1.55%</b>	<b>1.71%</b>	<b>1.83%</b>	<b>1.70%</b>

Source: San Francisco Treasurer and Tax Collector's Office; San Francisco Assessor's Office; Special Tax Consultant.

<sup>(1)</sup> Represents the average assessed value as of January 1, 2022 of condominiums owned by individual owners as reflected on the July 1, 2022 Assessor's tax roll.

<sup>(2)</sup> Based on the fiscal year 2021-22 ad valorem tax rates. Ad valorem tax rates are subject to change in future years.

<sup>(3)</sup> The fiscal year 2022-23 maximum Special Tax rates are based on the average square footage of the condominiums that have been purchased by individual homeowners as reflected on the July 1, 2022 Assessor's tax roll.

The information in Table 6 above regarding assessed values was derived from Fiscal Year 2022-23 assessed values reported on the July 1, 2022 tax roll.

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## Direct and Overlapping Debt

The following table details the direct and overlapping debt encumbering property within the District (including both properties that are, and properties that are not, subject to the Special Tax) as of November 1, 2022.

**Table 7**  
**Community Facilities District No. 2014-1**  
**(Transbay Transit Center)**  
**Direct and Overlapping Debt**  
**(as of November 1, 2022)**

2022-23 Assessed Valuation: \$6,825,574,534 (Land and Improvements)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 11/1/22</u>
San Francisco Bay Area Rapid Transit District General Obligation Bonds	0.715%	\$ 17,772,436
San Francisco City and County General Obligation Bonds	2.094	54,969,934
San Francisco Unified School District General Obligation Bonds	2.094	23,419,767
San Francisco Community College District General Obligation Bonds	2.094	9,130,171
<b>City of San Francisco Community Facilities District No. 2014-1</b>	<b>100.000</b>	<b><u>497,545,000<sup>(1)</sup></u></b>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$602,837,308</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
San Francisco City and County General Fund Obligations	2.094%	\$30,665,717
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>		<b>\$30,665,717</b>
 <u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Transbay Joint Powers Authority Tax Allocation Bonds	100.000%	\$259,590,000
 <b>GROSS COMBINED TOTAL DEBT</b>		<b>\$893,093,025<sup>(2)</sup></b>

(1) Excludes 2022 Bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2022-23 Assessed Valuation:

<b>Direct Debt (\$497,545,000)</b> .....	<b>7.29%</b>
Total Direct and Overlapping Tax and Assessment Debt.....	8.83%
Combined Total Debt .....	13.08%

Source: California Municipal Statistics.

## SPECIAL RISK FACTORS

*The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the 2022 Bonds. This discussion does not purport to be comprehensive or definitive, and other risk factors could arise in the future that could have a bearing on the 2022 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the City to make full and punctual payments of debt service on the 2022 Bonds, or could otherwise affect the market price and liquidity of the 2022 Bonds in the secondary market. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District or the City's ability to recover delinquent Special Taxes in foreclosure proceedings.*

## Real Estate Investment

*Generally.* The Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation: (i) adverse changes in local market conditions, such as changes in the market value of real property in the District, the supply of or demand for competitive properties in such area, and the market value of properties and/or sites in the event of sale or foreclosure, (ii) changes in real estate tax rates and other operating expenses, government rules (including, without limitation, zoning laws and restrictions relating to threatened and endangered species) and fiscal policies, (iii) natural disasters (including, without limitation, earthquakes, subsidence and floods), which may result in uninsured losses, or natural disasters elsewhere in the country or other parts of the world affecting supply of building materials that may cause delays in construction, (iv) the impacts of public health emergencies, such as the COVID-19 pandemic, on construction and sales activity, the national and regional economy and financial circumstances of property owners in the District, and (v) changes in workforce habits following the COVID-19 pandemic. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due, and could induce or exacerbate the risks described in “SPECIAL RISK FACTORS – Value to Lien Ratios,” “– Collection of Special Taxes,” “– Maximum Special Tax Rates,” “– Tax Delinquencies,” “– Maximum Term of Levy,” and “– Bankruptcy and Foreclosure.”

Some of the risk factors listed above may already be impacting the Taxable Buildings. Assessment appeals are pending for several Taxable Buildings.. See “THE PROJECT– Historical Assessed Value” herein. The appeals could be indicative of downward pressure on the market value of real property. Some buildings reportedly have spaces that are being, or were recently, offered for lease or sublease. See discussion regarding the Salesforce Tower, 181 Fremont and Salesforce East under the caption “THE PROJECT - Description of Existing Taxable Buildings” herein. The leasing and subleasing activity could be indicative of reduced demand for those or similar properties in the area and reduced market value of such properties. For example, on November 9, 2022, Meta Platforms, Inc., the initial lessee of Park Tower and the office space in 181 Fremont, announced workforce reduction plans of 11,000 employees representing a 13% cut. Those plans, similar plans by other employers that lease space at the Taxable Buildings, as well as generous remote work policies adopted by many employers in the City, could reduce demand for leased office space and/or demand for rental and for-sale residential units in the Taxable Buildings, impacting market value. According to an October 14, 2022 report by the commercial real-estate firm CBRE, in the third quarter of 2022, a record high of 27.1 million square feet of office space was available for lease or sublease across the City market. The vacancy rate in the City was 25.5%. The report noted that roughly one-third of office requirements in the period were attributable to technology companies, a drop from pre-pandemic levels, which exceeded 50% on average. The report noted implementation of hybrid work in connection with declines in demand for office space. The CBRE report noted that the information presented therein was obtained from sources believed reliable but neither CBRE nor the City have verified such information for accuracy or completeness. The City cannot predict how economic trends will impact demand for and/or occupancy of the Taxable Buildings in the future, but those impacts could be material.

In addition, adverse impacts to future development within the District as a whole could include, without limitation, one or more of the following: (i) potential supply chain slowdowns or shutdowns resulting from the unavailability of workers in locations producing construction materials; (ii) slowdowns or shutdowns by local governmental agencies in providing governmental permits, inspections, title and document recordation, and other services and activities associated with real estate development; (iii) delays in construction; (iv) extreme fluctuations in financial markets and contraction in available liquidity; (v) extensive job losses and declines in business activity across important sectors of the economy; (vi) declines in business and consumer confidence that negatively impact economic conditions or cause an economic recession; and (vii) reduced demand for development projects.

*Concentration of Property Ownership.* Failure of any significant owner of Taxable Buildings in the District to pay the annual Special Taxes when due could result in the rapid, total depletion of the reserve funds prior to replenishment from the resale of the property upon a foreclosure or otherwise or prior to delinquency redemption after a foreclosure sale, if any. In that event, there could be a default in payments of the principal of and interest on the 2022 Bonds. Further development of property in the District may not occur as currently proposed or at all. See “THE DISTRICT” herein for information regarding property ownership and the status of development in the District.

The Special Taxes are not a personal obligation of the owners of the Taxable Building on which such Special Taxes are levied, and no assurances can be given that the holder of the Taxable Building will be financially able to pay the Special Taxes levied on such Taxable Building or that they will choose to pay even if financially able to do so.

*Risk of Recession.* Geopolitical events and successive interest rate increases by the Federal Reserve to combat inflation have increased expectations of recession in financial markets. A recession could adversely impact the City's economy, including but not limited to slower development and reduced demand for housing because of job losses and rising mortgage rates, and the financial condition of the General Fund of the City. During the “Great Recession” that occurred nationally from December 2007 to June 2009 (according to the U.S. National Bureau of Economic Research), California real GDP growth slowed for five consecutive quarters from the third quarter of 2008 to the third quarter of 2009 and did not return to pre-recession level of output until three years later in the third quarter of 2012. The unemployment rate rose steadily from 4.9% in the fourth quarter of 2006 to peak at 12.3 percent in the fourth quarter of 2010 and did not return to the pre-recession level until the second quarter of 2017. It is possible that global and national recessions and economic dislocation will result in declines in real estate values in the City, including with respect to the Taxable Buildings, and such declines could be material.

*Office Development Annual Limit Program.* The Office Development Annual Limit Program (the “Annual Limit Program”) of the City became effective in 1985 with the adoption of the Downtown Plan and associated amendments (Proposition M in 1986 and Proposition C in 1987) to the City’s Planning Code. As amended over time, the Annual Limit Program governs the approval of all development projects that contain more than 25,000 gross square feet of office space. Such projects require an “office space allocation” from the City’s Planning Commission. The significance of the Annual Limit Program to the District is that it may delay or limit the development of properties without current entitlements for office uses in the District or Future Annexation Area or annexation of additional properties into the District. See “– Concentration of Property Ownership” herein.

The central provision of the Annual Limit Program is a “metering limit” designed to restrict the amount of office space authorized in a given year. No office project subject to the metering limit can be entitled without receiving an allocation under the Annual Limit Program. In doing so, the Annual Limit Program aims to ensure a manageable rate of new development and to guard against typical “boom and bust” cycles, among other goals. A total of 950,000 gross square feet (“gsf”) of office development potential becomes available for allocation in each approval period, which begins on October 17th of every year. Of the total new available space, 75,000 gsf is reserved for small allocation projects (projects with between 25,000 and 49,999 gsf of office space), and the remaining 875,000 gsf is available for large allocation projects (projects with at least 50,000 gsf of office space). Following the ratification of Proposition E on March 3, 2020, new large project office allocation is generally now tied to affordable housing production, which may further curtail future office supply. Any available office space not allocated in a given year is carried over to subsequent years. The status of available allocation under the Annual Limit Program is set forth on the Office Development Annual Limit Program website at <https://sf-planning.org/office-development-annual-limitation-program>. Information set forth on such website is not incorporated herein by reference, but rather is provided for general reference only.

## **Public Health Emergencies**

*The 2022 Bonds are limited obligations of the City, secured by and payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Information in this section about the potential impact of COVID-19 or other public health emergencies on the City's finances does not suggest that the City has an obligation to pay debt service on the 2022 Bonds from any other sources of funds. See "SECURITY FOR THE BONDS – Limited Obligation" herein.*

In recent years, public health authorities have warned of threats posed by outbreaks of disease and other public health threats. The spread of COVID-19 has had significant adverse health and financial impacts throughout the City, increasing costs and challenges to the City's public health system, reductions in tourism and disruption of the regional and local economy, widespread business closures, worker migration out of the City due to permissive remote work policies and unemployment concentrated recently in the tech-heavy information and professional and business services sectors. While office attendance continues its slow recovery, at about 40% of pre-pandemic levels, the City continues to lag most other metro areas.

From time to time since the onset of the COVID-19 pandemic, all counties in the Bay Area (including the City) have implemented and revised restrictions on mass gatherings and widespread closings or other limitations of the operations of government, commercial, educational, and other institutions. While significant portions of the population of the State of California (including the City) have been vaccinated, COVID-19 variants have resulted, and may continue to result, in increased infection rates and the imposition of certain restrictions on commercial and other activities.

Neither the City, the District nor the Underwriters can predict the ultimate effects of the COVID-19 pandemic or other public health emergencies or whether any such effects will have material adverse effect on the availability of Special Taxes in an amount sufficient to pay debt service on the Bonds.

## **Value to Lien Ratios; Future Indebtedness; Parity Liens**

Value-to-lien ratios have traditionally been used in land-secured bond issues as a measure of the "collateral" supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The value-to-lien ratio is mathematically a fraction, the numerator of which is the value of the property as measured by assessed values or appraised values and the denominator of which is the "lien" of governmental bonds payable from the assessment or special taxes. A value to lien ratio should not, however, be viewed as a guarantee for credit-worthiness.

Property values are sensitive to economic cycles. Assessed or appraised values may not reflect the current market value of property. A downturn of the economy or other market factors may depress property values and lower the value-to-lien ratios. Assessments can be appealed as described below, and appeal proceedings could take up to two (2) years, with a corresponding delay before a determination of the appeal is reflected on the tax roll.

The following paragraphs are intended to provide a broad overview of the processes by which assessments of real property values on the secured tax rolls may be affected by actions by the Assessor or on the initiative of property taxpayers.

A property's annual assessed value is determined as of January 1 of the year preceding the fiscal year for which taxes are billed and paid. Under California's Proposition 13, a property's annual assessed value is the lesser of (1) its base year value (fair market value as of the date of change in ownership or completion of new construction), factored for inflation at no more than two percent per year; or (2) its fair market value as of January 1 of the year preceding the fiscal year for which property taxes are billed and



paid. If a property's fair market value falls below its factored base year value, the reduced value is enrolled on a temporary basis (for one year), and is commonly referred to as a "Proposition 8" reduction, after the 1978 initiative. However, if a property's base year value is reduced, then that reduced value carries forward for factoring purposes until the next change in ownership or completion of new construction. Assessors in California have authority to use Proposition 8 criteria to apply reductions in valuation to classes of properties affected by any factors affecting value, including but not limited to negative economic conditions.

In addition, qualifying taxpayers seek adjustment of their property assessed values on a variety of factors. Requests for changes can be motivated by real estate market conditions or other factors. A qualifying taxpayer can seek assessed value adjustments from the Assessment Appeals Board or from the Assessor or both. The Assessment Appeals Board generally is required to determine the outcome of appeals within two (2) years of each appeal's filing date. The Assessment Appeals Board can increase, decrease, or not change an assessment. If the appeal results in a change in value, the new assessed value will be used to determine the property taxes for the year that was appealed. The Assessor has the authority to review the property's value thereafter and may make valuation adjustments, as provided by law.

Owners of the Taxable Buildings may have filed appeals that are not noted in this Official Statement because of a lag in recording such appeals. Appeals could seek material changes to assessed value. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction, if any, in assessed valuation that may ultimately be granted.

In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

Further, the value-to-lien ratios may vary widely from parcel to parcel. Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action. No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold, any bid would be received for such property or, if a bid were received, that such bid would be sufficient to pay all delinquent Special Taxes. Finally, local agencies may form overlapping community facilities districts or assessment districts. Local agencies typically do not coordinate their bond issuances.

Additional debt issued for the District and debt issuance by another entity that results in an additional tax being imposed could dilute value-to-lien ratios and reduce the ability or willingness of property owners in the District to pay their Special Taxes when due. In addition, the establishment of an assessment district or another district formed pursuant to the Act could result in the levy of taxes or assessments with a lien on a parity with the lien of the Special Taxes. The City is authorized to issue on behalf of the District bonded indebtedness, including the 2022 Bonds, in an aggregate amount not to exceed \$1.4 billion. Bonds issued to refund outstanding Bonds would not count against this authorization. See "THE DISTRICT – Future Financings" herein.

The City has no control over the ability of other agencies to issue indebtedness secured by other special taxes or assessments payable from all or a portion of the property within the District.

### **Billing of Special Taxes**

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn, along with various other factors, can lead to problems in the collection of the special tax. In some community

facilities districts, taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by a community facilities district.

Under provisions of the Act, the Special Taxes are levied on Taxable Buildings within the District that were entered on the Assessment Roll of the County Assessor by January 1 of the previous Fiscal Year. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Ordinarily, these Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make installment payments of Special Taxes in the future. See “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure” herein for a discussion of the provisions which apply, and procedures which the City is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

### **Maximum Special Tax Rates**

Within the limits of the Rate and Method, in the event of Special Tax delinquencies by one or more Taxable Properties, the City may adjust the Special Taxes levied on all non-delinquent Taxable Properties within the District to provide the amount required each year to pay annual debt service on the Bonds and to replenish the applicable reserve fund to an amount equal to the applicable reserve requirement; however, (1) any such increase on Taxable Properties used for private residential purposes is limited to 10% above the amount that would have been levied in that Fiscal Year had there never been any delinquencies or defaults and (2) the amount of Special Taxes that may be levied against Taxable Properties is subject to the maximum tax rates set forth in the Rate and Method. In the event of significant Special Tax delinquencies, there is no assurance that the maximum tax rates for non-delinquent Taxable Properties in the District would be sufficient to meet debt service obligations on the Bonds. See “SECURITY FOR THE BONDS – The Special Taxes” herein and APPENDIX B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto.

### **Maximum Term of Levy**

The Bonds are secured by Special Tax Revenues from all parcels subject to the Special Tax in the District. Upon delivery of the 2022 Bonds, Special Taxes will be levied only on parcels relating to the existing Taxable Buildings described herein. Special Taxes may only be levied on taxable square footage on an individual parcel for a maximum term of 30 years. The levy on most of the Taxable Buildings will terminate before the final maturity of the 2022 Bonds. Unless additional parcels are annexed into the District (or a Certificate of Occupancy and Tax Commencement Authorization are issued for additional parcels already within the boundaries of the District) before the maximum term of the applicable levy is reached, payments due on the Bonds in 2047 through 2052 will be secured only by Special Taxes levied on a declining number of Taxable Buildings described herein. The 2022 Bonds have been structured to maintain projected coverage of at least 110% from projected Maximum Special Tax Revenue on the Taxable Buildings, taking into account the termination of the levy on certain parcels within the District.

### **Insufficiency of Special Taxes; Exempt Property**

Under the Rate and Method, the annual amount of Special Tax to be levied on each Taxable Parcel in the District will be based primarily on the property use category or categories and corresponding square footages. See APPENDIX B – “AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” attached hereto and “SECURITY FOR THE BONDS – Rate and Method of Apportionment of Special Taxes” herein. The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by a gift or devise, the Special Tax will continue to be levied on and enforceable against the

public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. In particular, insofar as the Act requires payment of the Special Taxes by a federal entity acquiring property within the District, it may be unconstitutional.

*Moreover, if a substantial portion of property within the District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining property might not be sufficient to pay principal of and interest on the 2022 Bonds when due and a default could occur with respect to the payment of such principal and interest.*

### **Collection of Special Taxes; Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2022 Bonds are derived, will be billed to the properties within the District on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable consistent with, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made to the County Tax Collector separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future.

See “SECURITY FOR THE BONDS – Reserve Funds” and “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure” herein, for a discussion of the provisions which apply, and procedures which the City is obligated to follow under the Fiscal Agent Agreement, in the event of delinquency in the payment of Special Tax installments.

The District is currently included on the Teeter Plan. However, as described above, the District could be removed from the Teeter Plan. The City has covenanted in the Fiscal Agent Agreement to institute foreclosure proceedings under certain conditions against property with delinquent Special Taxes to obtain funds to pay debt service on the 2022 Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Taxes to protect its security interest. If such foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the 2022 Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale would be sold or, if sold, that the proceeds of such sale would be sufficient to pay any delinquent Special Taxes installment. Although the Act authorizes the City to cause such an action to be commenced and diligently pursued to completion, the City is not required to purchase or otherwise acquire any lot or parcel of property offered at the foreclosure sale if there is no other purchaser at such sale. See “SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure” herein.

### **Teeter Plan**

The City has the power to unilaterally discontinue the Teeter Plan or remove the District from the Teeter Plan by a majority vote of the Board of Supervisors. The Teeter Plan may also be discontinued by petition of two-thirds (2/3) of the participant taxing agencies. Discontinuation of the Teeter Plan could adversely affect the rating on the 2022 Bonds. The City has the power to include additional taxing agencies on the Teeter Plan. See “SECURITY FOR THE BONDS – Teeter Plan” herein.

## **Disclosure to Future Property Owners**

Pursuant to Section 53328.3 of the Act, the City has recorded a Notice of Special Tax Lien. The sellers of real property subject to the Special Tax within the District are required to give prospective buyers a Notice of Special Tax in accordance with Sections 53340.2 and 53341.5 of the Act. While title companies normally refer to the Notice of Special Tax Lien in title reports, there can be no guarantee that such reference will be made or the seller's notice given or, if made and given, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property or the lending of money thereon. Failure to disclose the existence of the Special Taxes could affect the willingness and ability of future owners of land within the District to pay the Special Taxes when due.

## **Potential Early Redemption of Bonds from Special Tax Prepayments**

Property owners within the District are permitted to prepay their Special Taxes at any time. Such payments will result in a mandatory redemption of Bonds from Special Tax prepayments on the Interest Payment Date for which timely notice may be given under the Fiscal Agent Agreement following the receipt of such Special Tax prepayment. The resulting redemption of Bonds purchased at a price greater than par could reduce the otherwise expected yield on such Bonds. See "THE 2022 BONDS – Redemption – *Mandatory Redemption from Special Tax Prepayments*" herein.

## **Seismic Risks**

**General.** The City is located in a seismically active region. Active earthquake faults underlie both the City and the surrounding Bay Area. Seismic events may cause damage, or temporary or permanent loss of occupancy to buildings, including Taxable Buildings, in the District, as well as to transportation infrastructure that serves the District. These faults include the San Andreas Fault, which passes within about three miles of the City's border, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away, as well as a number of other significant faults in the region. Significant seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of the City, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires, building collapses, and structural damage to buildings and highways in the City and surrounding areas. The San Francisco-Oakland Bay Bridge, the only east-west vehicle access into the City, was closed for a month for repairs, and several highways in the City were permanently closed and eventually removed. On August 24, 2014, the San Francisco Bay Area experienced a 6.0 earthquake centered near Napa along the West Napa Fault. The City did not suffer any material damage as a result of this earthquake.

**California Earthquake Probabilities Study.** In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Survey, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more earthquakes of magnitude 6.7 (the magnitude of the 1994 Northridge earthquake) or larger will occur in the San Francisco Bay Area before the year 2045. In addition, the U.S.G.S. released a report in April 2017 entitled The HayWired Earthquake Scenario, which estimates that property damage and direct business disruption losses from a magnitude 7.0 earthquake on the Hayward Fault would be more than \$82 billion (in 2016 dollars). Most of the losses are expected to be attributable to shaking damage, liquefaction, and landslides (in that order). Eighty percent of shaking damage is expected to be caused by the magnitude 7.0 mainshock, with the rest of the damage resulting from aftershocks occurring over a 2-year period thereafter. Such earthquakes could be very destructive. In addition to the potential damage to Taxable Buildings, due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly long-term harm to the City's economy, tax receipts, infrastructure and residential and business real property values, including in the District.

***Earthquake Safety Implementation Plan (“ESIP”).*** ESIP began in early 2012, evolving out of the key recommendations of the Community Action Plan for Seismic Safety (“CAPSS”), a 10-year-long study evaluating the seismic vulnerabilities the City faces. The CAPSS Study prepared by the Applied Technology Council looked at the impact to all of San Francisco’s buildings and recommended a 30-year plan for action. As a result of this plan, the City has mandated the retrofit of nearly 5,000 soft-story buildings housing over 111,000 residents by September 2021. This deadline was extended from the original deadline of September 2020 in light of the COVID-19 pandemic. More than 85% of the buildings in the program have received a certificate of completion. Future tasks will address the seismic vulnerability of older nonductile concrete buildings, which are at high risk of severe damage or collapse in an earthquake.

***Vulnerability Study of the Northern Waterfront Seawall.*** In early 2016, the Port Commission of the City and County of San Francisco (the “Port Commission”) commissioned an earthquake vulnerability study of the Northern Waterfront Seawall. The three-mile Seawall was constructed over 100 years ago and sits on reclaimed land, rendering it vulnerable to seismic risk. The Seawall provides flood and wave protection to downtown San Francisco and stabilizes hundreds of acres of filled land. Preliminary findings of the study indicate that a strong earthquake may cause most of the Seawall to settle and move outward toward the Bay, which would significantly increase earthquake damage and disruption along the waterfront. The study estimates that approximately \$1.6 billion in Port assets and \$2.1 billion of rents, business income, and wages are at risk from major damage to the Seawall. See “- Risk of Sea Level Changes and Flooding” below.

In November 2018, voters approved Proposition A, authorizing the issuance of up to \$425 million in general obligation bonds to fund repairs and improvement projects along the City’s Embarcadero and Seawall to protect the waterfront, BART and the San Francisco Municipal Railway, buildings, historic piers, and roads from earthquakes, flooding, and sea level rise. In June 2020, the City issued about \$49.7 million in bonds to support the planning and preliminary design phases of the Seawall program. The City expects short-term upgrades to cost over \$500 million and long-term upgrades to cost more than \$5 billion.

***Tall Buildings Safety Strategy Report and Executive Directive.*** The City commissioned a first in the nation “Tall Buildings Study” by the Applied Technology Council to consider the impact of earthquakes on buildings taller than 240 feet. The final report following the study, released in January 2019, evaluates best practices for geotechnical engineering, seismic risks, standards for post-earthquake structural evaluations, barriers to re-occupancy, and costs and benefits of higher performance goals for new construction. The study estimates that for a tall building designed to current seismic standards, it might take two to six months to mobilize for and repair damage from a major earthquake, depending on the building location, geologic conditions, and the structural and foundation systems. The report identifies and summarizes sixteen recommendations for reducing seismic risk prior to earthquakes for new and existing buildings, reducing seismic risk following earthquakes, and improving the City’s understanding of its tall building seismic risk.

On January 24, 2019, Mayor London N. Breed issued an executive directive instructing City departments to work with community stakeholders, develop regulations to address geotechnical and engineering issues, clarify emergency response and safety inspection roles, and establish a Disaster Recovery Task Force for citywide recovery planning, including a comprehensive recovery plan for the financial district and surrounding neighborhoods by the end of the year. All of these tasks are currently underway. In November 2019, an exercise was conducted to test post-earthquake building safety inspection protocol and logistics. San Francisco was the first jurisdiction to test this statewide program. The City’s Disaster Recovery Taskforce had its kick-off meeting in February 2020 to evaluate plans for development of a Disaster Recovery Framework and Downtown Resilience Plan, following several months of groundwork by a consultant team. In consultation with the Structural Engineers Association of Northern California (“SEAONC”), Administrative Bulletin AB-111 – “Guidelines for Preparation of Geotechnical

and Earthquake Ground Motion Reports for Foundation Design and Construction of Tall Buildings” was adopted on June 15, 2020, which presented requirements and guidelines for developing geotechnical site investigations and preparing geotechnical reports for the foundation design and construction of tall buildings in the City.

### **Climate Change; Risk of Sea Level Rise and Flooding Damage**

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution.

The *Fourth National Climate Assessment*, published by the U.S. Global Change Research Program in November 2018 (“NCA4”), finds that more frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems and social systems over the next 25 to 100 years. NCA4 states that rising temperatures, sea level rise, and changes in extreme events are expected to increasingly disrupt and damage critical infrastructure and property and regional economies and industries that depend on natural resources and favorable climate conditions. Disruptions could include more frequent and longer-lasting power outages, fuel shortages and service disruptions. NCA4 states that the continued increase in the frequency and extent of high-tide flooding due to sea level rise threatens coastal public infrastructure. NCA4 also states that expected increases in the severity and frequency of heavy precipitation events will affect inland infrastructure, including access to roads, the viability of bridges and the safety of pipelines.

Sea levels are expected to continue to rise in the future due to the increasing temperature of the oceans causing thermal expansion and growing ocean volume from glaciers and ice caps melting into the ocean. Between 1854 and 2016, sea level rose about nine inches according to the tidal gauge at Fort Point, a location underneath the Golden Gate Bridge. Weather and tidal patterns, including 100-year or more storms and king tides, may exacerbate the effects of climate related sea level rise. Coastal areas like the City are at risk of substantial flood damage over time, affecting private development and public infrastructure, including roads, utilities, emergency services, schools, and parks. As a result, the City could lose considerable tax revenues and many residents, businesses, and governmental operations along the waterfront could be displaced, and the City could be required to mitigate these effects at a potentially material cost.

Adapting to sea level rise is a key component of the City’s policies. The City and its enterprise departments have been preparing for future sea level rise for many years and have issued a number of public reports. For example, in March 2016, the City released a report entitled “Sea Level Rise Action Plan,” identifying geographic zones at risk of sea level rise and providing a framework for adaptation strategies to confront these risks. That study shows an upper range of end-of-century projections for permanent sea level rise, including the effects of temporary flooding due to a 100-year storm, of up to 108 inches above the 2015 average high tide. To implement this Plan, the Mayor’s Sea Level Rise Coordinating Committee, co-chaired by the Planning Department and Office of Resilience and Capital Planning, joined the Port, the Public Utilities Commission and other public agencies in moving several initiatives forward. This included a Citywide Sea Level Rise Vulnerability and Consequences Assessment to identify and evaluate sea level rise impacts across the City and in various neighborhoods that was released in February 2020.

In April 2017, the Working Group of the California Ocean Protection Council Science Advisory Team (in collaboration with several state agencies, including the California Natural Resources Agency, the Governor’s Office of Planning and Research, and the California Energy Commission) published a report, that was formally adopted in March 2018, entitled “Rising Seas in California: An Update on Sea Level Rise Science” (the “Sea Level Rise Report”) to provide a new synthesis of the state of science regarding

sea level rise. The Sea Level Rise Report provides the basis for State guidance to state and local agencies for incorporating sea level rise into design, planning, permitting, construction, investment and other decisions. Among many findings, the Sea Level Rise Report indicates that the effects of sea level rise are already being felt in coastal California with more extensive coastal flooding during storms, exacerbated tidal flooding, and increased coastal erosion. In addition, the report notes that the rate of ice sheet loss from Greenland and Antarctic ice sheets poses a particular risk of sea level rise for the California coastline. The City has incorporated the projections from the 2018 report into its Guidance for Incorporating Sea Level Rise Guidance into ongoing Capital Planning. The Guidance requires that City projects over \$5 million consider mitigation and/or adaptation measures.

In March 2020, a consortium of State and local agencies, led by the Bay Area Conservation and Development Commission, released a detailed study entitled, “Adapting to Rising Tides Bay Area: Regional Sea Level Rise Vulnerability and Adaptation Study,” on how sea level rise could alter the Bay Area. The study states that a 48-inch increase in the bay’s water level in coming decades could cause more than 100,000 Bay Area jobs to be relocated, nearly 30,000 lower-income residents to be displaced, and 68,000 acres of ecologically valuable shoreline habitat to be lost. The study further argues that without a far-sighted, nine county response, the region’s economic and transportation systems could be undermined along with the environment. Runways at SFO could largely be under water.

The City has already incorporated site specific adaptation plans in the conditions of approval for certain large waterfront development projects, such as the Candlestick/Hunters Point Shipyard, Treasure Island, Pier 70 and Mission Rock projects. Also, the City is in the process of planning to fortify the Port of San Francisco’s Bay shoreline against earthquakes, flooding, and sea level rise. The City expects short-term upgrades to cost over \$500 million and long-term upgrades to cost more than \$5 billion. In November 2018, voters of the City approved Proposition A, authorizing the issuance of up to \$425 million in general obligation bonds for seismic safety and disaster response improvements along the Seawall. In June 2020, the City issued about \$49.7 million in bonds to support the planning and preliminary design phases of the Seawall program. The City has expended \$16.2 million through fiscal year 2020-21. An August 2020 multi-hazard seismic and flood risk assessment of the Port Commission and the City infrastructure along the Embarcadero Seawall is being used as a guide to inform project planning. The Port Commission and the United States Army Corps of Engineers have also partnered to study and develop coastal flood defenses to address the flooding and sea level rise along the Port’s Bay waterfront which will yield a recommendation to Congress as to the federal interest in funding coastal flood defenses.

Projections of the effects of global climate change on the City are complex and depend on many factors that are outside the City’s control. The various scientific studies that forecast climate change and its adverse effects, including sea level rise and flooding risk, are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the City is unable to forecast when sea level rise or other adverse effects of climate change (e.g., the occurrence and frequency of 100-year storm events and king tides) will occur. In particular, the City cannot predict the timing or precise magnitude of adverse economic effects, including, without limitation, material adverse effects on the business operations or financial condition of the City and the local economy during the term of the 2022 Bonds. While the effects of climate change may be mitigated by the City’s past and future investment in adaptation strategies, the City can give no assurance about the net effects of those strategies and whether the City will be required to take additional adaptive mitigation measures. If necessary, such additional measures could require significant capital resources.

In September 2017, the City filed a lawsuit against the five largest investor-owned oil companies seeking to have the companies pay into an equitable abatement fund to help fund investment in sea level rise adaptation infrastructure. In July 2018, the United States District Court, Northern District of California denied the plaintiffs’ motion for remand to state court, and then dismissed the lawsuit. The City appealed these decisions to the United States Court of Appeals for the Ninth Circuit. Such appeal is still pending.

While the City believes that its claims are meritorious, the City can give no assurance regarding whether it will be successful and obtain the requested relief from the courts, or contributions to the abatement fund from the defendant oil companies.

The District may be particularly susceptible to the impacts of sea level rise or other impacts of climate change or flooding because of its location near the waterfront of the City. The City is unable to predict whether sea level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the City, the local economy or, in particular, the Taxable Buildings in the District that are subject to the Special Tax and the ability of a property owner in the District to pay the Special Tax levy.

### **Other Natural Disasters and Other Events**

In addition to earthquake and sea-level rise (discussed above), other natural or man-made disasters, such as flood, wildfire, tsunamis, toxic dumping, civil unrest or acts of terrorism, could also adversely impact persons or property within the City generally and/or specifically in the District, damage City and District infrastructure and adversely impact the City's ability to provide municipal services.

In September 2010, a PG&E high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. PG&E owns, operates and maintains numerous gas transmission and distribution pipelines throughout the City. In August 2013, a massive wildfire in Tuolumne County and the Stanislaus National Forest burned over 257,135 acres (the "Rim Fire"), which area included portions of the City's Hetch Hetchy Project. The Hetch Hetchy Project is comprised of dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir which supplies 85% of San Francisco's drinking water), hydroelectric generation and transmission facilities and water transmission facilities. Hetch Hetchy facilities affected by the Rim Fire included two power generating stations and the southern edge of the Hetch Hetchy Reservoir. There was no impact to drinking water quality. The City's hydroelectric power generation system was interrupted by the fire, forcing the San Francisco Public Utilities Commission to spend approximately \$1.6 million buying power on the open market and using existing banked energy with PG&E. The Rim Fire inflicted approximately \$40 million in damage to parts of the City's water and power infrastructure located in the region. Certain portions of the Hetch Hetchy Project are old and deteriorating, and outages at critical points of the project could disrupt water delivery to significant portions of the region and/or cause significant costs and liabilities to the City.

Many areas of northern California have suffered from wildfires in more recent years, including the Tubbs fire which burned across several counties north of the Bay Area in October 2017 (part of a series of fires covering approximately 245,000 acres and causing 44 deaths and approximately \$14 billion in damage), the Camp fire which burned across Butte County, California in November 2018 (covering almost 240 square miles and resulting in numerous deaths and over \$16 billion in property damage) and Kincade Fire which burned across Sonoma County, California in late 2019 (covering over 77,000 acres). Spurred by findings that these fires were caused, in part, by faulty powerlines owned by PG&E, the power company subsequently adopted mitigation strategies which results in pre-emptive distribution circuit and high power transmission line shut offs during periods of extreme fire danger (i.e. high winds, high temperatures and low humidity) to portions of the Bay Area, including the City. In recent years, parts of the City experienced several black out days as a result of PG&E's wildfire prevention strategy. Future shut offs are expected to continue and it is uncertain what effects future PG&E shut offs will have on the local economy.

In recent years, California experienced numerous significant wildfires. In addition to their direct impact on health and safety and property damage in California, the smoke from these wildfires has impacted the quality of life in the Bay Area and the City and may have short-term and future impacts on commercial



and tourist activity in the City, as well as the desirability of the City and the Bay Area as places to live, potentially negatively affecting real estate trends and values.

The California Geological Survey (“CGS”), in concert with the California Emergency Management Agency and the Tsunami Research Center at the University of Southern California, produced new statewide tsunami hazard zone maps in July 2021. CGS has identified much of the District as being located in the San Francisco tsunami hazard zone, with the remainder of the District being near the hazard zone. The properties inside the hazard zone are Salesforce East (350 Mission Street), Park Tower (Block 5) (250 Howard Street), 181 Fremont (181 Fremont Street), One Steuart Lane (75 Howard Street), Block 4 (200 Main Street) and Mira (Block 1) (160 Folsom Street). A portion of the Salesforce Transit Center is also inside the hazard zone.

As a result of the occurrence of events like those described above, a substantial portion of the property owners in the District may be unable or unwilling to pay the Special Taxes when due, and the reserve funds for the outstanding Bonds may become depleted.

### **Hazardous Substances**

A serious risk in terms of the potential reduction in the value of a parcel within the District is the discovery of a hazardous substance. In general, the owners and operators of a parcel within the District may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but other California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of the property whether or not the owner or operator had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, would be to reduce the marketability and value of such parcel by the costs of remedying the condition. Any prospective purchaser would become obligated to remedy the condition.

Further it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the current existence on the parcel of a substance currently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly affect the value of a parcel within the District that is realizable upon a delinquency.

### **Millennium Tower**

Millennium Tower is a 58-story luxury residential building completed in 2009 and located at 301 Mission Street in downtown San Francisco. The tower is near the Salesforce Transit Center. Some owners of condominiums in Millennium Tower filed lawsuits against TJPA, the City and others. The lawsuits alleged that the construction of the Salesforce Transit Center harmed the Millennium Tower by causing it to settle into the soil more than planned and tilt toward the west/northwest. The owners claim unspecified monetary damages.

The City and TJPA finalized a global settlement of litigation arising out of alleged defects in the Millennium Tower. As a result of the global settlement, the City and TJPA have been dismissed from all cases to which they were parties that were filed as a result of the alleged sinking and tilting of the tower.

The purpose of the global settlement is to resolve all claims arising out of the alleged defects. No assurance can be given that parties will not allege new claims not covered by the global settlement.

Millennium Tower is not located in the District, nor is it subject to the levy of the Special Tax and none of the information presented in this Official Statement assumes collection of Special Taxes from the Millennium Tower project. The relevance of the lawsuits described above to the 2022 Bonds is that they relate to conditions at a private development project near the District, and if those conditions were replicated at Taxable Parcels, it could adversely impact the ability or willingness of property owners of such affected buildings to pay Special Taxes. The City is not aware of any such condition affecting the Taxable Buildings within the District.

The Millennium Tower's homeowners' association is implementing an approximately \$100 million voluntary retrofit designed to improve the building's performance. Work was paused when monitoring data indicated that rates of settlement may have increased as a result of the retrofit construction. In the summer of 2022, the City's Department of Building Inspection issued a revised building permit for a perimeter pile upgrade that has allowed work to continue.

### **Bankruptcy and Foreclosure**

The payment of property owners' taxes and the ability of the City to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure" herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the 2022 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

In addition, bankruptcy of a property owner (or a property owner's partner or equity owner) would likely result in a delay in procuring Superior Court foreclosure proceedings unless the bankruptcy court consented to permit such foreclosure action to proceed. Such delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the 2022 Bonds and the possibility of delinquent tax installments not being paid in full.

Under 11 U.S.C. Section 362(b)(18), in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for ad valorem taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Owners should be aware that the potential effect of 11 U.S.C. Section 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like ad valorem taxes for this purpose.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as ad valorem taxes. *No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy.*

### **Property Controlled by FDIC and Other Federal Agencies**

The City's ability to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Tax payments may be limited in certain respects with regard to properties in which

the Internal Revenue Service, the Drug Enforcement Agency, the Federal Deposit Insurance Corporation (the “FDIC”) or other similar federal agency has or obtains an interest.

Unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the City wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. In *Rust v. Johnson* (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association (“FNMA”) is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States. The City has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes within the District, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the 2022 Bonds are outstanding.

On June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Real Property Taxes. The 1991 Policy Statement was revised and superseded by a new Policy Statement effective January 9, 1997 (the “Policy Statement”). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its proper tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC’s consent.

The Policy Statement states that the FDIC generally will not pay non *ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC’s federal immunity.

The FDIC has filed claims against one California county in United States Bankruptcy Court contending, among other things, that special taxes authorized under the Act are not *ad valorem* taxes and therefore not payable by the FDIC, and the FDIC is seeking a refund of any special taxes previously paid by the FDIC. The FDIC is also seeking a ruling that special taxes may not be imposed on properties while they are in FDIC receivership. The Bankruptcy Court ruled in favor of the FDIC’s positions and, on August 28, 2001, the United States Court of Appeals for the Ninth Circuit affirmed the decision of the Bankruptcy Court, holding that the FDIC, as an entity of the federal government, is exempt from post-receivership special taxes levied under the Act. This is consistent with provision in the Act that the federal government is exempt from special taxes.

The City is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to a parcel in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed on at a judicial foreclosure sale would likely reduce the number of or eliminate the persons willing to purchase such a parcel at a foreclosure sale. Owners of the 2022 Bonds should assume that the City will be unable to foreclose on any parcel owned by the FDIC. Such an outcome would cause a draw on the 2022 Reserve Fund and perhaps, ultimately, a default in payment of the 2022 Bonds. The City has not undertaken to determine whether the FDIC or any FDIC-insured lending institution currently has, or is likely to acquire, any interest in any of the parcels that are subject to the Special Tax, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the 2022 Bonds are outstanding.

### **California Constitution Article XIIC and Article XIID**

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which articles contain a number of provisions affecting the ability of the City to levy and collect within the District both existing and future taxes, assessments, fees and charges. According to the “Official Title and Summary” of Proposition 218 prepared by the California State Attorney General, Proposition 218 limits the “authority of local governments to impose taxes and property-related assessments, fees and charges.” On July 1, 1997, California State Senate Bill 919 (“SB 919”) was signed into law. SB 919 enacted the “Proposition 218 Omnibus Implementation Act,” which implements and clarifies Proposition 218 and prescribes specific procedures and parameters for local jurisdictions in complying with Articles XIIC and XIID.

Article XIID of the State Constitution reaffirms that the proceedings for the levy of any Special Taxes by the City within the District under the Act must be conducted in conformity with the provisions of Section 4 of Article XIIA. The City has completed its proceedings for the levy of Special Taxes in accordance with the provisions of Section 4 of Article XIIA. Under Section 53358 of the California Government Code, any action or proceeding to review, set aside, void, or annul the levy of a special tax or an increase in a special tax (including any constitutional challenge) must be commenced within 30 days after the special tax is approved by the voters.

Article XIIC removes certain limitations on the initiative power in matters of local taxes, assessments, fees and charges. The Act provides for a procedure, which includes notice, hearing, protest and voting requirements, to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting a resolution to reduce the rate of any special tax if the proceeds of that tax are being utilized to retire any debt incurred pursuant to the Act unless such legislative body determines that the reduction of that tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that exercise by the voters of the initiative power referred to in Article XIIC to reduce or terminate the Special Tax is subject to the same restrictions as are applicable to the Board of Supervisors, as the legislative body of the District, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that Proposition 218 has not conferred on the voters the power to repeal or reduce the Special Taxes if such repeal or reduction would interfere with the timely retirement of the 2022 Bonds.

It may be possible, however, for voters or the Board of Supervisors, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2022 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2022 Bonds.

Proposition 218 and the implementing legislation have yet to be extensively interpreted by the courts; however, the California Court of Appeal in April 1998 upheld the constitutionality of Proposition 218's balloting procedures as a condition to the validity and collectability of local governmental assessments. A number of validation actions for and challenges to various local governmental taxes, fees and assessments have been filed in Superior Court throughout the State, which could result in additional interpretations of Proposition 218. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and the outcome of such determination cannot be predicted at this time with any certainty.

### **Validity of Landowner Elections**

On August 1, 2014, the California Court of Appeal, Fourth Appellate District, Division One (the "Court"), issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997). The Court considered whether Propositions 13 and 218, which amended the California Constitution to require voter approval of taxes, require registered voters to approve a tax or whether a city could limit the qualified voters to just the landowners and lessees paying the tax. The case involved a Convention Center Facilities District (the "CCFD") established by the City of San Diego. The CCFD is a financing district established under San Diego's charter and was intended to function much like a community facilities district established under the provisions of the Act. The CCFD is comprised of the entire City of San Diego. However, the special tax to be levied within the CCFD was to be levied only on properties improved with a hotel located within the CCFD.

At the election to authorize such special tax, the San Diego Charter proceeding limited the electorate to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located, thus, the election was an election limited to landowners and lessees of properties on which the special tax would be levied and was not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was based on Section 53326(c) of the Act, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax. In addition, Section 53326(b) of the Act provides that if there are fewer than 12 registered voters in the district, the landowners shall vote.

The Court held that the CCFD special tax election did not comply with applicable requirements of Proposition 13, which added Article XIII A to the California Constitution (which states "Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district") and Proposition 218, which added Article XIII C and XIII D to the California Constitution (Section 2 of Article XIII C provides "No local government may impose, extend or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote"), or with applicable provisions of San Diego's Charter, because the electors in such an election were not the registered voters residing within such district.

San Diego argued that the State Constitution does not expressly define the qualified voters for a tax; however, the Legislature defined qualified voters to include landowners in the Mello-Roos Community Facilities District Act. The Court of Appeal rejected San Diego's argument, reasoning that the text and history of Propositions 13 and 218 clearly show California voters intended to limit the taxing powers of local government. The Court was unwilling to defer to the Act as legal authority to provide local governments more flexibility in complying with the State's constitutional requirement to obtain voter approval for taxes. The Court held that the tax was invalid because the registered voters of San Diego did not approve it. However, the Court expressly stated that it was not addressing the validity of landowners voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. In the case of the CCFD, at the time of the election there were several hundred thousand registered voters within the CCFD (i.e., all of the registered voters in the city of San Diego).

In the case of the District, there were fewer than 12 registered voters within the District at the time of the election to authorize the Special Tax within the District. In addition, each owner of property that annexed into the District after original District formation has represented to the City that there were no registered voters on such property at the time of annexation.

Moreover, Section 53341 of the Act provides that any “action or proceeding to attack, review, set aside, void or annul the levy of a special tax ... shall be commenced within 30 days after the special tax is approved by the voters.” Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act or the levy of special taxes authorized pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds or the special tax. Voters approved the special tax and the issuance of bonds for the District pursuant to the requirements of the Act on December 29, 2016, and owners of property that annexed into the District voted in favor of special taxes and the issuance of Bonds for the District at the time of annexation more than 30 days prior to the date of issuance of the 2022 Bonds. Therefore, under the provisions of Section 53341 and Section 53359 of the Mello-Roos Act, the statute of limitations period to challenge the validity of the special tax has expired.

### **Ballot Initiatives and Legislative Measures**

Proposition 218 was adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process; and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the District or other local districts to increase revenues or to increase appropriations or on the ability of a landowner to complete the development of property.

### **No Acceleration**

The 2022 Bonds do not contain a provision allowing for their acceleration in the event of a payment default or other default under the terms of the 2022 Bonds or the Fiscal Agent Agreement or upon any adverse change in the tax status of interest on the 2022 Bonds. There is no provision in the Act or the Fiscal Agent Agreement for acceleration of the Special Taxes in the event of a payment default by an owner of a parcel within the District. Pursuant to the Fiscal Agent Agreement, a Bond Owner is given the right for the equal benefit and protection of all Bond Owners to pursue certain remedies described in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT” attached hereto.

### **Limitations on Remedies**

Remedies available to the Bond Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2022 Bonds. Co-Bond Counsel has limited its opinion as to the enforceability of the 2022 Bonds and of the Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor’s rights, by equitable principles and by the exercise of judicial discretion. Additionally, the 2022 Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Fiscal Agent Agreement. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Bond Owners.

Enforceability of the rights and remedies of the Bond Owners, and the obligations incurred by the City on behalf of the District, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s rights generally, now or hereafter in effect, equity principles which may limit the specific

enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the applicable limitations on remedies against public agencies in the State. See “SPECIAL RISK FACTORS – Bankruptcy and Foreclosure” herein.

### **Limited Secondary Market**

As stated herein, investment in the 2022 Bonds poses certain economic risks which may not be appropriate for certain investors, and only persons with substantial financial resources who understand and appreciate the risk of such investments should consider investment in the 2022 Bonds. There can be no guarantee that there will be a secondary market for purchase or sale of the 2022 Bonds or, if a secondary market exists, that the 2022 Bonds can or could be sold for any particular price.

### **Cybersecurity**

The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “Systems Technology”). As a recipient and provider of personal, private, or sensitive information, the City has been the subject of cybersecurity incidents which have resulted in or could have resulted in adverse consequences to the City’s Systems Technology and required a response action to mitigate the consequences. For example, in November 2016, the San Francisco Municipal Transportation Agency (“SFMTA”) was subject to a ransomware attack which disrupted some of the SFMTA’s internal computer systems. Although the attack neither interrupted Muni train services nor compromised customer privacy or transaction information, SFMTA took the precaution of turning off the ticket machines and fare gates in the Muni Metro subway stations from Friday, November 25 until the morning of Sunday, November 27.

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. To mitigate the risk of business operations impact and/or damage from cybersecurity incidents or cyberattacks, the City invests in multiple forms of cybersecurity and operational safeguards. In November 2016, the City adopted a City-wide Cyber Security Policy (“Cyber Policy”) to support, maintain, and secure critical infrastructure and data systems. The objectives of the Cyber Policy include the protection of critical infrastructure and information, manage risk, improve cyber security event detection and remediation, and facilitate cyber awareness across all City departments. The City’s Department of Technology has established a cybersecurity team to work across all City departments to implement the Cyber Policy. The City’s Cyber Policy is reviewed periodically.

The City has also appointed a City Chief Information Security Officer (“CCISO”), who is directly responsible for understanding the business and related cybersecurity needs of the City’s 54 departments. The CCISO is responsible for identifying, evaluating, responding, and reporting on information security risks in a manner that meets compliance and regulatory requirements, and aligns with and supports the risk posture of the City.

While City cybersecurity and operational safeguards are periodically tested, no assurances can be given by the City that such measures will ensure against other cybersecurity threats and attacks. Cybersecurity breaches could damage the City’s Systems Technology and cause material disruption to the City’s operations and the provision of City services. The costs of remedying any such damage or protecting against future attacks could be substantial. Further, cybersecurity breaches could expose the City to material

litigation and other legal risks, which could cause the City to incur material costs related to such legal claims or proceedings.

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the 2022 Bonds to provide certain financial information and operating data relating to the District (the “Annual Report”) on an annual basis, and to provide notices of the occurrences of certain enumerated events. The Annual Report and the notices of enumerated events will be filed with the MSRB on EMMA. The specific nature of information to be contained in the Annual Report or the notice of events is summarized in APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. These covenants have been made by the City in order to assist the Underwriters in complying with the Rule.

The City has conducted a review of the compliance of the City, with their respective previous continuing disclosure undertakings pursuant to Rule 15c2-12.

On March 6, 2018, Moody’s Investors Service, Inc. (“Moody’s”) upgraded certain of the City and County of San Francisco Finance Corporation lease-backed obligations to “Aa1” from “Aa2.” The City timely filed notice of the upgrade with EMMA, but inadvertently did not link the notice to all relevant CUSIP numbers. The City has taken action to link such information to the applicable CUSIP numbers.

The Annual Report for fiscal year 2016-17, which was timely prepared, provided investors a link to the City’s 2016-17 audited financial statements (“2016-17 Audited Financial Statements”) on the City’s website. However, the 2016-17 Audited Financial Statements were not posted on EMMA. The City subsequently filed the 2016-17 Audited Financial Statements and a notice of such late filing on EMMA.

As of May 6, 2021, the City was a party to certain continuing disclosure undertakings relating to municipal securities which require the City to file notice filings on EMMA within ten days in the event of the incurrence of financial obligations and certain other events, if material. On May 6, 2021, the City extended for two years certain liquidity facilities relating to series 1 and 1-T and series 2 and 2-T of its commercial paper program. On July 1, 2021, the City filed on EMMA an event notice relating to these extensions.

## TAX MATTERS

### 2022A Bonds

***Federal Tax Status.*** In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2022A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. For tax years beginning after December 31, 2022, interest on the 2022A Bonds may be subject to the corporate alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Tax Code”) that must be satisfied subsequent to the issuance of the 2022A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2022A Bonds.



***Tax Treatment of Original Issue Discount and Premium.*** If the initial offering price to the public at which a 2022A Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a 2022A Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “bond premium” for purposes of federal income taxes and State of California personal income taxes.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2022A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2022A Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2022A Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2022A Bonds who purchase the 2022A Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2022A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2022A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2022A Bonds is sold to the public.

Under the Tax Code, bond premium is amortized on an annual basis over the term of the 2022A Bond (said term being the shorter of the 2022A Bond’s maturity date or its call date). The amount of bond premium amortized each year reduces the adjusted basis of the owner of the 2022A Bond for purposes of determining taxable gain or loss upon disposition. The amount of bond premium on a 2022A Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2022A Bond premium is not deductible for federal income tax purposes. Owners of premium 2022A Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2022A Bonds.

***California Tax Status.*** In the further opinion of Co-Bond Counsel, interest on the 2022A Bonds is exempt from California personal income taxes.

***Other Tax Considerations.*** Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2022A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2022A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Co-Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Co-Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2022A Bonds, or as to the consequences of owning or receiving interest on the 2022A Bonds, as of any future date. Prospective purchasers of the 2022A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel expresses no opinion.

Owners of the 2022A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2022A Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Co-Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2022A Bonds, the ownership, sale or disposition of the 2022A Bonds, or the amount, accrual or receipt of interest on the 2022A Bonds.

***Form of Opinion.*** The proposed form of opinion of Co-Bond Counsel with respect to the 2022A Bonds to be delivered on the date of issuance of the 2022A Bonds is set forth in APPENDIX D – “FORM OF CO-BOND COUNSEL OPINION” attached hereto.

## **2022B Bonds**

The interest on the 2022B Bonds is not intended by the City to be excluded from gross income for federal income tax purposes. However, in the opinion of Co-Bond Counsel, interest on the 2022B Bonds is exempt from California personal income taxes.

Owners of the 2022B Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2022B Bonds may have federal or state tax consequences other than as described above. Co-Bond Counsel express no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2022B Bonds.

The proposed form of opinion of Co-Bond Counsel with respect to the 2022B Bonds to be delivered on the date of issuance of the 2022B Bonds is set forth in APPENDIX D – “FORM OF CO-BOND COUNSEL OPINION” attached hereto.

## **UNDERWRITING**

Stifel Nicolaus & Company, Incorporated and Piper Sandler & Co. (together, the “Underwriters”) purchased the 2022A Bonds at a purchase price of \$32,883,113.65 (calculated as the aggregate principal amount of the 2022A Bonds in the amount of \$31,190,000.00, plus premium in the amount of \$1,828,759.90, and less underwriters’ discount in the amount of \$135,646.25) and purchased the 2022B Bonds at a purchase price of \$47,172,825.00 (calculated as the aggregate principal amount of the 2022B Bonds in the amount of \$47,380,000.00, less underwriters’ discount in the amount of \$207,175.00). The Underwriters intend to offer the 2022 Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

The Underwriters have provided the following two paragraphs for inclusion in this Official Statement.

The Underwriters reserve the right to join with dealers and other underwriters in offering the 2022 Bonds to the public. The Underwriters may offer and sell the 2022 Bonds to certain dealers (including dealers depositing 2022 Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallocate any such discounts on sales to other dealers.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage and asset management. In the ordinary course of business, the Underwriters and their affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the City. The Underwriters

and their affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City.

## **LEGAL OPINION AND OTHER LEGAL MATTERS**

**General.** The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, as Co-Bond Counsel, approving the validity of the 2022 Bonds, in substantially the form set forth in Appendix D attached hereto, will be made available to purchasers of the 2022 Bonds at the time of original delivery. Co-Bond Counsel have not undertaken on behalf of the Owners or the Beneficial Owners of the 2022 Bonds to review the Official Statement and assume no responsibility to such Owners and Beneficial Owners for the accuracy of the information contained herein. Certain legal matters will be passed upon for the City by the City Attorney, and by Norton Rose Fulbright US LLP, Los Angeles, California, Disclosure Counsel, with respect to the issuance of the 2022 Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel Nixon Peabody LLP, Los Angeles, California.

Compensation paid to Co-Bond Counsel, Disclosure Counsel, and Underwriters' Counsel, is contingent on the issuance of the 2022 Bonds.

**Disclosure Letter.** Norton Rose Fulbright US LLP, Los Angeles, California has served as Disclosure Counsel to the City, acting on behalf of the District, and in such capacity has advised City staff with respect to applicable securities laws and participated with responsible City officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement and has not undertaken to independently verify any of such statements or information. The City is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon issuance and delivery of the 2022 Bonds, Disclosure Counsel will deliver a letter to the City, acting on behalf of the District, and the Underwriters to the effect that, subject to the assumptions, exclusions, qualifications and limitations set forth therein (including without limitation exclusion of any information relating to The Depository Trust Company, Cede & Co., the book-entry system, the CUSIP numbers, forecasts, projections, estimates, assumptions and expressions of opinions and the other financial and statistical data included herein, and information in Appendices B and F hereof, as to all of which Disclosure Counsel will express no view), no facts have come to the attention of the personnel with Norton Rose Fulbright US LLP directly involved in rendering legal advice and assistance to the City which caused them to believe that this Official Statement as of its date and as of the date of delivery of the 2022 Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. No purchaser or holder, other than the addressee of the letter, or other person or party, will be entitled to or may rely on such letter of Disclosure Counsel.

## **NO LITIGATION**

### **The City and the District**

A certificate of the City to the effect that no litigation is pending (for which service of process has been received) concerning the validity of the 2022 Bonds will be furnished to the Underwriters at the time of the original delivery of the 2022 Bonds. Neither the City nor the District is aware of any litigation

pending or threatened which questions the existence of the District or the City or contests the authority of the City on behalf of the District to levy and collect the Special Taxes or to issue the 2022 Bonds.

### **Ongoing Investigations; Settlement**

**Public Works Investigation.** On January 28, 2020 the City's former Director of Public Works Mohammad Nuru was indicted on federal criminal charges of public corruption, including honest services wire fraud and lying to Federal Bureau of Investigation officials. The allegations contained in the complaint involve various schemes, including an attempt by Mr. Nuru and Mr. Nick Bovis, a local restaurateur who was also indicted by the federal government, to bribe an Airport Commissioner to influence the award of lease of space at the San Francisco International Airport, Mr. Nuru using his official position to benefit a developer of a mixed-use project in San Francisco in exchange for personal gifts and benefits; Mr. Nuru attempting to use his former position as the chair of the Transbay Joint Powers Authority to secure a lease for Mr. Bovis in the Salesforce Transit Center, in exchange for personal benefits provided by the restaurateur; Mr. Nuru providing Mr. Bovis with inside information on City projects regarding contracts for portable bathroom trailers and small container-like housing units for use by the homeless, so that Mr. Bovis could win the contracts for those projects; and Mr. Nuru obtaining free and discounted labor and construction equipment from contractors to help him build a personal vacation home while those contractors were also engaging in business with the City. Mr. Nuru resigned from employment with the City two weeks after his arrest.

On May 20, 2021, Mr. Bovis pled guilty to honest services wire fraud and wire fraud. On December 17, 2021, Mr. Nuru also pled guilty to honest services wire fraud. On August 25, 2022, Mr. Nuru was sentenced to seven years in prison.

As a result of the announcement of the Nuru and Bovis arrests, the City Attorney and Controller commenced a joint investigation seeking to identify officials, employees and contractors involved in these schemes or other related conduct, and to identify contracts, grants, gifts, and other government decisions possibly tainted by conflicts of interest and other legal or policy violations. The Controller's Office, in conjunction with the City Attorney's Office, has put into place interim controls to review Public Works contracts for red flags and process failures. The Controller's Office is also working with the City Attorney's Office to identify whether stop payments, cancellations or other terminations are justified on any open contracts, purchase orders or bids. Also, the Controller, in coordination with the City Attorney's Office, has made periodic public reports setting forth assessments of patterns and practices to help prevent fraud and corruption and recommendations about best practices, including possible changes in City law and policy.

On March 10, 2020, the City Attorney transmitted to the Mayor its preliminary report of investigations of alleged misconduct by the City's Director of the Department of Building Inspections ("DBI"). The allegations involve violations of the City Campaign and Conduct Code and DBI's Code of Professional Conduct by the Director by (i) providing intentional and preferential treatment to certain permit expeditors, (ii) accepting gifts and dinners in violation of DBI's professional code of conduct, and (iii) otherwise violating City laws and policies by abusing his position to seek positions for his son and son's girlfriend. The Mayor placed the Director of Building Inspection on administrative leave, and he resigned shortly thereafter.

On June 29, 2020, the Controller released its preliminary assessment of Citywide procurement practices, with an emphasis on the Public Works Department. The report is subject to public comment and review and could be revised in the future. The preliminary assessment focused on City laws, practices and policies and made recommendations to make improvements on such City laws and policies to improve transparency, reduce the risk of loss and abuse in City contracting in the future. The Controller expects to issue additional reports in the future. Reviews of the City internal controls will be released in a subsequent

report. Finally, the City Attorney investigation continues with respect to the review certain contracts and payments made to outside vendors. To date, the City Attorney's investigation has led to the release of at least four city employees (including the Director of Public Works and the Director of Building Inspections, as described above) or officials from their City positions.

On September 24, 2020, the Controller issued an additional report noting that Mr. Nuru also solicited donations from private sources and directed those donations to a non-profit supporting the Department of Public Works. Such arrangements, which were neither accepted or disclosed by the City, created a perceived risk of "pay-to-play" relationships. The report made recommendations to the Board of Supervisors that, among other things, would restrict the ability of department heads from soliciting donations from interested parties in the future and would increase transparency surrounding gifts made to benefit City departments.

On November 30, 2020, Harlan L. Kelly, Jr., the General Manager of the San Francisco Public Utilities Commission ("PUC"), was charged in a federal criminal complaint with one count of honest services wire fraud. The complaint alleges that Mr. Kelly engaged in a long-running bribery scheme and corrupt partnership with Walter Wong, a San Francisco construction company executive and permit expediting consultant, who ran or controlled multiple entities doing business with the City. The complaint further alleges that as part of the scheme, Mr. Wong provided items of value to Mr. Kelly in exchange for official acts by Mr. Kelly that benefited or attempted to benefit Mr. Wong's business ventures. Earlier criminal charges filed against Walter Wong alleged that Mr. Wong conspired with multiple City officials, including Mr. Nuru, in a conspiracy and money laundering scheme. Mr. Wong pled guilty in July 2021 and is cooperating with the ongoing federal investigation.

Mr. Kelly resigned on December 1, 2020, and the PUC's Commission acted on his resignation on December 8, 2020. Dennis J. Herrera (the former City Attorney) was nominated by the Mayor to be the General Manager of the PUC and his nomination was confirmed by the PUC on September 28, 2021. Mr. Herrera assumed office as General Manager of PUC on November 1, 2021.

On July 8, 2021, the San Francisco District Attorney announced the arrest of former Department of Public Works bureau manager Gerald "Jerry" Sanguinetti. Mr. Sanguinetti was charged with five felony counts of perjury and two misdemeanor charges arising from his alleged failure to report more than a quarter million dollars of income and file financial disclosure statements associated with the sale to the Public Works Department of merchandise by a company owned by his wife. The charges arise out of the continuing investigation into public corruption involving the Public Works Department. The Public Works Department investigation is ongoing.

**Recology Settlement.** On March 4, 2021, the City Attorney announced an approximately \$100 million settlement with Recology San Francisco ("Recology"), the contractor handling the City's waste and recycling collection. The settlement arose from overcharges that were uncovered as part of the continuing public integrity investigation tied to Mr. Nuru and others. As part of the Settlement, Recology was required to lower commercial and residential rates starting April 1, 2021, and make a \$7 million settlement payment to the City under the California Unfair Competition Law and the San Francisco Campaign and Governmental Conduct Code. In addition, Recology will be enjoined for four years from making any gift to any City employee or any contribution to a nonprofit at the behest of a City employee. The comprehensive settlement agreement with Recology was approved by the Board of Supervisors. The bribery and corruption public integrity investigation related to the Nuru matter is ongoing.

On May 16, 2022, the Controller's Office released a public integrity assessment report on the review of rate-setting and rate reporting processes, and profits earned by Recology that were over and above allowed profit margins. The report found that Recology netted profits of \$23.4 million over and above the allowed profit margin set in the 2017 Rate Application. Even after taking into account the 2021 \$101 million

settlement in restitution, penalties, and interest to ratepayers affected by the erroneous calculation of revenues in the rate application, Recology consistently exceeded their allowable operating profits.

On June 7, 2022, the voters of San Francisco passed Proposition F, a ballot measure that allows the City to oversee Recology more closely, including certain changes to the composition of the Refuse Rate Board. The changes are intended to provide more oversight with respect to monitoring rates to residential and commercial customers.

In addition to the ongoing joint investigation by the City Attorney's Office and the Controller's Office into City contracting policies and procedures, the City's Board of Supervisors has initiated a series of public hearings before its Government Audit and Oversight Committee to examine issues raised by the federal complaints. That committee also considered the Controller's periodic reports. The full Board of Supervisors is considering retaining additional independent services relating to the matters that were the subject of the federal indictment. The City can give no assurance regarding when the City's investigation will be completed or what the outcome will be. The criminal investigation by the Federal Bureau of Investigation and the United States Attorney's office is ongoing.

## RATING

Fitch Ratings has assigned the 2022 Bonds its long-term municipal bond credit rating of "AA+." Such rating should be evaluated independently of any other rating. Such rating reflects only the views of such organization and any desired explanation of the significance of such rating should be obtained from Fitch Ratings. The rating does not constitute a recommendation to buy, sell or hold the 2022 Bonds. The City has furnished to Fitch Ratings certain information respecting the 2022 Bonds and the City. Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions.

The rating is subject to revision, suspension or withdrawal at any time by the applicable rating agency, and there is no assurance that any rating will continue for any period or that they will not be lowered or withdrawn. The City, on behalf of the District, undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any downward revision, suspension or withdrawal of any rating may have an adverse effect on the market price of the 2022 Bonds or the ability to sell the 2022 Bonds.

The City understands that, in rating the 2022 Bonds, Fitch Ratings considered the District's participation in the Teeter Plan, among other considerations. The City has the power to unilaterally discontinue the Teeter Plan or remove the District from the Teeter Plan. The Teeter Plan may also be discontinued by petition of two-thirds (2/3) of the participant taxing agencies. Discontinuation of the Teeter Plan could adversely affect the rating on the 2022 Bonds. See "SECURITY FOR THE BONDS – Teeter Plan" herein. **The City, on behalf of itself or the District, provides no assurance in the Fiscal Agent Agreement or otherwise that it will maintain the District on the Teeter Plan.**

## MUNICIPAL ADVISOR

The City has retained Del Rio Advisors, LLC of Modesto, California, as municipal advisor (the "Municipal Advisor") in connection with the offering of the 2022 Bonds. All financial and other information presented in this Official Statement has been provided by the City and others from their records. Unless otherwise footnoted, the Municipal Advisor takes no responsibility for the accuracy or completeness of the data provided by the City or others and has not undertaken to make an independent verification or does not assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor has assisted the City with the structure, timing and terms for the sale of the 2022 Bonds. The Municipal Advisor provides municipal advisory services only and does

not engage in the underwriting, marketing, or trading of municipal securities or other negotiable instruments. The fee of the Municipal Advisor is contingent upon the successful closing of the 2022 Bonds.

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## MISCELLANEOUS

All of the preceding summaries of the Fiscal Agent Agreement, other applicable legislation, agreements and other documents are made subject to the provisions of such documents and do not purport to be complete documents of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the 2022 Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement has been authorized by the Board of Supervisors of the City.

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Anna Van Degna  
Director of the Office of Public Finance



**APPENDIX A**

**CITY AND COUNTY OF SAN FRANCISCO**

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## **APPENDIX A**

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

This Appendix A to the Official Statement of the City provides general information about the City's governance structure, budget processes, property taxation system and tax and other revenue sources, City expenditures, labor relations, employment benefits and retirement costs, 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 and should not be considered in making a decision to buy the Bonds.

Information concerning the City's finances that does not materially impact the availability of moneys deposited in the General Fund including San Francisco International Airport ("SFO" or the "Airport"), Public Utilities Commission ("PUC"), and other enterprise funds, or the expenditure of moneys from the General Fund, is generally not included or, if included, is not described in detail in this Appendix A.

The information presented in this Appendix A contains, among other information, City budgetary forecasts, projections, estimates and other statements that are based on current expectations as of its date. The words "expects," "forecasts," "projects," "budgets," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify such information as "forward-looking statements." Such budgetary forecasts, projections and estimates are not intended as representations of fact or intended as guarantees of results. Any such forward-looking statements are inherently subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected.

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## **CITY FINANCIAL CHALLENGES**

The Original Budget for fiscal years 2022-23 and 2023-24 was approved by the Board of Supervisors on July 26, 2022 and by the Mayor on July 27, 2022. The 2022-23 and 2023-24 Original Budget assumed \$82.3 million of COVID-19 response costs, nearly 80% below the prior approved budget, as pandemic response efforts and costs decline. See “CITY BUDGET – Budget Process” for additional detail.

The COVID-19 pandemic resulted in general negative effects on the City’s economy which materially adversely impacted the City’s tax revenues and increased expenses due to public health responses. These decreases occurred in nearly every category of revenue except intergovernmental revenue and property taxes; most significantly, the City experienced the greatest decline in its “other local taxes,” which includes hotel and sales taxes. See “PROPERTY TAXATION – Tax Levy and Collection” for additional detail.

The Original Budget for fiscal years 2022-23 and 2023-24 reflects stabilization of City operations and the significant recovery of certain revenues as many of the negative effects of the pandemic have subsided. However, like other municipal governments throughout the State and nation, the City faces significant financial challenges. In addition, a resurgence of the pandemic may affect the City’s ability to sustain regular operations at current levels and may materially adversely impact the financial condition of the General Fund.

As described in “CITY BUDGET – Other Budget Updates: Fiscal Year 2022-23 and 2023-24 Revenue Letter” the Original Budget for fiscal years 2022-23 and 2023-24 was based in large part on revenue assumptions contained in the Nine-Month Report (issued in May 2022), which assumed continuing economic recovery in fiscal years 2022-23 and 2023-24. Following the issuance of the May 2022 Nine-Month Report and the June 2022 Controller Letter, the local, state and national economies have faced significant headwinds, including multiple interest rate increases by the Federal Reserve, continuing price inflation, volatile investment markets, and economic disruption resulting from the war in Ukraine and other factors. In addition, on November 1, 2022, the Controller issued its most recent report on the status of the re-opening of the City economy. The Controller’s Report noted a 6.2% decline in single family home values in the City from May to September 2022 and that housing prices are falling faster in San Francisco than Statewide. The Controller’s report also indicated that the City continues to lag the State average with respect to in-office attendance by workers in City businesses (a continuation of the remote work practices which became more prevalent during the pandemic). These factors may negatively impact the City’s revenues, including, but not limited to, transfer tax, business tax and property tax revenues. See “BUDGETARY RISKS – Office Vacancy in San Francisco” for a discussion of the impact of remote working on commercial property in the City, including a recent report by the Controller’s Office projecting significant declines in property taxes. In addition, there can be no assurances that potential adverse impacts of the current economic challenges on the financial condition of the State will not result in decreases in State funding to the City.

As described herein in “CITY BUDGET,” the City regularly prepares reports on its current and projected financial condition, including a Six-Month Report, a Nine-Month Report and Five Year Financial Plan. The next report to be issued, the Five Year Plan for fiscal year 2023-24 through fiscal year 2027-28, will likely be issued in January 2023. The City is currently working on developing the next Five Year Plan and based on its preliminary analysis expects the next Five Year Plan to show materially higher cumulative deficits in latter years than projected by the most recent Five Year Plan from January 2022. See “Five Year Financial Plan and March Update” herein. The Five Year Plan will reflect then-available

economic data available, and there can no assurances that the Five Year Plan, when issued, will not reflect projected declines in City revenues below the levels assumed in the Original Budget for fiscal years 2022-23 and 2023-24.

## **CITY GOVERNMENT**

### **City Charter**

San Francisco is constituted 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, voters approved the current charter, which went into effect in most respects on July 1, 1996 (“Charter”).

The City is governed by a Board of Supervisors consisting of eleven members elected from supervisorial districts (“Board of Supervisors”), and a Mayor elected at large who serves as chief executive officer (“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 TK-12) (“SFUSD”) and the San Francisco Community College District (post-secondary) (“SFCCD”). Each is a separate legal entity with a separately elected governing board.

Unique among California cities, San Francisco as a charter city and county provides 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 a 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 slightly less than 50% of all City expenditures. In addition, voters have approved Charter amendments that impose certain spending mandates and tax revenue set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including transportation services, children’s services and public education, and libraries.

Under its original charter, the City committed 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 Mills 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. 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. SFO, the Port, the PUC (which 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 enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital, and the MTA, annually receive significant General Fund transfers.

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. 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**

Mayor London Breed is the 45th Mayor of San Francisco and the first African-American woman to serve in such capacity in the City’s history. In November 2019, Mayor Breed was elected to serve her first full term. Prior to her election, Mayor Breed served as Acting Mayor, leading the City following the sudden passing of Mayor Lee. Mayor Breed previously served as a member of the Board of Supervisors for six years, including the last three years as President of the Board.

### **Board of Supervisors**

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

At the election on November 8, 2022, voters voted on Supervisor seats from even-numbered Districts with terms expiring in 2023. It appears incumbent supervisors for Districts 2, 6, 8, and 10 were re-elected, and Joel Engardio will replace Gordon Mar as the District 4 Board Supervisor.

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TABLE A-1

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

Name	First Elected or Appointed	Current Term Expires
Connie Chan, <i>District 1</i>	2021	2025
Catherine Stefani, <i>District 2</i>	2018	2023
Aaron Peskin, <i>District 3</i>	2015	2025
Gordon Mar, <i>District 4</i>	2019	2023
Dean Preston, <i>District 5</i>	2019	2025
Matt Dorsey, <i>District 6</i>	2022	2023
Myrna Melgar, <i>District 7</i>	2021	2025
Rafael Mandelman, <i>District 8</i>	2018	2023
Hillary Ronen, <i>District 9</i>	2017	2025
Shamann Walton, Board President, <i>District 10</i>	2019	2023
Ahsha Safai, <i>District 11</i>	2017	2025

### Other Elected and Appointed City Officers

The City Attorney, an elected position, represents the City in all legal proceedings in which the City has an interest. On September 29, 2021, Mayor London N. Breed appointed Assemblymember David Chiu to serve as the San Francisco City Attorney. Mr. Chiu replaced the prior City Attorney, Dennis Herrera, who became the General Manager of the San Francisco Public Utilities Commission on November 1, 2021. Mr. Chiu ran and was elected by voters in an election on June 7, 2022 to his current term as City Attorney..

The Assessor-Recorder administers the property tax assessment system of the City. On February 8, 2021, Joaquín Torres, formerly the Director of the Office of Economic and Workforce Development, was sworn in as the new Assessor-Recorder. The position of Assessor-Recorder is a citywide elected position. Mr. Torres ran and was elected by voters in a special election on February 15, 2022 to his current term as Assessor-Recorder.

The Treasurer is responsible for the deposit and investment of all City moneys, and also acts as Tax Collector for the City. José Cisneros was re-elected to a four-year term as Treasurer of the City in November 2019. Mr. Cisneros has served as Treasurer since September 2004, following his appointment by then-Mayor Newsom.

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. 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. Mr. Rosenfield was reappointed by then-Mayor Mark Farrell to a new ten-year term as Controller in Spring 2018, and his nomination was confirmed by the Board of Supervisors on May 1, 2018.

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. The City

Administrator oversees the General Services Agency consisting of 25 departments, divisions, and programs that include the Public Works Department, Department of Technology, Office of Contract Administration/Purchasing, Real Estate, County Clerk, Fleet Management, Convention Facilities, Animal Care and Control, Medical Examiner, and Treasure Island. F Carmen Chu was sworn in as the City Administrator on February 2, 2021.

## **CITY BUDGET**

### **Overview**

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, and funds such departments and enterprises through its annual budget process. Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. General Fund revenues consist largely of local property tax, business tax, sales tax, other local taxes and charges for services. A significant portion of the City's revenue also comes in the form of intergovernmental transfers from the State and federal governments. Thus, the City's fiscal position 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 these factors are almost wholly outside the control of the Mayor, the Board of Supervisors and other City officials. In addition, the State Constitution limits the City's ability to raise taxes and property-based fees without a vote of City residents. 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.

The fiscal year 2022-23 and 2023-24 Original Budget was approved by the Board of Supervisors on July 26, 2022 and signed by Mayor Breed on July 27, 2022. The Original Budget for fiscal year 2022-23 appropriated annual revenues, fund balance, transfers and reserves of \$14.0 billion, of which the City's General Fund accounts for \$6.8 billion. The Original Budget for fiscal year 2023-24 appropriates revenues, fund balance, transfers and reserves of \$13.9 billion, of which \$6.9 billion represents the General Fund budget. See "CITY BUDGET – Budget for Fiscal Years 2022-23 and 2023-24" for further details on the budget. Table A-2 shows Final Original Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2018-19 through 2020-21, and Original Budgets for fiscal years 2021-22 through 2023-24. See "GENERAL FUND REVENUES - PROPERTY TAXATION –Tax Levy and Collection, "GENERAL FUND REVENUES - OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

Economic and tax revenue losses associated with the COVID-19 pandemic were stark and immediate. The latter were mitigated by historical levels of federal stimulus . See "CITY BUDGET – Original Budget for Fiscal Years 2022-23 and 2023-24" and "– Other Budget Updates: Fiscal Year 2021-22 Nine Month Budget Status Report" and "GENERAL FUND REVENUES" for a discussion of current projections of the magnitude of the financial impact of the COVID-19 pandemic on the City. See "CITY FINANCIAL CHALLENGES" and "BUDGETARY RISKS" for a discussion of factors that may affect the revenue and expenditure levels assumed in the budget for fiscal years 2022-23 and 2023-24.

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TABLE A-2

**CITY AND COUNTY OF SAN FRANCISCO**  
**Budgeted General Fund Revenues and Appropriations for**  
**Fiscal Years 2018-19 through 2023-24**  
**(000s)**

	2018-19 Final Revised Budget	2019-20 Final Revised Budget <sup>7</sup>	2020-21 Final Revised Budget <sup>7</sup>	2021-22 Original Budget <sup>8</sup>	2022-23 Original Budget <sup>9</sup>	2023-24 Original Budget <sup>9</sup>
Prior-Year Budgetary Fund Balance & Reserves	\$2,342,082	\$2,817,270	\$2,816,902	\$778,545	\$395,409	\$239,873
<u>Budgeted Revenues</u>						
Property Taxes <sup>1</sup>	\$2,142,727	\$1,956,008	\$2,161,945	\$2,115,600	\$2,379,530	\$2,494,850
Business Taxes	879,414	1,050,392	798,057	957,140	902,300	960,200
Other Local Taxes <sup>2</sup>	1,053,390	1,144,376	657,990	777,750	1,050,820	1,183,490
Licenses, Permits and Franchises	30,794	30,361	22,977	27,944	26,818	27,735
Fines, Forfeitures and Penalties	3,131	3,131	2,389	4,035	3,088	3,088
Interest and Investment Earnings	20,323	69,579	20,732	36,247	44,467	59,947
Rents and Concessions	14,896	15,270	11,166	11,728	13,131	13,296
Grants and Subventions	1,072,205	1,234,987	1,591,756	1,216,765	1,511,286	1,440,457
Charges for Services	263,340	246,003	254,990	255,111	236,924	238,933
Other	29,712	31,712	59,773	24,238	19,420	18,652
Total Budgeted Revenues	\$5,509,932	\$5,781,819	\$5,581,775	\$5,426,557	\$6,187,784	\$6,440,648
Bond Proceeds & Repayment of Loans <sup>3</sup>	\$87	-	-	-	-	-
<u>Expenditure Appropriations</u>						
Public Protection	\$1,390,266	\$1,493,240	\$1,505,780	\$1,507,122	\$1,675,801	\$1,678,498
Public Works, Transportation & Commerce	214,928	216,824	218,986	236,525	262,733	229,775
Human Welfare & Neighborhood Development	1,120,892	1,270,530	1,605,573	1,418,406	1,576,410	1,551,143
Community Health	967,113	1,065,051	1,158,599	1,056,459	1,162,956	1,168,262
Culture and Recreation	154,056	161,274	147,334	220,866	197,596	204,661
General Administration & Finance	290,274	332,296	332,997	497,915	338,055	365,922
General City Responsibilities <sup>4</sup>	172,028	137,851	126,993	243,733	226,931	256,020
Total Expenditure Appropriations	\$4,309,557	\$4,677,066	\$5,096,262	\$5,181,026	\$5,440,482	\$5,454,281
Budgetary reserves and designations, net	-	\$34,721	\$42,454	6,129	\$65,741	\$24,581
Transfers In	\$239,056	\$190,642	\$417,009	\$158,329	\$203,001	\$216,582
Transfers Out <sup>5</sup>	(1,468,068)	(1,157,312)	(1,164,927)	(1,176,277)	(1,279,971)	(1,418,241)
Net Transfers In/Out	(\$1,229,012)	(\$966,670)	(\$747,918)	(\$1,017,948)	(\$1,076,970)	(\$1,201,659)
<u>Budgeted Excess (Deficiency) of Sources</u>						
Over (Under) Uses	\$2,313,531	2,920,632	2,512,044	-	-	-
Variance of Actual vs. Budget	503,738	(139,127)	291,491	-	-	-
Total Actual Budgetary Fund Balance <sup>6</sup>	\$2,817,269	\$2,781,505	2,803,535	-	-	-

<sup>1</sup> The City's final budget for FY 2018-19 property tax included \$414.7 million of "Excess Educational Revenue Augmentation Fund (ERAF)" revenue, representing 2 years of Excess ERAF. In FY 2019-20, the City budgeted \$185.0 million of "Excess Educational Revenue Augmentation Fund" (ERAF) revenue. The Budget appropriates Excess ERAF property tax funds in fiscal years 2020-21, 2021-22, and 2022-23 for ongoing purposes. Please see "Property Tax" sections for more information about Excess ERAF.

<sup>2</sup> Other Local Taxes includes sales, hotel, utility users, parking, sugar sweetened beverage, stadium admissions, access line, cannabis, and executive compensation taxes.

<sup>3</sup> Represents interest that debt service has earned while held by fiscal agent and is returned to the City.

<sup>4</sup> Over the past five years, the City has consolidated various departments to achieve operational efficiencies. This has resulted in changes in how departments were summarized in the service area groupings above for the time periods shown.

<sup>5</sup> Other Transfers Out is primarily related to transfers to support Charter-mandated spending requirements and hospitals.

<sup>6</sup> Fiscal year 2018-19 through fiscal year 2020-21 Final Revised Budget reflects prior year *actual* budgetary fund balance.

<sup>7</sup> FY 2019-20 and FY 2020-21 Final Revised Budgets are based on FY 2019-20 and FY 2020-21 ACFR, respectively. Does not reflect material adverse impacts of the COVID-19 pandemic on the General Fund. See reserve discussion under "CITY BUDGET" section.

<sup>8</sup> FY 2021-22 amounts represent the Original Budget, adopted July 29, 2021.

<sup>9</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

## **Budget Process**

The following paragraphs contain a description of the City's customary budget process. The City's fiscal year commences on July 1 and ends on June 30. 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 a proposed 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 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 Revenue Letter and other information from the Controller's website are not incorporated herein by reference. The City's Capital Planning Committee (composed of other City officials) 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, each year, 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 approves the budget by adoption of the Budget and Appropriation Ordinance (also referred to herein as the "Original Budget") typically by no later than August 1 of each fiscal year.

The Budget and Appropriation Ordinance becomes effective with or without the Mayor's signature after 10 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 Budget and Appropriation 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 Budget and 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 Budget and 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 upon release of the City's Annual Comprehensive Financial Report ("ACFR") to reflect the year-end revenue and expenditure appropriations for that fiscal year.

## Multi-Year Budgeting and Planning

The City's budget involves multi-year budgeting and financial planning, including:

1. Fixed two-year budgets are approved by the Board of Supervisors. For fiscal year 2022-23, departments with previously fixed two-year budgets in the prior two-year planning cycle (MTA, PUC, SFO, and the Port), were open again for amendments. All other departments prepared balanced, rolling two-year budgets for Board approval.
2. Five-year financial plan and update, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. A five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, the Budget Analyst for the Board of Supervisors and Controller's Office on January 15, 2021, for fiscal year 2021-22 through fiscal year 2025-26. The Five-Year Financial Plan was updated on March 31, 2021, January 12, 2022, and March 31, 2022. The next Five Year Plan, for fiscal year 2023-24 through fiscal year 2027-28, will likely be issued in January 2023. See "Five Year Financial Plan and March Update" section below.
3. The Controller's Office proposes 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 the City is required 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. Key financial policies that have been enacted include:
  - Non-Recurring Revenue Policy – This policy limits the Mayor's and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance, 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. See "Original Budget for Fiscal Years 2022-23 and 2023-24" section for more details.
  - Rainy Day and Budget Stabilization Reserve Policies – These reserves were established to support the City's budget in years when revenues decline. These and other reserves are discussed in detail below. Charter Section 9.113.5 requires deposits into the Rainy Day Reserve if total General Fund revenues for a fiscal year exceed total General Fund revenues for the prior fiscal year by more than five percent. Similarly, if budget year revenues exceed current year revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues. The fiscal year 2020-21 Original Budget withdrew the maximum permissible amount from the City's Rainy Day and Budget Stabilization Reserves, but the original fiscal year 2021-22 budget provided for the withdrawal of a *de minimis* amount, preserving the remaining balance of the reserves. FY 2022-23 and FY 2023-24 budget did not withdraw from the Rainy Day or Budget Stabilization Reserves. These and other reserves are discussed under Rainy Day Reserve and Budget Stabilization Reserve, as well as in the "Original Budget for Fiscal Years 2022-23 and 2023-24" section.

4. The City is required to submit labor agreements to the Board of Supervisors by May 15, so the fiscal impact of the agreements can be incorporated in the Mayor's proposed June 1 budget. Miscellaneous employee labor agreements are closed for fiscal years 2022-23 and 2023-24. In spring 2023, the City will be negotiating successor agreements with its public safety employee organizations for fiscal years 2023-24 and 2024-25.

### **Role of Controller in Budgetary Analysis and Projections**

As Chief Fiscal Officer and City Services Auditor, the City Controller monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds. Under the Charter, no obligation to expend City funds can be incurred without a prior certification by the Controller that sufficient revenues are or will be available to meet such obligation as it becomes due in the then-current fiscal year, which ends June 30. The Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the City Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board of Supervisors. The City's actual expenditures are often different from the estimated expenditures in the Original Budget due to supplemental appropriations, continuing appropriations of prior years, and unexpended current-year funds. If the Controller estimates revenue shortfalls that exceed applicable reserves and any other allowances for revenue shortfalls in the adopted City budget, upon receipt of such estimates, the Mayor is to inform the Board of Supervisors of actions to address this shortfall. The Board of Supervisors may adopt an ordinance to reflect the Mayor's proposal or alternative proposals in order to balance the budget.

In addition to the five-year planning responsibilities discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the first of these reports, the fiscal year 2021-22 Six Month Report (the "Six Month Report") on February 15, 2022 and issued the second, the Nine Month Report ("Nine Month Report"), on May 16, 2022. The City Charter also directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's Proposed Budget in the Revenue Letter, which was issued on June 9, 2022.

### **General Fund Results: Audited Financial Statements**

The City issued the Annual Comprehensive Financial Report ("ACFR"), which includes the City's audited financial statements, for fiscal year 2020-21 on February 2, 2022. The ACFR for fiscal year 2021-22 is anticipated to be issued in December 2022 and final results are still pending. However, based on preliminary estimates the City estimates that the fiscal year 2021-22 General Fund balance will show a slight increase from the fiscal year 2020-21 General Fund balance. Thus, unless otherwise noted, actual amounts reflect results from fiscal year 2020-21 audited financial statements. As of June 30, 2021, the General Fund fund balance available for appropriation in subsequent years was \$902.0 million (see Table A-4), which represents an \$5.8 million increase in available fund balance from the \$896.2 million available as of June 30, 2020. This increase resulted primarily from greater-than-budgeted property tax revenue

and real property transfer taxes, mostly offset by under-performance in business and other local tax revenues in fiscal year 2020-21.

The General Fund fund balance as of June 30, 2021 was \$2.7 billion (shown in Tables A-3 and A-4) using Generally Accepted Accounting Principles (“GAAP”), derived from revenues of \$5.7 billion. The City prepares its budget on a modified accrual basis, which is also referred to as “budget basis” in the ACFR. 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. Table A-3 focuses on a specific portion of the City’s balance sheet; General Fund fund balances are shown on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2017 through June 30, 2021.

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TABLE A-3

**CITY AND COUNTY OF SAN FRANCISCO**  
**Summary of General Fund Fund Balances**  
**Fiscal Years 2016-17 through 2020-21**  
**(000s)**

	2016-17	2017-18	2018-19	2019-20	2020-21
Restricted for rainy day (Economic Stabilization account) <sup>1</sup>	\$78,336	\$89,309	\$229,069	\$229,069	\$114,539
Restricted for rainy day (One-time Spending account) <sup>2</sup>	47,353	54,668	95,908	-	-
Committed for budget stabilization (citywide) <sup>2</sup>	323,204	369,958	396,760	362,607	320,637
Committed for Recreation & Parks savings reserve	4,403	1,740	803	803	-
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	\$244,158	\$345,596	\$351,446	\$394,912	\$407,137
Assigned for appropriation carryforward	434,223	423,835	496,846	630,759	753,776
Assigned for budget savings incentive program (Citywide)	67,450	73,650	86,979	-	-
Assigned for salaries and benefits <sup>3</sup>	23,051	23,931	28,965	25,371	5,088
Assigned for Self-Insurance <sup>4</sup>	-	-	-	-	42,454
Assigned for Hotel Tax Loss Contingency	-	-	-	-	6,000
Total Fund Balance Not Available for Appropriation	\$1,222,178	\$1,382,687	\$1,686,776	\$1,643,521	\$1,649,631
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies <sup>3</sup>	\$136,080	\$235,925	\$186,913	\$160,314	\$173,591
Assigned for subsequent year's budget	183,326	188,562	210,638	370,405	173,989
Unassigned for General Reserve <sup>5</sup>	95,156	106,878	130,894	78,498	78,333
Unassigned - Budgeted for use second budget year	288,185	223,251	285,152	84	-
Unassigned - Contingency for second budget year	60,000	160,000	308,000	510,400	-
Unassigned - COVID-19 Response and Economic Contingency Reserve <sup>6</sup>	-	-	-	-	113,500
Unassigned - Federal & State Emergency Revenue Reserve <sup>6</sup>	-	-	-	-	100,000
Unassigned - Fiscal Cliff Reserve <sup>6</sup>	-	-	-	-	293,900
Unassigned - Business Tax Stabilization Reserve	-	-	-	-	149,000
Unassigned - Gross Receipts Prepayment Reserve	-	-	-	-	26,000
Unassigned - Other Reserve	-	-	-	-	13,807
Unassigned - Available for future appropriation	14,409	44,779	8,897	18,283	31,784
Total Fund Balance Available for Appropriation	\$777,156	\$959,395	\$1,130,494	\$1,137,984	\$1,153,904
Total Fund Balance, Budget Basis	\$1,999,334	\$2,342,082	\$2,817,270	\$2,781,505	\$2,803,535
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$1,999,334	\$2,342,082	\$2,817,270	\$2,781,505	\$2,803,535
Unrealized gain or loss on investments	(1,197)	(20,602)	16,275	36,626	3,978
Nonspendable fund balance	525	1,512	1,259	1,274	2,714
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(38,469)	(25,495)	(23,793)	(20,655)	(31,745)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(83,757)	(68,958)	(87,794)	(139,590)	(120,569)
Inventories	-	-	-	33,212	17,925
Pre-paid lease revenue	(5,733)	(6,598)	(6,194)	(6,450)	(5,734)
Total Fund Balance, GAAP Basis	\$1,870,703	\$2,221,941	\$2,717,023	\$2,685,922	\$2,670,104

<sup>1</sup> Additional information in Rainy Day Reserves section of Appendix A, following this table.

<sup>2</sup> Additional information in Budget Stabilization Reserve section of Appendix A, following this table.

<sup>3</sup> Additional information in Salaries, Benefits and Litigation Reserves section of Appendix A, following this table.

The increase in FY18 was largely due to a small number of claims filed against the City with large known or potential settlement stipulations.

<sup>4</sup> Due to the GASB 84 implementation, the self-insurance and other general City activities from the former Payroll (Agency) Fund became part of the General Fund.

The balance represents a fund collected and restricted for self-insurance purpose.

<sup>5</sup> Additional information in General Reserves section of Appendix A, following this table.

<sup>6</sup> Additional information in the COVID Response and Economic Loss Reserve section of Appendix A, following this table.

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

In addition to the reconciliation of GAAP versus budget-basis fund balance, Table A-3 shows the City's various reserve balances as designations of fund balance. Key reserves are described further as follows:

### **Rainy Day Reserve**

The City maintains a Rainy Day Reserve, as shown on the first and second line of Table A-3 above. Charter Section 9.113.5 requires that if total General Fund revenues for the current year exceed total General Fund revenues for the prior year by more than five percent, then the City must deposit anticipated General Fund revenues in excess of that five percent growth into three accounts within the Rainy Day Reserve (see below) and for other lawful governmental purposes. Similarly, if budgeted revenues exceed current year revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. Effective January 1, 2015, Proposition C, passed by the voters in November 2014, divided the existing Rainy Day Economic Stabilization Account into a City Rainy Day Reserve ("City Reserve") and a School Rainy Day Reserve ("School Reserve") for SFUSD, with each reserve account receiving 50% of the existing balance at the time. Deposits to the reserve are allocated as follows:

- 37.5 percent of the excess revenues to the City Reserve;
- 12.5 percent of the excess revenues to the School Reserve (not shown in Table A-3 because it is not part of the General Fund, it is reserved for SFUSD);
- 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.

The fiscal year 2020-21 ending balance of the Rainy Day Economic Stabilization City Reserve was \$114.5 million, after a budgeted \$114.5 million withdrawal, as shown in Table A-3. The Original Budget withdrew a minimal amount of Rainy Day Reserve in fiscal year 2021-22 and no withdrawals are budgeted in fiscal years 2022-23 and 2023-24, preserving the balance of \$114.5 million in those years.

The combined balances of the Rainy Day Reserve's Economic Stabilization account and the Budget Stabilization Reserve 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 placed in the Budget Stabilization One-Time Reserve, which is eligible to be allocated to capital and other one-time expenditures. Monies in the City Reserve are available to provide budgetary support in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day One-Time Reserve are available for capital and other one-time spending initiatives.

### **Budget Stabilization Reserve**

The City maintains a Budget Stabilization Reserve, as shown on the third line of Table A-3 above. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues, including Real Property Transfer Tax ("RPTT") receipts in excess of the rolling five-year annual average (adjusting 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 combined value of the Budget Stabilization Reserve and the Budget Stabilization One Time Reserve is \$320.6 million at the end of fiscal year 2020-21, with an ending balance of \$265.8 million in the Budget Stabilization Reserve and \$54.8 million in the Budget Stabilization One-Time Reserve.

The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve. 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. No deposits are required in years when the City is eligible to withdraw.

In fiscal year 2020-21, the City withdrew \$41.9 million from the Budget Stabilization Reserve. The Original Budgets for fiscal year 2021-22, 2022-23, and 2023-24 make no withdrawal from this reserve, maintaining the fiscal year 2020-21 \$265.8 million balance.

### **Salaries, Benefits and Litigation Reserves**

The City maintains two reserves to offset potential expenses, which are available to City departments through a Controller's Office review and approval process. These are shown in the "assigned, not available for appropriation," and "assigned and unassigned, available for appropriation" sections of Table A-3 above. These include the Salaries and Benefit Reserve (beginning balance of \$47.4 million as of fiscal year 2021-22) and the Litigation Reserve. The Litigation Reserve and Public Health Management Reserve (beginning balance of \$173.6 million in fiscal year 2021-22) are combined for reporting purposes. The purpose of the latter is to manage patient revenue volatility in the Department of Public Health.

### **General Reserve**

The City maintains a General Reserve, shown as "Unassigned for General Reserve" in the "assigned and unassigned, available for appropriation" section of Table A-3 above. The General Reserve is to be used for current-year fiscal pressures not anticipated during the budget process. The policy, originally adopted on April 13, 2010, set the General Reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues in years when the City appropriates a withdrawal from the Rainy Day reserve. The intent of this policy change was to increase reserves available during a multi-year downturn. In fiscal year 2020-21 and 2021-22, the City withdrew from the Rainy Day Reserve and reset its General Fund Reserve deposit requirement to 1.5% of General Fund revenues in those years. As a result, the fiscal year 2020-21 ending balance of the General Reserve is \$78.5 million. The Original Budget for fiscal years 2021-22, 2022-23, and 2023-24 includes deposits of \$5.3 million, \$64.4 million, and \$20.6 million, respectively. See "CITY BUDGET – Five-Year Financial Plan and March Update" and "– Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report" for a summary of the most recent projections.

### **COVID Response and Economic Loss Reserve**

The fiscal year 2020-21 Original Budget consolidated the balances of several City reserves into a single COVID Response and Economic Loss Reserve of \$507.4 million in fiscal year 2019-20, as shown as part of

“Unassigned Contingency for Second Budget Year” line in Table A-3. The COVID Response and Economic Loss Reserve was available to offset revenue losses or to assist otherwise with balancing of future fiscal year budgets. The Controller noted that the \$507.4 million total balance would be sufficient to offset some, but not all, of the budget risks identified in future years.

The Original Budget for fiscal years 2021-22 and 2022-23 draws down \$113.5 million of the COVID Response and Economic Loss Reserve to support the costs of the City’s continuing COVID-19 response. As of the end of fiscal year 2020-21, the remaining balance was split into two new reserves, \$100.0 million for a “Federal and State Emergency Grant Disallowance Reserve,” and \$293.9 million for a “Fiscal Cliff Reserve.” The Federal and State Emergency Grant Disallowance Reserve was created for the purpose of managing revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (“FEMA”) and other state and federal agencies. The Fiscal Cliff Reserve was created for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources.

The Original Budgets for fiscal year 2021-22, 2022-23 and 2023-24 assume the use of \$0 million, \$9.3 million and \$90.2 million, respectively, of Fiscal Cliff Reserve and \$18.7 million, \$0 million, and \$0 million, respectively, of Federal and State Emergency Grant Disallowance Reserve. In addition, mid-way through fiscal year 2021-22, \$64.2 million of the Fiscal Cliff Reserve was appropriated through a supplemental appropriations ordinance by the Mayor and Board of Supervisors to support spending on rent relief and social housing. As a result, the Fiscal Cliff Reserve and Federal and State Emergency Grant Disallowance Reserve have anticipated balances of \$130.3 million and \$81.3 million, respectively, by the end of fiscal year 2023-24.

### **Operating Cash Reserve**

Not shown in Table A-3, under the City 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 (which contains cash for all pool participants, including city departments and external agencies such as San Francisco Unified School District and City College). 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. See “INVESTMENT OF CITY FUNDS – Investment Policy” herein.

Table A-4, entitled “Statement of Revenues, Expenditures and Changes in General Fund Balances,” is extracted from information in the City’s published Annual Comprehensive Financial Report. Audited financial statements can be obtained from the City Controller’s website <https://sfcontroller.org/annual-comprehensive-financial-report-acfr>. 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. See “CITY BUDGET – Five-Year Financial Plan and March Update” for a summary of the most recent projections.

TABLE A-4

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Revenues, Expenditures and Changes in General Fund Fund Balances<sup>1</sup>**  
**Fiscal Years 2016-17 through 2020-21**  
**(000s)**

	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Revenues:</b>					
Property Taxes <sup>2</sup>	\$1,478,671	\$1,673,950	\$2,248,004	\$2,075,002	\$2,332,864
Business Taxes	700,536	897,076	917,811	822,154	722,642
Other Local Taxes <sup>3</sup>	1,203,587	1,093,769	1,215,306	996,180	709,018
Licenses, Permits and Franchises	29,336	28,803	27,960	25,318	12,332
Fines, Forfeitures and Penalties	2,734	7,966	4,740	3,705	4,508
Interest and Investment Income	14,439	16,245	88,523	65,459	(1,605)
Rents and Concessions	15,352	14,533	14,460	9,816	5,111
Intergovernmental	932,576	983,809	1,069,349	1,183,341	1,607,803
Charges for Services	220,877	248,926	257,814	229,759	230,048
Other	38,679	24,478	46,254	62,218	46,434
<b>Total Revenues</b>	<b>\$4,636,787</b>	<b>\$4,989,555</b>	<b>\$5,890,221</b>	<b>\$5,472,952</b>	<b>\$5,669,155</b>
<b>Expenditures:</b>					
Public Protection	\$1,257,948	\$1,312,582	\$1,382,031	\$1,479,195	\$1,498,514
Public Works, Transportation & Commerce	166,285	223,830	202,988	203,350	204,973
Human Welfare and Neighborhood Development	956,478	999,048	1,071,309	1,252,865	1,562,982
Community Health	600,067	706,322	809,120	909,261	1,056,590
Culture and Recreation	139,368	142,215	152,250	155,164	145,405
General Administration & Finance	238,064	244,773	267,997	304,073	314,298
General City Responsibilities	121,444	110,812	144,808	129,941	113,913
<b>Total Expenditures</b>	<b>\$3,479,654</b>	<b>\$3,739,582</b>	<b>\$4,030,503</b>	<b>\$4,433,849</b>	<b>\$4,896,675</b>
<b>Excess of Revenues over Expenditures</b>	<b>\$1,157,133</b>	<b>\$1,249,973</b>	<b>\$1,859,718</b>	<b>\$1,039,103</b>	<b>\$772,480</b>
<b>Other Financing Sources (Uses):</b>					
Transfers In	\$140,272	\$112,228	\$104,338	\$87,618	\$343,498
Transfers Out	(857,629)	(1,010,785)	(1,468,971)	(1,157,822)	(1,166,855)
Other Financing Sources	1,765	-	-	-	-
Other Financing Uses	-	(178)	(3)	-	(338)
<b>Total Other Financing Sources (Uses)</b>	<b>(\$715,592)</b>	<b>(\$898,735)</b>	<b>(\$1,364,636)</b>	<b>(\$1,070,204)</b>	<b>(\$823,695)</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>\$441,541</b>	<b>\$351,238</b>	<b>\$495,082</b>	<b>(\$31,101)</b>	<b>(\$51,215)</b>
<b>Total Fund Balance at Beginning of Year</b>	<b>\$1,429,162</b>	<b>\$1,870,703</b>	<b>\$2,221,941</b>	<b>\$2,717,023</b>	<b>\$2,685,922</b>
<b>Cummulative effect of accounting change</b>					<b>35,397</b>
<b>Total Fund Balance at End of Year -- GAAP Basis</b>	<b>\$1,870,703</b>	<b>\$2,221,941</b>	<b>\$2,717,023</b>	<b>\$2,685,922</b>	<b>\$2,670,104</b>
<b>Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End</b>					
-- GAAP Basis	\$273,827	\$286,143	\$326,582	\$395,776	\$179,077
-- Budget Basis	\$545,920	\$616,592	\$812,687	\$896,172	\$901,980

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 The City recognized \$548.0 million of "Excess Educational Revenue Augmentation Fund (ERAF)" revenue in FY 2018-19, representing FY16-17, FY17-18, and FY18-19 (3 fiscal years) of ERAF. Please see "GENERAL FUND REVENUES - Property Taxation" for more information about Excess ERAF.

3 Other Local Taxes includes sales, hotel, utility users, parking, sugar sweetened beverage, stadium admissions, access line, and cannabis taxes

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

## Five-Year Financial Plan and March Update

The Five-Year Financial Plan (“Plan”) is required under Proposition A, a charter amendment approved by voters in November 2009. The Charter requires the City to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Plan be adopted every two years. Charter Section 9.119 requires that by March 1 of each odd-numbered year, the Mayor submit a Plan to the Board. The City’s Administrative Code requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimate for the remaining four years of the most recently adopted Plan.

On January 12, 2022, the Mayor, Budget Analyst for the Board of Supervisors, and the Controller’s Office issued the Plan for fiscal years 2022-23 through 2025-26 (“Joint Report”), which projected cumulative annual surplus of \$26.2 million and \$81.9 million for fiscal years 2022-23 and 2023-24, respectively, and shortfalls of \$38.6 million and \$148.9 million, for fiscal years 2024-25 and 2025-26, respectively. This report was updated on March 31, 2022 (the “March Joint Report”) with a lower surplus in the first two years of the report, and increased deficits in the later years. Since this forecast, the Mayor and Board have already balanced the FY 2022-23 and FY 2023-24 budgets; however, recession risks have increased significantly since then. The next Five Year Plan, for fiscal year 2023-24 through fiscal year 2027-28, will likely be issued in January 2023.

The March Joint Report projects a cumulative annual surplus of \$14.7 million and \$60.0 million for fiscal years 2022-23 and 2023-24, respectively, and shortfalls of \$44.2 million and \$156.2 million for fiscal years 2024-25 and 2025-26, respectively. For fiscal years 2022-23 and 2023-24, this represented a decline of \$33.4 million.

CITY AND COUNTY OF SAN FRANCISCO				
Joint Report (Five Year Plan)				
Fiscal Years 2022-23 through 2025-26				
Projections as of March 31, 2022				
(\$ Millions)				
	2022-23	2023-24	2024-25	2025-26
<b>Sources - Increase / (Decrease):</b>	\$111.2	\$365.7	\$549.6	\$743.1
<b>Uses:</b>				
Baselines & Reserves	(\$160.4)	(\$237.6)	(\$324.0)	(\$387.5)
Salaries & Benefits	(78.5)	(106.3)	(144.4)	(262.5)
Citywide Operating Budget Costs	124.0	62.4	(59.1)	(135.4)
Departmental Costs	18.4	(24.4)	(66.3)	(113.9)
<b>Total Uses - (Increase) / Decrease:</b>	(\$96.5)	(\$305.8)	(\$593.8)	(\$899.3)
<b>Projected Cumulative Surplus / (Shortfall):</b>	\$14.7	\$60.0	(\$44.2)	(\$156.2)

On net, the March Joint Report presents modest changes to the January 2022 forecast. Key assumptions in the March Joint Report compared to the January report are:

- Modest additional growth in General Fund sources over the forecast period due to current year activity, improvements in property tax, Federal Emergency Management Agency (FEMA) reimbursements, and interest income, partially offset by weakness in business, hotel, and transfer taxes. Significantly:

- The property tax forecast has been updated to account for the risk from pandemic-induced changes in normal operations, and therefore values of, San Francisco real estate. Projections assume that only those properties that received Proposition 8 temporary reductions in value in 2021 will be considered for reductions in subsequent years. For all other properties, the forecast assumes reduction only if an appeal has been filed with the Assessment Appeals Board, rather than for classes of properties as a whole. As a result, the direct property tax forecast is increased, as is the excess Educational Revenue Augmentation Fund (ERAF) forecast.
- The City's business tax revenues are determined in part by the share of a business' workforce that physically works within the City. As such, the number of workers who telecommute can dramatically affect revenue. The Joint Report assumed the average office worker would telecommute 15% of the time. In weeks leading up to the March Joint Report, more companies have announced specifics for their long-term telecommuting plans, with many companies returning to the office in March and April 2022. Reflecting these plans, the March projection increases its projection of long-term telecommuting from 15% to 33%, beginning in the first quarter of fiscal year 2022-23. Considering current levels of available office space and the potential for more efficient use of existing space, the projection also increases the economic growth assumption from 4% to 5% in fiscal year 2022-23 and from 3% to 4% in all other years of the projection.
- Hotel tax is anticipated to recover to pre-pandemic levels during calendar year 2026. It is projected to grow slightly faster than prior forecast in fiscal year 2022-23, because of pent-up demand from domestic leisure travelers. However, uncertainty related to the return of international, business, and convention-related travel results in slightly lower projections for fiscal years 2023-24, 2024-25, and 2025-26. Revenue per available room, an industry metric highly correlated with hotel tax revenue, is projected to be \$146 million, \$183 million, \$218 million, and \$237 million in fiscal years 2022-23, 2023-24, 2024-25, and 2025-26, respectively.
- Transfers in commercial real estate are expected to stagnate in the next fiscal year as buyers wait for prices to drop and sellers hold during an unfavorable market. This forecast anticipates fiscal year 2022-23 transfer activity to be largely the same as fiscal year 2021-22, adjusting for two historic transfers that generated nearly \$100 million of transfer tax. In fiscal years 2023-24 and 2024-25, transfer tax is expected to increase, recovering to its long-run average of \$456.2 million by fiscal year 2024-25.
- FEMA reimbursements are expected to increase by \$45.9 million during the plan period, fiscal years 2022-23 through 2025-26, versus the January update, largely due to FEMA's extension of eligible costs through June 30, 2022.
- Increases to contributions to Charter-mandated baselines and deposits, largely due to the City's requirement to replenish General Reserve funds in the budget year, when they are used in the current year.
- Increases to salary and benefits costs. The projection updates the employer contribution rate to the San Francisco Employees' Retirement System (SFERS), which increased from 19.91% in

the January projections to 21.35% in the March Joint Report. Health costs for active members are lower compared to prior projections reflecting updated medical enrollments as of March 2022. Health costs for retired City employees are expected to increase at a higher rate than compared to the January projection.

The March Joint Report notes key factors that could materially impact the City's financial condition, including the following:

- **Labor negotiations:** This projection continues to assume approved wage increases in collective bargaining agreements for public safety through the end of fiscal year 2022-23, and applies inflation increases on open contracts in all other years based on the same CPI rates used in the Joint Report. Other than these costs, this report does not assume any contract changes due to active labor negotiations. Wage or benefit changes above or below these assumptions would have a significant impact the projection. See "CITY BUDGET – Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report" for updates.
- **Recession risk:** Since the January forecast, economists have become increasingly concerned about the potential for a recession in the next twelve months. The war in Ukraine has increased prices of gasoline, metals, and other raw materials. These increases, along with the excess demand in the labor market, are increasing pressure on the Federal Reserve to raise interest rates to tamp down inflation. Aggressive rate hikes would increase the risk of recession.
- **Retirement contribution rate:** Projections assume the SFERS adopted 7.2% rate of return in fiscal year 2021-22, however, returns through February 28, 2022, were 2.31%. Global markets remain volatile due to continued uncertainty about tighter monetary policy, inflation, and the effect of the war in Ukraine. Final results below the 7.2% assumption will result in higher retirement contribution costs during the forecast period. As discussed in "EMPLOYMENT COSTS; POST EMPLOYMENT OBLIGATIONS – San Francisco Employees' Retirement System ("SFERS" or "Retirement System")," Returns in fiscal year 2021-22 were estimated to be -2.78% at June 30, 2022.
- **COVID-19 pandemic and public health response:** As noted in the Joint Report, the COVID-19 pandemic and its impact on both the local economy and the demands on the City's public health system continue to be areas of great uncertainty. The projection only assumes modest expenses to address COVID-19 that were budgeted in the previous two-year budget process. Any increase in the level of public health response without subsequent additional revenue would impact this forecast.
- **State and federal budget impacts:** In recent years, federal funding has been a significant source of revenue in this forecast. Other than some improvements in FEMA revenue based on current year claims, this forecast does not project any major changes in federal revenue allocations. Further, the Governor introduced changes to the fiscal year 2022-23 State budget in the May Revise, which were further amended by the State legislature; this projection did not assume significant new State budget proposals at the time, aside from modest education funding formula changes noted in the "GENERAL FUND REVENUES – Property Taxation" section herein.



- **Pending or proposed new programs or legislation:** Legislative or voter-approved increases to existing baselines, set-asides, or other new spending increases without commensurate revenue increases from new funding sources will impact the projections included in the March Joint Report.

As noted above, the City expects to issue a new Five-Year Financial Plan in January 2023. Since the release of the March Joint Report in May 2022, several of the key risk factors noted in the March Joint Report have materialized and based on its preliminary analysis the City expects that the next Five-Year Financial Plan to project materially higher cumulative deficits in latter years. These factors include but are not limited to: further recessionary risks affecting the national and local economy caused in part by interest rates reaching 40 year highs, and remote working continuing at higher levels than projected in the most recent Five-Year Financial Plan with the corresponding effect on business taxes, commercial office vacancies and the general economic impact of having fewer workers returning to their offices. These negative budgetary impacts may be offset in the short-term by performance of certain projected revenues, including hotel and sales taxes. See “CITY FINANCIAL CHALLENGES” and “BUDGETARY RISKS – Office Vacancy in San Francisco” for additional detail.

**Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report; Preliminary Fiscal Year 2021-22 Year End Analysis**

The Nine-Month Budget Status Report (the “Nine-Month Report”) was released on May 16, 2022. The Nine-Month Report indicates a projected General Fund net surplus of \$252.5 million in fiscal year 2021-22, which is a \$120.9 million improvement from the March Joint Report. This includes a \$149.2 million improvement in the projected ending balance in the current year offset by a \$28.3 million deposit in the coming fiscal year required to replenish current year reserve draws.

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**Nine Month Report**  
**FY21-22 Projected General Fund Variances to Budget (\$ million)**

	<b>March Joint Report vs FY22 Budget</b>	<b>Nine-Month Report vs FY22 Budget</b>	<b>Change from March Joint Report to Nine-Month Report</b>
FY2020-21 Ending Fund Balance	205.8	205.8	0.0
FY2021-22 Anticipated ARPA	324.9	324.9	0.0
Appropriation in the FY2021-22 Budget	(498.8)	(498.8)	0.0
<b>Prior Year Fund Balance Above Budgeted Levels</b>	<b>31.8</b>	<b>31.8</b>	<b>0.0</b>
Citywide Revenues	2.5	40.7	38.2
Baseline Contributions	(41.0)	(49.3)	(8.3)
Departmental Operations	91.5	210.8	119.3
<b>Current Year Revenues and Expenditures</b>	<b>52.9</b>	<b>202.1</b>	<b>149.2</b>
General Reserve Appropriated - Source	9.4	37.6	28.2
Fiscal Cliff Reserve Appropriated - Source	64.2	64.2	0.0
Supplemental Appropriations - Expenditure	(73.6)	(101.8)	(28.2)
FY2021-22 Mid-Year Appropriation of Fund Balance	(7.4)	(7.4)	0.0
<b>Approved Supplementals + Mid-Year Appropriations</b>	<b>(7.4)</b>	<b>(7.4)</b>	<b>0.0</b>
Use of Business Tax Prepayment Reserve	26.0	26.0	0.0
<b>Withdrawals from/(Deposits) to Reserves</b>	<b>26.0</b>	<b>26.0</b>	<b>0.0</b>
<b>FY2021-22 Projected Ending Balance</b>	<b>103.3</b>	<b>252.5</b>	<b>149.2</b>
<b>FY2022-23 Required General Reserve Replenishment</b>	<b>(9.4)</b>	<b>(37.6)</b>	<b>(28.2)</b>
<b>Improvement versus Prior Projection</b>	<b>93.9</b>	<b>214.9</b>	<b>120.9</b>

The following is a discussion of certain elements of the revised fiscal year 2020-21 projections in the Nine-Month Report:

- Implications for upcoming fiscal years.** This improved balance from the current year will increase the projected surplus for the coming two-year budget period, should the Mayor and Board choose to spend it. This improvement is offset by the cost of labor contracts currently pending final negotiation, ratification, and approval. The cost of these labor contracts is higher than assumed in the prior projection by approximately \$180 million during the two year period. Accounting for these two significant factors alone – the current year improvement noted in this report and the cost of pending labor contracts – **would result in projected surplus for the upcoming two-year budget of approximately \$15 million.**
- Primary drivers of this change.** The majority of the change versus the last current fiscal year projection are driven by a \$77.1 million improvement in revenues at the Department of Public Health (DPH). The majority of DPH's revenue variance is driven by large, one-time grants and audit settlements, including a \$35.7 million threshold change for the Global Payment Program, a \$26.4 million improvement resulting from the extension of the Federal Medical Assistance Percentage emergency rate, and \$17.8 million in other one-time grant and audit settlements. Other notable changes projected in the Nine-Month Report include a \$38.2 million improvement in citywide tax

revenues, predominantly driven by property taxes, and \$18.6 million in improvement due to lower than previously anticipated costs for overtime costs associated with COVID staffing shortages.

**Estimated emergency response costs are reflected in these projections.** Emergency appropriations have increased the COVID response budget by \$139.7 million, and the Department of Public Health (DPH) has transferred \$10.9 million of Whole Person Care pilot program budget to COVID response. The Board of Supervisors has approved the use of \$32.3 million of state Project RoomKey revenue for the Shelter in Place (SIP) hotel program; while this will fund the program through the end of the current fiscal year, it may not be sufficient for damage repair costs as the City exits hotels. DPH's Nine-Month Report projection reflects additional need of \$9.8 million for its response activities. For the Tenderloin Drug Overdose Emergency, emergency appropriations have increased budget by \$7.4 million, and the Department of Emergency Management has repurposed \$2.0 million of COVID response budget to the Tenderloin Emergency.

**Preliminary Fiscal Year 2021-22 year end analysis.** The ACFR for fiscal year 2021-22 is anticipated to be issued in December 2022 and final results are still pending. However, based on the City's preliminary analysis, the City expects to have ended fiscal year 2021-22 with a slightly larger General Fund balance than previously projected by the Nine Month Report.

#### **Original Budget for Fiscal Years 2022-23 and 2023-24**

On June 1, 2022, the Mayor submitted a proposed, balanced budget for fiscal years 2022-23 and 2023-24 to the Board of Supervisors. On July 26, 2022, the Board of Supervisors adopted an amended final budget, and the Mayor approved this budget on July 27, 2022.

The Original Budget totals \$14.0 billion for fiscal year 2022-23 and \$13.9 billion for fiscal year 2023-24. The General Fund portion is \$6.8 billion in fiscal year 2022-23 and \$6.9 billion in fiscal year 2023-24. There are 33,207 funded full-time equivalent positions in fiscal year 2022-23 and 33,629 in fiscal year 2023-24, representing a year-over-year increase of 1,027 and a year-over-year increase of 422 positions, respectively.

#### **Other Budget Updates: Fiscal Year 2022-23 and 2023-24 Revenue Letter**

On June 9, 2022, the Controller's Office published the Revenue Letter, fulfilling a Charter requirement to comment on the revenue estimates assumed in the Mayor's proposed budget. The revenue estimates in the Mayor's proposed budget on June 1, 2022 was largely unchanged versus the budget adopted on July 27, 2022.

The Revenue Letter found tax revenue assumptions to be reasonable, but cautioned revenues are highly dependent on the course of economic reopening, will require frequent monitoring, and are subject to updates as conditions change.

The revenue letter observes the following about Mayor's proposed budget:

- Tax revenue assumptions are reasonable and based on the expectation that San Francisco's economy will recover from the public health emergency over several years, with the help of recently adopted new sources of revenue. The budget broadly assumes General Fund local tax

revenue recovers to pre-pandemic levels by fiscal year 2023-24, with significant projected growth during the two budget years. However, the City's fiscal recovery is largely driven by tax increases and new revenue sources that went into effect during the COVID-19 pandemic or are about to be implemented in the budget years. The impact of the pandemic on the City's core, economically sensitive tax revenues – business, hotel, sales, and parking taxes – is expected to linger beyond the budget years, through fiscal year 2025-26.

In fiscal year 2022-23, the largest increases in General Fund tax revenues are in property, hotel, and executive compensation taxes, with increases of \$263.9 million, \$110.4 million, and \$60.0 million, respectively, from the fiscal year 2021-22 original budget. This growth is partially offset by a decrease in business and cannabis tax. In fiscal year 2023-24, General Fund revenue continues to grow from fiscal year 2022-23, with growth in property, business, and hotel taxes, as the city continues its economic recovery. The General Fund budget includes the November 2020 Proposition F business tax overhaul, which raises gross receipts tax rates; November 2020 Proposition I transfer tax rate increase, which doubled taxes on transfers \$10 million and over; and November 2020 Proposition L tax on executive compensation, which is effective in the 2022 tax year. The combined impact of these policy changes total \$233.0 million and \$304.8 million in fiscal year 2022-23 and fiscal year 2023-24, respectively.

The revenue outlook for the City is closely tied to the recovery of sectors most affected by the pandemic: tourism, office using industries, and small businesses. The extent to which changes in these sectors, including the prevalence of telecommuting, patterns of out-migration, resumption of conventions and international travel, are temporary or permanent will be critically important to the City's tax base. The Revenue Letter notes that the Controller's Office will closely monitor and report on revenues during the upcoming fiscal year, and active management of the City's budget will likely be required by the Mayor and Board of Supervisors.

- The budget assumes nearly \$1 billion of General Fund one-time sources over the two-years, comprised of federal disaster relief, fund balance, and reserves. The budget includes \$407.5 million of FEMA reimbursements for COVID-19 emergency response costs through June 30, 2022, given current estimated timelines for FEMA to obligate and remit funds. The budget also uses \$364.0 million of current year fund balance and \$177.8 million of reserves.

By fiscal year 2023-24, the City will have used more than \$500 million (or about 40%) of its almost \$1.4 billion of reserves, as of fiscal year 2018-19, to support on-going operations. If the City's tax revenues do not grow significantly faster than our latest projections, the City's projected structural deficit will increase as a result. The Mayor's proposed budget maintains a balance of \$380.3 million in the combined Rainy Day and Budget Stabilization reserves (also known as combined "Economic Stabilization Reserves"). General Reserve deposits of \$64.4 million and \$20.6 million in fiscal year 2022-23 and fiscal year 2023-24, respectively, are budgeted at required levels.

- Nonrecurring Revenue Policy. The Board of Supervisors has adopted a nonrecurring revenue policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for nonrecurring expenditures. As defined by this policy, the fiscal year 2022-23 and fiscal year 2023-24 budget relies on \$177.8 million of one-time sources (use of reserves) to support \$357.8 million of one-time expenditures.

The revenue letter observes the following key financial risks:

- Economic risk. The budget assumes an economic recovery will drive tax revenue growth of \$557.0 million in fiscal year 2022-23 and \$305.9 million in fiscal year 2023-24. While these assumptions track to the City's economic and financial projections, they are subject to significant uncertainty. Key factors to monitor include whether conditions in the City will remain relatively favorable and continue to permit a growing amount of economic activity to resume; whether return to offices will play out as expected in the coming two fiscal years; and whether the local hospitality and convention industries will recover at the pace underpinning these tax revenue projections. Modest changes in these key factors would drive significant variances in actual financial revenue performance.

In addition, economists have become increasingly concerned about the potential for a recession in the next twelve months. The war in Ukraine has increased prices of gasoline, metals, and other raw materials. These increases, along with the excess demand in the labor market, are increasing pressure on the Federal Reserve to raise interest rates to tamp down inflation. Aggressive rate hikes could increase the risk of recession.

- Laguna Honda Hospital. The City has received notice from the Centers for Medicare and Medicaid Services (CMS) of termination of eligibility for participation in those federal programs for services provided at Laguna Honda Hospital. The City is seeking an extension of those revenue sources during the recertification process, which may take six months or longer to complete. If this request for continuity of payment is not successful, the City would lose approximately \$16 million per month. The City maintains a Public Health Revenue Reserve that may be utilized to offset these losses in the current year, should it occur. See "BUDGETARY RISKS – Laguna Honda Hospital Potential Loss of Federal Funding."
- Federal revenue risk. The City anticipates \$629.5 million of reimbursements from the Federal Emergency Management Agency (FEMA) for public health emergency response costs incurred beginning in March 2020, including amounts in the proposed budget of \$243.4 million in fiscal year 2022-23 and \$164.4 million in fiscal year 2023-24. To date, FEMA has obligated \$222.0 million of claims and \$219.0 million has been paid to the City. The federal reimbursement and auditing process will likely continue for several fiscal years, leaving a key risk to budgeted revenues.
- Structural budget challenges in future fiscal years. As noted above, the Mayor's proposed budget is balanced with a heavy reliance on one-time sources, including FEMA reimbursements, reserves, and fund balance. As proposed, these funds would be depleted over the two-year budget period, leaving a structural budget challenge, projected to be \$44.2 million in fiscal year 2024-25 and \$156.2 million in fiscal year 2025-26 in the March 2022 update to the Five-Year Financial Plan.

## **BUDGETARY RISKS**

In addition to the budgetary risks described below, see "CITY BUDGET – Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report" for the most recent periodic budget status update released from the Controller's Office, as required by Section 3.105 of the City Charter.

## **Threat of Recession**

Geopolitical events and successive interest rate increases by the Federal Reserve to combat inflation have increased expectations of recession in financial markets. A recession could adversely impact the City's economy, and the financial condition of the General Fund. During the "Great Recession" that occurred nationally from December 2007 to June 2009 (according to the U.S. National Bureau of Economic Research), California real GDP growth slowed for five consecutive quarters from the third quarter of 2008 to the third quarter of 2009 and did not return to pre-recession level of output until three years later in the third quarter of 2012. The unemployment rate rose steadily from 4.9% in the fourth quarter of 2006 to peak at 12.3% in the fourth quarter of 2010 and did not return to the pre-recession level until the second quarter of 2017.

## **Commuting Pattern Changes**

An increase in telecommuting creates revenue risk. Approximately half of workers in major tax-paying sectors such as professional services, financial services, and information live outside of San Francisco. Continued high levels of telecommuting and work from anywhere policies may affect how much of any business's gross receipts are apportionable to the City. San Francisco still lags the state as a whole in time spent at workplaces, and weekly office attendance has reached approximately 40 percent, below other peer cities. As of September 2022, BART ridership was slightly over 30% of pre-pandemic levels. Businesses owe gross receipts tax only on their employees physically working within the City. For certain categories of businesses, the gross receipts tax is also dependent on their San Francisco payroll. Thus, the sharp rise in telecommuting has resulted in reduced business taxes and, if the change becomes permanent, could negatively impact the City for the foreseeable future. Although some City residents who previously commuted out of the City are now telecommuting from within the City, many of these residents work for employers who do not have a nexus in the City, and thus are not subject to business taxes.

## **Office Vacancy in San Francisco**

On October 19, 2022, the Chief Economist of the City's Office of the Controller released a memorandum regarding the impact of remote work on commercial property and tax revenue in the City. The following summarizes certain portions of such memorandum.

The City has experienced the largest increase in office vacancy among major urban office markets in the United States, currently estimated at 24% in the 3rd quarter of 2022, from around 5% before the pandemic. Because of the prevalence of long-term leases in the commercial real estate industry, sudden reductions in demand often result in increases in sublease vacancy, instead of direct vacancy. Sublease vacancy occurs when existing tenants vacate their space and seek to find sub-lessees, but continue to pay rent under the original lease. A direct vacancy occurs when the original lease has been broken, or has expired and not been renewed. In this case, the property's income declines until a new lease is signed. In San Francisco, sublease vacancies were a very high percentage (80-90%) of office vacancies during 2020 and 2021. In 2022, the sublease vacancy rate has declined, while the direct vacancy rate has continued to rise.

By mid-2022, direct vacancies accounted for most of the vacant office space in San Francisco, according to Jones Lang LaSalle IP, Inc. ("JLL"). For example, JLL has developed a series of office vacancy rate forecasts for the City, through the year 2026. JLL generally show historically high office vacancy rates persisting throughout the forecast period. JLL forecasts office vacancy in the city to remain between 19.5%

and 25.3% by 2026, a range which is as high, or higher than any previous peak in office vacancy dating back to the 1990s. JLL also forecasts rents to rise again by the end of the forecast period, but at a slower rate than was seen in the 2010s. If vacancy rates remain at this elevated level, and a large share of these are direct vacancies, then the income, and market value, of office buildings in the city are likely to be negatively affected. The market value of commercial real estate reflects the current and future income that the market expects the property to generate. If expectations of future income streams are reduced, then the market value of office properties will be reduced.

A reduction in demand from tenants is not the only thing that could reduce the market value of San Francisco office buildings in the near future. Using an income valuation approach, the market value of properties is commonly estimated as the property's net operating income, divided by its capitalization rate (its effective rate of return). Capitalization rates are generally calculated from the sales of comparable properties, and vary across markets, and over time, according to changes in investors' perception of risk, and the risk-free rate of return. When investors perceive greater risk, they require a higher rate of return, and the spread between that asset's capitalization rate and the risk-free rate. Widens. When the capitalization rate rises, for whatever reason, the market value of a property will decline, all other things being equal.

The market value of a property is important for property tax revenue, because a property's assessed value – the basis of its property tax liability – may not exceed its market value. If a property owner believes a property is assessed above its market value, they can request a reduction in assessment from the Assessor, and/or appeal a decision to the Assessment Appeals Board.

Under California's Proposition 13, however, a property's assessed value may grow by no more than 2% per year, unless a sale or other assessable event (like new construction) prompts a reassessment. In San Francisco, for several decades, the average market value of most classes of property has increased by well more than 2% annually. Proposition 13 has thus created a situation in which most San Francisco properties, that have not been recently sold, are assessed at levels below their market value. Most properties would not be over-assessed, and property tax revenue would not be at risk, if their market values declined by a small amount. In other words, Proposition 13 effectively cushions the City's property tax base from downturns in property markets, at the cost of reduced growth in property tax revenue during periods of strong economic growth.

On November 16, 2022, the Controller's Office provided a presentation to the Board of Supervisors concerning potential property tax implications relating to the continuation of significant remote work by employees of companies located in the City (the "Office Property Tax Presentation"). The presentation noted that remote work has persisted in the City, and that office vacancy rates have risen and could rise further. The Office Property Tax Presentation contained projected property tax losses based on three different market value scenarios provided by JLL relating to continuing remote work and vacancy rates. The projected losses under scenarios ranged from approximately \$80 million to \$150 million by 2026, with a potential widening to \$100 million to \$200 million by 2028, if conditions do not improve. The City cannot predict the actual level of revenues losses, however the City will continue to account for these trends in our periodic reports.

## **COVID-19 Pandemic**

The COVID-19 pandemic is ongoing, and the City will likely incur significant additional costs, depending on the ultimate duration and severity of the pandemic. The City can give no assurance of the duration or severity of the COVID-19 pandemic, and there is no assurance that its effects will not impose more significant financial and operating effects on the City before mitigation measures are successfully implemented.

## **Bankruptcy Filing by the Pacific Gas and Electric Company (PG&E)**

On January 29, 2019, PG&E filed for Chapter 11 bankruptcy protection to shield itself from potential wildfire liability that was estimated upwards of \$30 billion. Taxes and fees paid by PG&E to the City total approximately \$75 million annually and include property taxes, franchise fees and business taxes, as well as the utility user taxes it remits on behalf of its customers.

On June 20, 2020, the United States Bankruptcy Court for the Northern District of California confirmed PG&E's Plan of Reorganization, and on July 1, 2020 PG&E announced that it had emerged from Chapter 11 bankruptcy. As part of its restructuring, on June 9, PG&E announced that it would be relocating its business headquarters, currently located at 245 Market Street and 77 Beale Street in San Francisco, to Oakland. The relocation was expected to begin June 2022.

During the pendency of the PG&E bankruptcy, on September 6, 2019 the City submitted a non-binding indication of interest ("IOI") to PG&E and PG&E Corporation to purchase substantially all of PG&E's electric distribution and transmission assets needed to provide retail electric service to all electricity customers within the geographic boundaries of the City ("Target Assets") for a purchase price of \$2.5 billion (such transaction, the "Proposed Transaction"). In a letter dated October 7, 2019, PG&E declined the City's offer. On November 4, 2019, the City sent PG&E a follow-up letter reiterating its interest in acquiring the Target Assets. To demonstrate public support for the Proposed Transaction, on January 14, 2020, the City's Board of Supervisors and the PUC's Commission conditionally authorized the sale of up to \$3.065 billion of Power Enterprise Revenue Bonds to finance the acquisition of the Target Assets and related costs, subject to specific conditions set forth in each authorizing resolution.

On July 27, 2021, the City submitted a petition with the California Public Utilities Commission ("CPUC") seeking formal determination of the value of investor-owned PG&E's local electric infrastructure. The matter is pending before the CPUC and the City can give no assurance about whether or when the CPUC will hold a hearing on the matter.

The City is unable to predict whether it will be able to consummate a final negotiated acquisition price for the Target Assets and, if so, the terms thereof. Any such final terms would be subject to approval by the Board of Supervisors and the PUC. If consummated, it is expected that such new electric system would be wholly supported by its own revenues, and no revenues of the City's General Fund would be available to pay for system operations, or City General Fund secured bonds issued to acquire the Target Assets. The City is committed to acquiring PG&E's assets and expects to continue its pursuit with the newly reorganized entity.



## **Impact of Recent Voter-Initiated and Approved Revenue Measures on Local Finances**

On August 28, 2017, the California Supreme Court in California *Cannabis Coalition v. City of Upland* (August 28, 2017, No. S234148) (“Upland Decision”) interpreted Article XIII C, Section 2(b) of the State Constitution, which requires local government proposals imposing general taxes to be submitted to the voters at a general election (i.e., an election at which members of the governing body stand for election). The court concluded such provision did not to apply to tax measures submitted through the citizen initiative process. Under the Upland Decision, citizens exercising their right of initiative may now call for general or special taxes on the ballot at a special election (i.e. an election where members of the governing body are not standing for election). The court did not, however, resolve whether a special tax submitted by voter initiative needs only simple majority voter approval, and not the super-majority (i.e. two-thirds) voter approval required of special taxes placed on the ballot by a governing body. On June 5, 2018 voters of the City passed by majority vote two special taxes submitted through the citizen initiative process: a Commercial Rent Tax for Childcare and Early Education (“June Proposition C”) and a Parcel Tax for the San Francisco Unified School District (“Proposition G” and, together with June Proposition C, the “June Propositions C and G”). In addition, on November 6, 2018 voters passed by a majority vote a special tax submitted through the citizen initiative process: a Homelessness Gross Receipts Tax (“November Proposition C”), a gross receipts tax on larger companies in the City to fund affordable housing, mental health, and other homeless services.

The Upland Decision was subsequently affirmed by the California Supreme Court when it declined to review lower court challenges by plaintiffs in two other San Francisco Cases: *City of County of San Francisco v. All Persons Interested in the Matter of Proposition C*, 51 Cal. App. 5<sup>th</sup> 703 (2020) (Court of Appeal rejected a taxpayer challenge to validity of June Proposition C) and *City of County of San Francisco v. All Persons Interested in the Matter of Proposition G* (July 26, 2021, A16059) (Court of Appeal rejected a taxpayer challenge to validity of Proposition G). In so doing, the Upland Decision was affirmed as binding authority for the proposition that special taxes submitted through a citizen’s initiative process only need pass by a majority vote, and not the supermajority requirement of Article XIII C, Section 2(b) of the State Constitution.

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

Revenues from the State represent approximately 10% of the General Fund revenues appropriated in the Final Adopted Budget for fiscal years 202-23 and 2023-24, and thus changes in State revenues could have a material 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 May 13, 2022, the Governor released the May Revision to the State of California’s Proposed Budget for fiscal year 2022-23 (the “May Revision”). The State estimates that there is a surplus of \$97.5 billion to allocate in the fiscal year 2022-23 budget process. The Governor proposes spending approximately almost all of the \$49 billion discretionary resources on a one-time or temporary basis, including \$18.1 billion to provide inflation relief for California citizens (including tax refunds, emergency rental assistance and assistance with past-due utility bills), \$37 billion for infrastructure investments, and \$2.3 billion on COVID-19-related expenditures. Additionally, the May Revision allocated nearly \$128.3 billion in spending for schools and community colleges throughout the State.

## **Impact of Federal Government on Local Finances**

The City receives substantial federal funds for assistance payments, social service programs and other programs. A portion of the City's assets are also invested in securities of the United States government. The City's finances may be adversely impacted by fiscal matters at the federal level, including but not limited to cuts to federal spending.

In the event Congress and the President fail to enact appropriations, budgets or debt ceiling increases on a timely basis in the future, such events could have a material adverse effect on the financial markets and economic conditions in the United States and an adverse impact on the City's finances. The City cannot predict the outcome of future federal budget deliberations and the impact that such budgets will have on the City's finances and operations. The City's General Fund and hospitals, which are supported by the General Fund, collectively receive over \$1 billion annually in federal subventions for entitlement programs, the large majority of which are reimbursements for care provided to Medicaid and Medicare recipients. See "Laguna Honda Hospital Potential Loss of Federal Funding." In addition, tens of thousands of San Franciscans receive federal subsidies to purchase private insurance on the State's health care exchange, Covered California. Efforts to change such subsidies or alter provisions of the Affordable Care Act through regulatory changes could have significant effects on future health care costs.

Under the CARES Act, the United States Treasury department distributed \$150 billion to state and local governments within 30 days of enactment under a population-based formula. The statute limits the use of funds to COVID-19 expense reimbursement rather than to offset anticipated State tax revenue losses. The City received a direct allocation of \$153.8 million from this Coronavirus Relief Fund, which was used to cover COVID-19-related medical, public health, economic support, and other emergency response costs. In addition, the State allocated \$20.7 million of its allocation to the City for the same purposes. These funds were spent in fiscal years 2019-20 and 2020-21. The federal government also provides significant funding for COVID-19 expenses through FEMA.

On March 11, 2021, President Biden signed H.R. 1319, the American Rescue Plan Act of 2021 ("ARPA"). The bill includes \$350 billion in state and local government fiscal aid to augment allocations provided in the CARES Act Coronavirus Relief Fund ("CRF"), through which San Francisco is to directly receive \$624.8 million. Distributions occurred in two tranches, one each in 2021 and 2022, and are required to be spent by December 31, 2024. Allowable uses include COVID-19 response or mitigation of the negative economic impacts of it, such as assistance to households, small businesses, nonprofits, and aid to impacted industries. A critical improvement versus CRF funds is that ARPA funds may be used for the provision of government services to the extent of the reduction in revenue. San Francisco will likely benefit from other subventions and grants authorized in the bill. This funding is assumed in the Original Budget for fiscal years 2021-22 and 2022-23.

## **Laguna Hospital Potential Loss of Federal Funding**

The Laguna Honda Hospital and Rehabilitation Center (the "Laguna Honda Hospital") is a skilled nursing facility owned and operated by the City through its Department of Public Health, serving up to over 700 patients, most of whom are low income or extremely low income residents. On March 30, 2022, the City received notice from the Centers for Medicare and Medicaid Services ("CMS"), an agency within the federal Department of Health & Human Services ("DHHS") responsible for administering federal health care programs that, effective April 14, 2022, CMS was terminating its contract with the City for Medicare

and Medicaid reimbursements for patients at the Laguna Honda Hospital. CMS's notice of termination of Laguna Honda Hospital's provider agreement for Medicare and Medicaid reimbursements relates to a series of incidents from July 2021 to March 30, 2022 that the Laguna Honda Hospital self-reported to the California Department of Public Health ("CDPH", the state agency with delegated authority to enforce all applicable regulations and federal conditions of participation for Medicare and Medicaid) and follow up surveys by CDPH and CMS. CDPH and CMS determined that Laguna Honda Hospital had not substantially complied with the CMS conditions of participation in the Medicare program. Out of the approximately \$308.6 million fiscal year 2021-22 budget for operating the Laguna Honda Hospital, approximately \$202.73 million is paid from reimbursements from CMS. The remaining portion of the budget is paid from the City's General Fund. CMS initially agreed to extend funding at least through November 13, 2022. On October 12, 2022, CMS agreed to extend Medicare and Medicaid payment for services through November 13, 2023, contingent on Laguna Honda meeting requirements aimed at making health and safety improvements at the facility. During this period, Laguna Honda will continue to work on quality improvement efforts while aiming to reapply to participate in Medicare and/or Medicaid. Additionally, transfers and discharges of current residents will remain paused until February 2, 2023, with a possibility of a further extension if Laguna Honda complies with its obligations under the terms of the extension. The Laguna Honda Hospital has undertaken steps to address the findings determined by CDPH and CMS. Laguna Honda Hospital plans to seek recertification of its eligibility to participate in Medicare and Medicaid. The City filed an administrative appeal with DHHS challenging the termination and the findings and deficiencies that initiated the termination process of Laguna Honda Hospital's provider agreement. The City also filed a lawsuit against CMS in federal court challenging CMS' termination of Laguna Honda Hospital's Medicare provider agreement on substantive due process grounds. Separately, the Renne Public Law Group filed a lawsuit against CMS and CDPH on behalf of the patients challenging the termination of Laguna Honda Hospital's Medicare provider agreement, the notice of closure, and patient transfer and relocation plan. The administrative appeal and the two lawsuits are ongoing and pending final resolution. The City can make no assurance regarding the outcome of any appeal, lawsuit, or recertification process with CMS, nor can the City predict the outcome of the administrative appeal or lawsuits. Loss of reimbursements from CMS would have a material adverse impact on the Laguna Honda Hospital's finances and operations, depending on whether the loss is temporary or permanent, including its ability to deliver health care services to residents of the City, if such loss of reimbursement funds are not offset by additional funding from the City's General Fund or other available sources. CMS' actions does not revoke Laguna Honda Hospital's license to operate from the CDPH, which the City paid the appropriate fees to renew in September 2022.

## **THE SUCCESSOR AGENCY**

### *Effect of the Dissolution Act*

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

As a result of AB 1X 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, (collectively, the "Dissolution Act"), redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies and also to satisfy "enforceable obligations" of the former

redevelopment agencies all under the supervision of a new oversight board, the State Department of Finance and the State Controller.

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

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, certain major redevelopment projects that were previously administered by the Former Agency. The Successor Agency exercises land use, development and design approval authority for the developed projects. The Successor Agency, in addition to other various City agencies and entities, also may issue community facilities district (“CFD”) bonds from time to time to facilitate development in the major approved development projects in accordance with the terms of such enforceable obligations. See also, Table A-33: “Statement of Direct and Overlapping Debt and Long-Term Obligations.”

## **CITY INFRASTRUCTURE FINANCING DISTRICTS**

San Francisco has formed numerous special financing districts in order to finance infrastructure improvements benefiting the public in newly developing areas of the City. Projects that may be financed by revenues from special finance districts include, but are not limited to streets, water and sewer systems, libraries, parks, and public safety facilities. Pursuant to California Government Code Section 53395 *et seq.* (“IFD Law”), the Board of Supervisors has formed Infrastructure Financing Districts and Infrastructure Revitalization Financing Districts (collectively “IFDs”) within the geographic boundaries of the City.

Under the IFD Law, municipalities may fund improvements within the IFD geographic boundary. IFDs capture increases in property tax revenue stemming from growth in assessed value as a result of new development and uses that revenue to finance infrastructure projects and improvements. Each district has its own plan of finance for the allocation and use of tax increment.

## **GENERAL FUND REVENUES**

The revenues discussed below are recorded in the General Fund, unless otherwise noted.

### **PROPERTY TAXATION**

#### **Property Taxation System – General**

The City receives approximately one-third of its total General Fund operating revenues from local property taxes. Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the City. The City levies property taxes for general operating purposes as well

as for the payment of voter-approved bonds. As a county under State law, the City also levies property taxes on behalf of all local agencies with overlapping jurisdiction within the boundaries of the City.

Local property taxation is the responsibility of various City officers. The Assessor computes the value of locally assessed taxable property. After the assessed roll is closed on June 30, the 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. Typically, the Board of Supervisors approves the schedule of tax rates each year by resolution no later than the last working day of September. The Treasurer and Tax Collector prepares and mails tax bills to taxpayers and collects 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-6 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. It is possible that the COVID-19 pandemic, which triggered business changes such as extended work-from-home policies that resulted in less demand for office spaces, will result in a reduction in property values in the City, and such reduction could be material.

The total tax rate shown in Table A-6 includes taxes assessed on behalf of the City as well as the San Francisco Unified School District (SFUSD), County Office of Education (SFCOE), San Francisco Community College District (SFCCD), Bay Area Air Quality Management District (BAAQMD), and San Francisco Bay Area Rapid Transit District (BART), all of which are legal entities separate from the City. See also, Table A-33: “Statement of Direct and Overlapping Debt and Long-Term Obligations.” 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 Office of Community Investment and Infrastructure (OCII), the successor agency to the San Francisco Redevelopment Agency. 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 and a portion of administrative costs of the agency, reducing 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. OCII received \$133.6 million of property tax increment in fiscal year 2021-22 for recognized obligations, diverting about \$74.3 million that would have otherwise been apportioned to the City’s General Fund.

The percent collected of property tax (current year levies excluding supplemental) was 99.18% for fiscal year 2021-22.

TABLE A-6

**CITY AND COUNTY OF SAN FRANCISCO**  
**Assessed Valuation of Taxable Property**  
**Fiscal Years 2008-09 through 2022-23**  
**(000s)**

Fiscal Year	Net Assessed <sup>1</sup> Valuation (NAV)	% Change from Prior Year	Total Tax Rate per \$100 <sup>2</sup>	Total Tax Levy <sup>3</sup>	Total Tax Collected <sup>3</sup>	% Collected June 30
2008-09	141,274,628	8.7%	1.163	1,702,533	1,661,717	97.6%
2009-10	150,233,436	6.3%	1.159	1,808,505	1,764,100	97.5%
2010-11	157,865,981	5.1%	1.164	1,888,048	1,849,460	98.0%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.2%
2012-13	165,043,120	4.0%	1.169	1,997,645	1,970,662	98.6%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.8%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.8%
2015-16	194,392,572	6.9%	1.183	2,290,280	2,268,876	99.1%
2016-17	211,532,524	8.8%	1.179	2,492,789	2,471,486	99.1%
2017-18	234,074,597	10.7%	1.172	2,732,615	2,709,048	99.1%
2018-19	259,329,479	10.8%	1.163	2,999,794	2,977,664	99.3%
2019-20	281,073,307	8.4%	1.180	3,509,022	3,475,682	99.0%
2020-21	299,686,811	6.6%	1.198	3,823,246	3,785,038	99.0%
2021-22	307,832,248	2.7%	1.182	3,864,100	3,832,546	99.2%
2022-23	328,530,494 <sup>4</sup>	6.7%	1.180	3,876,660	N/A	N/A

<sup>1</sup> Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

<sup>3</sup> The Total Tax Levy and Total Tax Collected through fiscal year 2021-22 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported to the State of California (available on the website of the California SCO). Total Tax Levy for fiscal year 2022-23 is based upon initial assessed valuations times the secured property tax rate to provide an estimate.

<sup>4</sup> Based on initial assessed valuations for fiscal year 2022-23

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

SCO source noted in (3): <http://www.sco.ca.gov/Files-ARD-Tax-Info/TaxDelinq/sanfrancisco.pdf>

At the start of fiscal year 2022-23, the total net assessed valuation of taxable property within the City was approximately \$328.5 billion. Of this total, \$311.8 billion (94.9%) represents secured valuations and \$16.7 billion (5.1%) 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 the 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. Taxpayers can appeal the Assessor's determination of their property's assessed value, and the appeals may be retroactive and for multiple years. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with counties' property assessments.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in assessment appeals as the economy rebounds. During the severe economic downturn of fiscal years 2009-10 and 2010-11, partial reductions of up to approximately 30% of the assessed valuations appealed were 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, SFCOE, 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 the period following the Great Recession, assessment appeals increased significantly, and a similar trend is developing post-pandemic. For scale, in the wake of the Great Recession, the reductions in residential property assessed value reached upwards of \$2 billion in 2010-11. As described further below, the number of new assessment appeals filed as of September 30, 2022, which represents approximately 1.0% of all parcels in San Francisco, increased by approximately 10% from the number of new assessment appeals filed during the same period the prior year.

It is possible that global and national recessions and economic dislocation will result in declines in real estate values in the City, and such declines could be material.

Appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2013-14 through 2021-22 are listed in Table A-7 below.

**TABLE A-7**

**CITY AND COUNTY OF SAN FRANCISCO**  
**Reduction of Prior Years' Property Tax Revenues**  
**General Fund**  
**Fiscal Years 2013-14 through 2021-22**  
**(000s)**

Fiscal Year	Amount Refunded
2013-14	\$25,756
2014-15	16,304
2015-16	16,199
2016-17	33,397
2017-18	24,401
2018-19	30,071
2019-20	17,900
2020-21*	10,729
2021-22	16,479

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

\* Amount reduced in FY2020-21 and forward reflects both Teeter and Non-Teetered property tax amounts.

A property's annual assessed value is determined as of January 1 of the year preceding the fiscal year for which taxes are billed and paid. Under California's Proposition 13, a property's annual assessed value is the lesser of (1) its base year value (fair market value as of the date of change in ownership or completion of new construction), factored for inflation at no more than two percent per year; or (2) its fair market value as of January 1 of the year preceding the fiscal year for which property taxes are billed and paid. If a property's fair market value falls below its factored base year value, the reduced value is enrolled on a temporary basis (for one year) and is commonly referred to as a "Proposition 8" reduction, after the 1978 initiative. If a property receives a temporary "Proposition 8" reduction, the Assessor is required to annually review the property for a decline-in-value reduction for each subsequent January 1 lien date, until the time when the market value exceeds the property's factored base year value, then the factored base year value will be enrolled as the taxable value for that January 1 lien date.

Assessors in California have authority to use Proposition 8 criteria to apply reductions in valuation to classes of properties affected by any factors affecting value, including but not limited to negative economic conditions. By the start of the fiscal year 2022-23, the Assessor had granted 7,012 temporary decline-in-value reductions, resulting in an assessed value reduction of \$1.25 billion citywide to the 2022 Assessment Roll. The largest number of these reductions, totaling 4,508 and a loss of \$1.01 billion in assessed value, were for condominiums. For comparison, in fiscal year 2020-21, the Assessor granted 2,797 decline-in-value reductions resulting in a total assessed value reduction of \$377.88 million, and in fiscal year 2021-22 the Assessor granted \$2.3 billion in assessed value reductions to the 2021 Assessment Roll.

In addition, qualifying taxpayers seek adjustment of their property assessed values based on a variety of factors. Requests for changes can be motivated by real estate market conditions or other factors.

A qualifying taxpayer can seek assessed value adjustments from the Assessment Appeals Board ("AAB") or from the Assessor or both. There are several types of appeals – Supplemental and Base Year appeals are to establish a property's base value. Escape and Regular Appeals are filed to contest a property's decline in value as of January 1. The majority of appeals filed are Regular Appeals. For regular, annual secured property tax assessments, the period for property owners to file an appeal is between July 2<sup>nd</sup> and September 15<sup>th</sup>. If September 15<sup>th</sup> falls on a Saturday or Sunday, applications filed or postmarked the next business day are considered timely. The AAB generally is required to determine the outcome of appeals within two (2) years of each appeal's filing date. Upon hearing a case, the AAB may decide to increase, decrease, or not change an assessment. An appeal may also be resolved when the Assessor and a property owner stipulate to a corrected value, which the AAB may approve, or reject and require a hearing in which it determines the value. If an appeal results in a change in value, the new assessed value will be used to determine the property taxes for the year that was appealed. Subsequently, each year, the Assessor examines the property to see if the market value has risen back to the Proposition 13 base year value, or higher, and if so, restores the Proposition 13 base year value. This does not apply to base year appeals.

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 that are based on historical results as to appeals.

In the first quarter of fiscal year 2021-22, the total number of open appeals before the AAB was 4,115, with 2,334 new applications filed. Subsequently, as of June 30, 2022, the total number of open appeals before the AAB had been reduced to 2,670 while an additional 258 new applications were filed during the remainder of the 2021-22 fiscal year.



In the first quarter of fiscal year 2022-23, the total number of open appeals before the AAB was 4,321 with 2,577 new applications filed during this period. The difference between the current assessed value and the taxpayer's opinion of values for all the open applications is \$63.6 billion. Assuming the City did not contest any taxpayer appeals and the AAB upheld all the taxpayer's requests, a negative potential total property tax impact of about \$752.6 million would result. The General Fund's portion of that potential \$752.6 million would be approximately \$345.6 million. Per a November presentation by the AAB, potential tax impact of total appeal applications received as of September 30, 2022 in the Financial District, SOMA, and Embarcadero neighborhoods is approximately \$182 million. This describes the worst-case scenario in terms of potential negative revenue impacts for the purposes of illustration based on information as of September 30, 2022. In practice, the City has contested most taxpayer appeals. As such, actual reductions have historically been much lower than values asserted by appellant property owners and a majority of appeals are eventually withdrawn. Of the 2,359 appeals closed during fiscal year 2021-22 as of June 30, 2022, 1,769, or 75% of appeals, were withdrawn. The percentage rate of withdrawals increased during fiscal year 2021-22 because hearings were ceased for most of fiscal year 2020-21. Of the 336 appeals closed during the first quarter of fiscal year 2022-23 as of September 30, 2022, 215, or 64% of appeals, were withdrawn.

Nearly all the appeal applications filed during fiscal year 2020-21 challenge the assessed value of property for fiscal year 2020-21. However, because the assessed value of secured property for fiscal year 2020-21 is determined by the Assessor as of the January 1, 2020, lien date, which predated the COVID-19 pandemic and its related economic effects, the City does not expect a material reduction in assessed values resulting from fiscal year 2020-21 appeal applications. However, there was an increase in the number of appeals for fiscal year 2021-22 and a modest increase for fiscal year 2022-23. Additionally, under Proposition 8, adopted by California voters in 1978, the Assessor's Office could on its own initiative reduce the assessed value of properties with market values that fall below their values assessed in accordance with Proposition 13. Following a Proposition 8 reduction, the assessed value continues to match the market value until the market value again meets or exceeds the maximum assessed value calculated under Proposition 13, at which point the Proposition 13 base year value is restored.

## **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 BAAQMD and BART. The total tax levy for all taxing entities to begin fiscal year 2021-22 was \$3.7 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of total property tax revenues (including supplemental and escape property taxes), the City budgeted to receive \$2.0 billion in the General Fund and \$248.1 million in special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD were estimated to receive approximately \$214.2 million and \$40.2 million, respectively, and the local ERAF was estimated to receive \$414.9 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency was estimated to receive approximately \$160.0 million. The remaining portion will be 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 47.0% of total property tax revenue before adjusting for the VLF backfill shift and excess ERAF.

General Fund property tax revenues in fiscal year 2020-21 were \$2.2 billion, representing an increase of \$205.9 million (10.5%) over fiscal year 2019-20 actual revenue. The majority of the increase was from excess

ERAF revenue growth of \$131.6 million, due to guidance released to all counties by the State Controller's Office in February 2021 confirming the methodology for considering school district-sponsored charter schools in ERAF calculations, as well as guidance specific to San Francisco that recognized the City's pre-dissolution practice of limiting the property tax increment distributions to the former San Francisco Redevelopment Agency. The remainder of the increase resulted from year-over-year secured roll growth of 7.5%, which also increases Property Tax In-Lieu of Vehicle License Fee allocations. Tables A-2 and A-4 set forth a history of budgeted and actual property tax revenues.

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. Additionally, the Teeter Plan was extended to include the allocation and distribution of special taxes levied for City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) in June 2017 (effective fiscal year 2017-18) and for the Bay Restoration Authority Parcel Tax, SFUSD School Facilities Special Tax, SFUSD School Parcel Tax, and City College Parcel Tax in October 2017 (effective fiscal year 2018-19). The Teeter Plan 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-8. The Tax Loss Reserve sets aside 1% of the total of all taxes and assessments levied for which the Teeter Plan is the applicable distribution method. The purpose of the Tax Loss Reserve is to cover losses that may occur. The amount has grown in recent years as the assessed values on the secured roll has grown.

**TABLE A-8**

**CITY AND COUNTY OF SAN FRANCISCO**  
**Teeter Plan**  
**Tax Loss Reserve Fund Balance**  
**Fiscal Years 2013-14 through 2020-21**  
**(000s)**

Year Ended	Amount Funded
2013-14	\$19,654
2014-15	20,569
2015-16	22,882
2016-17	24,882
2017-18	25,567
2018-19	29,126
2019-20	31,968
2020-21	35,298

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

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year beginning July 1, 2022 are shown in Table A-9. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the Office of the Assessor-Recorder.

**TABLE A-9**

**CITY AND COUNTY OF SAN FRANCISCO**  
**Top 10 Parcels Total Assessed Value**  
**July 1, 2022**

Assessee <sup>1</sup>	Location	Parcel Number	Type	Total Assessed	
				Value <sup>2</sup>	% Basis of Levy <sup>3</sup>
SUTTER BAY HOSPITALS <sup>4</sup>	1101-1133 VAN NESS	0695 007	HOSPITAL	\$2,689,828,828	0.817%
TRANSBAY TOWER LLC	415 MISSION ST	3720 009	OFFICE	\$1,839,390,574	0.559%
GSW ARENA LLC	1 WARRIORS WAY	8722 026	ENTERTAINMENT COMP	\$1,488,126,171	0.452%
PARK TOWER OWNER LLC	250 HOWARD ST	3718 040	OFFICE	\$1,118,038,941	0.340%
KRE EXCHANGE OWNER LLC	1800 OWENS ST	8727 008	OFFICE	\$1,103,805,000	0.335%
HWA 555 OWNERS LLC	555 CALIFORNIA ST	0259 026	OFFICE	\$1,091,950,516	0.332%
ELM PROPERTY VENTURE LLC	101 CALIFORNIA ST	0263 011	OFFICE	\$1,056,523,553	0.321%
PPF PARAMOUNT ONE MARKET PLAZA LP	1 MARKET ST	3713 007	OFFICE	\$894,928,448	0.272%
SHR ST FRANCIS LLC	301-305 POWELL ST	0307 001	HOTEL	\$786,924,101	0.239%
SUTTER BAY HOSPITALS DBA CA PACIFIC MED <sup>4</sup>	3555 CESAR CHAVEZ ST/555 SAN JOSE	6575 005	HOSPITAL	\$768,821,895	0.234%
				<b>\$12,838,338,027</b>	<b>3.901%</b>

<sup>1</sup> Certain parcels fall within RDA project areas.

<sup>2</sup> Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year. TAV includes land & improvements, personal property, and fixtures. Values reflect information as of January 1, 2022 lien date.

<sup>3</sup> The Basis of Levy is total assessed value less exemptions for which the state does not reimburse counties (e.g. those that apply to nonprofit organizations).

<sup>4</sup> Nonprofit organization that is exempt from property taxes.

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 2022-23 valuation of property assessed by the State Board of Equalization in San Francisco is approximately \$4.1 billion.

## OTHER CITY TAX REVENUES

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

The following section contains a brief description of other major City-imposed taxes as well as taxes that are collected by the State and shared with the City. The City's General Fund is also supported by other sources of revenue, including charges for services, fines and penalties, and transfers-in, which are not discussed below.

See Table A-10 below for a summary of revenue source as a percentage of total General Fund revenue based on audited financials for fiscal year 2020-21 and the Original Budget for fiscal year 2021-22.

TABLE A-10

Revenues	FY 2020-21		FY 2021-22	
			Original Budget	
Property Taxes	\$2,332,864	41.2%	\$2,115,600	39.0%
Business Taxes	722,642	12.7%	957,140	17.6%
Other Local Taxes	709,018	12.5%	777,750	14.3%
Licenses, Permits and Franchises	12,332	0.2%	27,944	0.5%
Fines, Forfeitures and Penalties	4,508	0.1%	4,035	0.1%
Interest and Investment Income	(1,605)	0.0%	36,247	0.7%
Rents and Concessions	5,111	0.1%	11,728	0.2%
Intergovernmental	1,607,803	28.4%	1,216,765	22.4%
Charges for Services	230,048	4.1%	255,111	4.7%
Other	46,434	0.8%	24,238	0.4%
<b>Total Revenues</b>	<b>\$5,669,155</b>	<b>100.0%</b>	<b>\$5,426,557</b>	<b>100.0%</b>

## Business Taxes

Through tax year 2014, businesses in the City were subject to payroll expense and business registration taxes. Proposition E approved by the voters in the November 2012 election changed business registration tax rates and introduced a gross receipts tax which phased in over a five-year period beginning January 1, 2014, replacing the then existing 1.5% tax on business payrolls over the same period. Overall, the ordinance increased the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 to 15,000. In November 2020, voters passed Proposition F, which eliminated the payroll tax and modified gross receipt tax rates. Most gross receipt tax rates increased by 40% for tax year 2021 over the prior year. Much smaller increases were scheduled for 2023 and 2024, should the City's taxable gross receipts in 2021 and 2022 reach at least 90% and 95%, respectively of 2019 taxable gross receipts. The 2023 tax increase is suspended for one year because the City's 2021 taxable gross receipts did not reach the 90% threshold. In some industries that were particularly hurt during the pandemic, such as retail, trade and food services, tax rates were lowered for businesses with less than \$25 million in gross receipts through 2022. The measure also reduced business registration fees for businesses with less than \$1 million in gross receipts and raised the small business exemption for gross receipts taxes to \$2 million.

Pre-audit business tax revenue in fiscal year 2021-22 is \$863.5 million for all funds, representing an increase of \$139.4 million (19.2%) from fiscal year 2020-21. The fiscal year 2022-23 Original Budget is \$904.8 million, an increase of \$41.3 million (4.8%) from the fiscal year 2021-22 actuals. Fiscal year 2023-24 Original Budget is \$962.7 million, an increase of \$57.9 million (6.4%) from fiscal year 2022-23 budget.

Revenues from business tax and registration fees have generally followed economic conditions in the City, primarily employment and wage growth. The COVID-19 emergency significantly adversely affected employment and wage growth, and the City's economic condition is still weak relative to pre-pandemic levels. The unemployment rate in the City peaked at 13.7% in April 2020 and declined steadily since then, reaching 2.1% in August 2022. Just prior to the start of the pandemic, there were approximately 570,000 employed residents in the City. After falling to a low of about 480,000 in April 2020, the number of employed residents has risen to about 550,000, which is still approximately 20,000 fewer than the pre-pandemic level.

Remote work occurring outside the City creates fiscal risk because, for certain categories of businesses, the gross receipts tax is dependent on their San Francisco payroll, and the firms only need to calculate their San Francisco payroll expense for employees that physically work within the City's geographic boundaries. Approximately half of the workers in major tax-paying sectors such as Professional Services, Financial Services, and Information live outside of San Francisco. Some of the City's largest employers in these sectors have indicated that employees may be able to work from home permanently or with a hybrid schedule.

For example, according to most recently available public data, Twitter plans to let employees work from home indefinitely, Google expects employees in the office three days per week, and Salesforce is leaving the decision up to individual teams within the company. The budget (for fiscal years 2022-23 and 2023-24) assumes that by the end of 2022, the number of days worked at home for employees in office-centric sectors will remain on average 33% above pre-pandemic levels.

TABLE A-11

**CITY AND COUNTY OF SAN FRANCISCO**  
**Business Tax Revenues - All Funds <sup>1</sup>**  
**Fiscal Years 2018-19 through 2023-24**  
**(000s)**

Fiscal Year <sup>2</sup>	Revenue	Change	Change %
2018-19	\$919,552	\$20,410	2.3%
2019-20	824,670	(94,882)	-10.3%
2020-21	724,140	(100,530)	-12.2%
2021-22 <i>pre-audit</i>	863,510	139,370	19.2%
2022-23 <i>budgeted</i> <sup>3</sup>	904,800	41,290	4.8%
2023-24 <i>budgeted</i> <sup>3</sup>	962,700	57,900	6.4%

<sup>1</sup> Figures exclude Homelessness Gross Receipts and Commercial Rent Taxes that are allocated to special revenue funds.

<sup>2</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are pre-audit actuals. Figures for fiscal year 2021-22 are unaudited. Includes portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program and Business Registration Tax.

<sup>3</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

### **Transient Occupancy Tax (Hotel Tax)**

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators to the City monthly. A quarterly tax-filing requirement is also imposed. Pre-audit hotel tax revenue in fiscal year 2021-22 ended at \$179.1 million (all funds), an increase of \$136.9 million (324.5%) from fiscal year 2020-21. The fiscal year 2022-23 Original Budget is \$216.5 million, an increase of \$37.4 million (20.9%) from fiscal year 2021-22. The fiscal year 2023-24 Original Budget is \$271.0 million (25.2%) from fiscal year 2022-23 budget. Table A-12 includes hotel tax in all funds. Slightly less than 90% of the City's hotel tax is allocated to the General Fund, with 10.7% allocated to arts and cultural organizations and approximately \$5 million for debt service on hotel tax revenue bonds.

Fiscal year 2021-22 revenue performed better than previously expected in the Six and Nine Month Reports, as leisure visits and convention activity resumed in 2022, after the winter Omicron surge. The City's five-year forecast anticipates hotel tax will return to pre-pandemic levels by fiscal year 2025-26, with pent-up demand for leisure travel initially driving growth in fiscal year 2021-22 and the resumption of large group events at full capacity contributing to additional growth future fiscal years.

San Francisco's hotel tax is derived from hotel stays from individual business travelers, group events such as conferences and meetings, and leisure tourists. These visitors primarily travel to the City by air. In April 2020, at the height of the first peak of the COVID pandemic, enplanements at SFO decreased by 97% compared to prior year. While air travel has grown since April 2020, the recovery in San Francisco has lagged other metropolitan areas. Enplanements in fiscal year 2020-21 were 65.7% below fiscal year 2019-20 enplanements. In fiscal year 2021-22 enplanements improved 151.2% over the prior fiscal year but were still 39.2% lower as compared to fiscal year 2018-19. Enplanements in August 2022 were below

August 2019 levels by 29.5%, with domestic and international enplanements lower by 30.2% and 27.3%, respectively. San Francisco International Airport's (SFO) geographic location lends itself to being a "gateway" to Asia, and a hub for international travel, which is anticipated to lag domestic travel. The budget assumes the recovery in hotel tax begins with visits to the City from domestic leisure tourists, with the return of business travelers, group events, and international visitors following, given the time needed to plan large gathering and reestablish policies for in-person business meetings. Conventions drive up hotel room rates through compression pricing, which is important to the full recovery of the City's hotel tax base.

Revenue per Available Room (RevPAR), a measurement of hotel tax revenue growth, is a function of occupancy and average daily room rates (ADR). Despite some slowdown in the growth in the hospitality industry after the 9/11 attacks in 2001 and the global financial crisis in 2008, average annual RevPAR generally grew at a steady rate from fiscal year 2000-01 to fiscal year 2018-19. In fiscal year 2018-19, RevPAR reached an all-time high of \$263.90. In the first eight months of fiscal year 2019-20, RevPAR declined to \$224.50. Due to the COVID-19 pandemic, associated flight bans, and shelter in place orders, RevPAR reached a historic all-time low of \$14.40 in April 2020. RevPAR has steadily improved with the rollout of COVID vaccines and loosened restrictions. Annual average RevPAR in fiscal year 2020-21 was \$42.03 and increased to \$108.77 in fiscal year 2021-22. As of August 2022, RevPAR reached \$162.45, with ADR at \$230.13 and occupancy at 70.6%. Due to compression pricing, large conferences and events such as Dreamforce and RSA can strongly drive up the demand for rooms and ADR. As traffic at SFO improves and conventions return to San Francisco, RevPAR is projected to continue rising. The Original Budget for fiscal years 2022-23 and 2023-24 assumes annual average RevPAR will increase significantly in the next two fiscal years – \$146.37 in fiscal year 2022-23 and \$183.30 in fiscal year 2023-24. However, annual average RevPAR is not expected to recover to pre-pandemic levels until fiscal year 2025-26. Full recovery will depend on the return of visitors from Asia, where several large markets, including China's, continue to maintain significant COVID restrictions on travel.

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TABLE A-12

**CITY AND COUNTY OF SAN FRANCISCO**  
**Transient Occupancy Tax Revenues - All Funds<sup>1</sup>**  
**Fiscal Years 2018-19 through 2023-24**  
**(000s)**

Fiscal Year <sup>2</sup>	Tax Rate	Revenue	Change	
2018-19	14.0%	\$414,343	\$28,792	7.5%
2019-20	14.0%	281,615	(132,728)	-32.0%
2020-21	14.0%	42,195	(239,420)	-85.0%
2021-22 <i>pre-audit</i>	14.0%	179,134	136,939	324.5%
2022-23 <i>budgeted</i> <sup>3</sup>	14.0%	216,542	37,408	20.9%
2023-24 <i>budgeted</i> <sup>3</sup>	14.0%	271,030	54,488	25.2%

<sup>1</sup> Amounts include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds, as well as the portion of hotel tax revenue dedicated to arts and cultural programming reflecting the passage of Proposition E in November 2018, which took effect January 1, 2019.

<sup>2</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

<sup>3</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

### Real Property Transfer Tax

Real property transfer tax (RPTT) 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. After the passage of Proposition W on November 8, 2016, transfer tax rates were \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued at \$250,000 or less; \$6.80 per \$1,000 for properties valued more than \$250,000 and less than \$999,999; \$7.50 per \$1,000 for properties valued at \$1.0 million to \$5.0 million; \$22.50 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; \$27.50 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million; and \$30.00 per \$1,000 for properties valued at more than \$25.0 million. After the passage of Proposition I in November 2020, transfer tax rates were doubled for the two highest tiers, to \$55.00 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million and \$60.00 per \$1,000 for properties valued at more than \$25.0 million.

Pre-audit RPTT revenue for fiscal year 2021-22 ended at \$518.8 million, a \$174.1 million (50.5%) increase from fiscal year 2020-21 revenue. The fiscal year 2022-23 Original Budget is \$390.5 million, a reduction of \$128.3 million (24.7%) from the fiscal year 2021-22 actual. The fiscal year 2023-24 Original Budget is \$423.3 million, an increase of \$32.7 million (8.4%) from prior year budget. The entirety of RPTT revenue is recorded in the General Fund.



Despite a decrease in the number of large transactions since fiscal year 2018-19, the total dollar value of transfer tax is increasing primarily due to the Proposition I rate change and to a handful of large, once-in-a-generation transfers in the first six months of this year. The effect of Proposition I in fiscal year 2021-22, which took effect in January 2021, is \$178.1 million in fiscal year 2021-22.

As the City's most volatile revenue source, RPTT collections can see large year-over-year changes that have exceeded 70% in some instances. The main factors creating volatility are sales of high-value properties, availability of financing, and the relative attractiveness of San Francisco real estate compared to global investment options, all of which track closely with economic cycles, as well as voter-approved rate changes, which occurred in 2008, 2010, 2016, and 2020. The volatility of RPTT is attributable mainly to the sales of high-value (largely commercial) properties over \$25 million. In fiscal year 2008-09, transactions above \$25 million would have generated only \$10.6 million under the current rates compared to the peak in fiscal year 2016-17, when these transactions generated \$295.8 million. Since the end of the recession in fiscal year 2009-10, these large transactions made up on average 58.0% of total revenue but only 0.6% of the transaction count. This means that revenue is determined by a small handful of transactions. In the two recessions prior to COVID, the taxes collected on large transactions fell dramatically.

TABLE A-13

**CITY AND COUNTY OF SAN FRANCISCO**  
**Real Property Transfer Tax Receipts - All Funds**  
**Fiscal Years 2018-19 through 2023-24**  
**(000s)**

Fiscal Year <sup>1</sup>	Revenue	Change	
2018-19	\$364,044	\$83,628	29.8%
2019-20	334,535	(29,509)	-8.1%
2020-21	344,683	10,148	3.0%
2021-22 <i>pre-audit</i>	518,791	174,108	50.5%
2022-23 <i>budgeted</i> <sup>2</sup>	390,480	(128,311)	-24.7%
2023-24 <i>budgeted</i> <sup>2</sup>	423,340	32,860	8.4%

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

<sup>2</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

## Sales and Use Tax

The sales tax rate on retail transactions in the City is 8.6250%, of which 1.00% represents the City's local share ("Bradley-Burns" portion). 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 components of San Francisco's 8.6250% sales tax rate are shown in Table A-14. In addition to the 1% portion of local sales tax, the State subvenes portions of sales tax back to counties through 2011 realignment (1.0625%), 1991 realignment (0.5%), and public safety sales tax (0.5%). The subventions are discussed in more detail under "INTERGOVERNMENTAL REVENUES" herein.

TABLE A-14

San Francisco's Sales & Use Tax Rate	
<b>State Sales Tax</b>	<b>6.00%</b>
State General Fund	3.9375%
Local Realignment Fund 2011*	1.0625%
Local Revenue Fund*	0.50%
(to counties for health & welfare)	
Public Safety Fund (to counties & cities)*	0.50%
<b>Local Sales Tax</b>	<b>1.25%</b>
Local Sales Tax (to General Fund)*	1.00%
Local Transportation Tax (TDA)	0.25%
<b>Special District Use Tax</b>	<b>1.375%</b>
2020 Peninsula Corridor Joint Powers Board Transactions and Use Tax (JPBF)	0.125%
SF County Transportation Authority	0.50%
Bay Area Rapid Transit (BART)	0.50%
SF Public Financing Authority (Schools)	0.25%
<b>TOTAL Sales Tax Rate</b>	<b>8.625%</b>

\* Represents portions of the sales tax allocated to the City.

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

Pre-audit local sales tax (the 1% portion) revenue in fiscal year 2021-22 was \$188.3 million, an increase of \$41.5 million (28.2%) more than fiscal year 2020-21. The fiscal year 2022-23 Original Budget is \$182.9 million, a reduction of \$5.5 million (2.9%) from the fiscal year 2021-22 actual. The fiscal year 2023-24 Original Budget is \$193.1 million, an increase of \$10.3 million (5.6%) from prior year budget. The entirety of sales tax revenue is recorded in the General Fund.

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 and spending patterns. In recent years, online retailers have contributed significantly to sales tax receipts, offsetting sustained declines in point of sale purchases.

The improvement from prior projections is a result of pandemic recovery and continued re-opening of the economy, and particularly notable in general consumer goods and restaurants and hospitality. Reduced restrictions on indoor dining and a return of visitors for work and travel resulted in large gains as compared to fiscal year 2020-21. Consumer spending in apparel, electronics, jewelry, and home furnishings has grown year over year. Sales tax from vehicle purchases is strong due to high demand along with inventory constraints, and tax from fuel sales has risen with higher prices and consumption. Despite rapid and better-than-expected growth in fiscal year 2021-22, sales tax revenues are not projected to reach pre-pandemic levels until fiscal year 2025-26.

TABLE A-15

**CITY AND COUNTY OF SAN FRANCISCO**  
**Sales and Use Tax Revenues**  
**Fiscal Years 2018-19 through 2023-24**  
**General Fund**  
**(000s)**

Fiscal Year <sup>1</sup>	Tax Rate	City Share	Revenue	Change	
2018-19	8.50%	1.00%	\$213,625	\$20,679	10.7%
2019-20	8.50%	1.00%	180,184	(33,441)	-15.7%
2020-21	8.50%	1.00%	146,863	(33,321)	-18.5%
2021-22 <i>pre-audit</i>	8.625%	1.00%	188,337	41,474	28.2%
2022-23 <i>budgeted</i> <sup>2</sup>	8.625%	1.00%	182,870	(5,467)	-2.9%
2023-24 <i>budgeted</i> <sup>2</sup>	8.625%	1.00%	193,120	10,250	5.6%

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

<sup>2</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

### Other Local Taxes

The City imposes a number of other general purpose taxes:

- Utility Users Tax (UUT) - A 7.5% tax on non-residential users of gas, electricity, water, steam and telephone services.
- Access Line Tax ("ALT") – A charge of \$3.80 on every telecommunications line, \$28.58 on every trunk line, and \$514.49 on every high capacity line in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. The tax is collected from telephone communications service subscribers by the telephone service supplier.
- Parking Tax - A 25% tax for off-street parking spaces. The tax is paid by occupants and remitted monthly to the City by parking facility operators. In accordance with Charter Section 16.110, 80% of parking tax revenues are transferred from the General Fund to the MTA's Enterprise Funds to support public transit.
- Sugar Sweetened Beverage Tax – A one cent per ounce tax on the distribution of sugary beverages. This measure was adopted by voters on November 9, 2016 (Proposition V) and took effect on January 1, 2018.
- Stadium Admission Tax – A tax between \$0.25 and \$1.50 per seat or space in a stadium for any event, with some specific exclusions.
- Cannabis Tax – A gross receipts tax of 1% to 5% on marijuana business and permits the City to

tax businesses that do not have a physical presence in the City. This measure was adopted by voters in November 2018 (Proposition D). The tax was originally slated to go into effect on January 1, 2021, but the Board has delayed the imposition of the tax by one year twice. The cannabis tax will now take effect beginning January 1, 2023.

- **Franchise Tax** – A tax for the use of City streets and rights-of-way on cable TV, electric, natural gas, and steam franchises.
- **Tax on Executive Pay** – In November 2020, voters adopted Proposition L, a new tax on businesses in the City, where compensation of the businesses’ highest-paid managerial employee compared to the median compensation paid to the businesses’ employees based in the City exceeds a ratio of 100:1. The measure took effect on January 1, 2022 for tax year 2022, so revenues will not be received until fiscal year 2022-23. Revenue from this tax is expected to be highly volatile due to the narrow base of expected payers, annual fluctuations in the value and form of executive compensation, which typically includes equity, and tax-avoidance risk associated with tax increases. Estimates based on prior years’ activity may not be predictive of future revenues. The fiscal year 2022-23 and 2023-24 Original Budget assumes \$60 million and \$80 million revenue from this new source, respectively.

Table A-16 reflects the City’s actual tax receipts for fiscal years 2017-18 through 2020-21, pre-audit actuals for fiscal year 2021-22 and Original Budget for fiscal years 2022-23 and 2023-24.

As with the larger tax revenues described above, the City anticipates these sources will be impacted by the pace of economic recovery. See “CITY BUDGET-Five-Year Financial Plan and March Update” and “Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report” for a summary of the most recent projections.

**TABLE A-16**

CITY AND COUNTY OF SAN FRANCISCO						
Other Local Taxes						
Fiscal Years 2018-19 through 2023-24						
General Fund						
(000s)						
Tax	2018-19 Actuals	2019-20 Actuals	2020-21 Actuals	2021-22 Pre-Audit	2022-23 Budget <sup>2</sup>	2023-24 Budget <sup>2</sup>
Utility Users Tax	\$93,918	\$94,231	\$81,367	\$106,771	\$82,630	\$83,840
Access Line Tax	48,058	49,570	44,700	55,710	47,100	48,560
Parking Tax	86,020	69,461	47,555	71,122	80,180	82,550
Sugar Sweetened Beverage Tax	16,098	13,182	10,435	11,973	13,280	13,010
Stadium Admissions Tax	1,215	2,730	182	4,615	5,400	11,300
Cannabis Tax	N/A	N/A	N/A	N/A	-	10,250
Franchise Tax	15,640	16,028	14,898	15,355	14,250	14,250
Tax on Executive Pay	N/A	N/A	N/A	N/A	60,000	80,000

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

<sup>2</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

## INTERGOVERNMENTAL REVENUES

### State Subventions Based on Taxes

San Francisco receives allocations of State sales tax and Vehicle License Fee (VLF) revenue for 1991 Health and Welfare Realignment, 2011 Public Safety Realignment, and Prop 172 Public Safety Sales Tax. These subventions fund programs that are substantially supported by the General Fund. See “GENERAL FUND REVENUES – Other City Tax Revenues – Sales and Use Tax” above.

- Health and Welfare Realignment, enacted in 1991, restructured the state-county partnership by giving counties increased responsibilities and dedicated funding to administer certain public health, mental health and social service programs.
- 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.
- 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. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above. 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.

Table A-17 reflects the City’s actual receipts for fiscal years 2017-18 through 2020-21, Pre-audit actuals for fiscal year 2021-22 and Original Budget for fiscal years 2022-23 and 2023-24. State-wide sales tax has performed better than local sales tax and is expected to recover faster than the City’s sales tax; therefore, formula-driven subventions are expected to grow faster than local sales tax. The State of California temporarily backfilled county realignment revenues in fiscal year 2020-21. The value of this backfill to the City is \$28.0 million.

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TABLE A-17

**CITY AND COUNTY OF SAN FRANCISCO**  
**Selected State Subventions - All Funds**  
**Fiscal Years 2018-19 through 2023-24**  
**(\$millions)**

<b>Tax</b>	2018-19 Actuals	2019-20 Actuals	2020-21 Actuals	2021-22 Pre-Audit	2022-23 Budget <sup>2</sup>	2023-24 Budget <sup>2</sup>
<b>Health and Welfare Realignment</b>						
General Fund	\$217.6	\$219.6	\$188.9	\$283.5	\$269.1	\$274.9
Hospital Fund	58.5	54.1	48.1	67.1	64.9	65.2
<b>Total - Health and Welfare</b>	<b>\$276.1</b>	<b>\$273.7</b>	<b>\$237.1</b>	<b>\$350.6</b>	<b>\$334.1</b>	<b>\$340.1</b>
<b>Backfill Realignment<sup>3</sup></b>						
General Fund			\$22.1			
Non General Fund			6.0			
<b>Total - Backfill Realignment</b>			<b>\$28.0</b>			
Public Safety Realignment (General Fund)	\$39.4	\$41.1	\$38.4	\$52.1	\$61.7	\$66.0
Public Safety Sales Tax (Prop 172) (General Fund)	\$107.6	\$103.9	\$105.0	93.8	\$89.7	\$94.2

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

<sup>2</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

<sup>3</sup> Backfill Realignment is a one-time State funding to fill the shortfall in Health and Welfare Realignment and Public Safety Realignment due to the decrease of sales tax and vehicle license fees.

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

## **CITY GENERAL FUND PROGRAMS AND EXPENDITURES**

### **General Fund Expenditures by Major Service Area**

As a consolidated city and county, San Francisco budgets General Fund expenditures in seven major service areas as described in Table A-18 below:

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TABLE A-18

**CITY AND COUNTY OF SAN FRANCISCO**  
**Expenditures by Major Service Area**  
**Fiscal Years 2018-19 through 2023-24**  
**(000s)**

Major Service Areas	2018-19 Final Budget	2019-20 Final Budget	2020-21 Final Budget	2021-22 Original Budget <sup>1</sup>	2022-23 Original Budget <sup>2</sup>	2023-24 Original Budget <sup>2</sup>
Public Protection	\$1,390,266	\$1,493,240	\$1,505,780	\$1,507,122	\$1,675,801	\$1,678,498
Human Welfare & Neighborhood Development	1,120,892	1,270,530	218,986	1,418,406	1,576,410	1,551,143
Community Health	967,113	1,065,051	1,605,573	1,056,459	1,162,956	1,168,262
General Administration & Finance	290,274	332,296	1,158,599	497,915	338,055	365,922
Culture & Recreation	154,056	161,274	147,334	220,866	197,596	204,661
General City Responsibilities	172,028	137,851	332,997	243,733	226,931	256,020
Public Works, Transportation & Commerce	214,928	216,824	126,993	236,525	262,733	229,775
Total <sup>2</sup>	\$4,309,557	\$4,677,066	\$5,096,262	\$5,181,026	\$5,440,482	\$5,454,281

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are from the Final Budget, July 29, 2021.

<sup>2</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

<sup>3</sup> 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. Human Welfare & Neighborhood Development includes the Department of Human Services' aid assistance, aid payments, and City grant programs. Community Health includes the Public Health Department, which also operates San Francisco General Hospital and Laguna Honda Hospital.

For budgetary purposes, enterprise funds (which are not shown on the table above) 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 General Hospital Fund, and the Laguna Honda Hospital Fund. These funds are supported by transfers from the General Fund to the extent their dedicated revenue streams are insufficient to support the desired level of services.

### **Voter-Mandated Spending Requirements**

The Charter requires funding for voter-mandated spending requirements, which are also referred to as "baselines," "set-asides," or "mandates". The chart below identifies the required and budgeted levels of funding for key mandates. The spending requirements are formula-driven, variously based on projected aggregate General Fund discretionary revenue, property tax revenues, total budgeted spending, staffing levels, or population growth. Table A-19 reflects fiscal year 2022-23 and 2023-24 spending requirements in the Original Budget. These mandates are generally budgeted as transfers out of the General Fund or allocations of revenue.

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TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO  
 Baselines & Set-Asides  
 FY 2022-23 and FY 2023-24  
 (\$millions)

	2022-23 Original Budget <sup>1</sup>	2023-24 Original Budget <sup>1</sup>
<b>Projected General Fund Aggregate Discretionary Revenue (ADR)</b>	<b>\$4,329.2</b>	<b>\$4,657.5</b>
<b>Municipal Transportation Agency (MTA)</b>		
MTA - Municipal Railway Baseline: 6.686% ADR	\$306.0	\$328.9
MTA - Parking & Traffic Baseline: 2.507% ADR	108.5	116.8
MTA - Population Adjustment	58.0	87.3
MTA - 80% Parking Tax In-Lieu	64.1	66.0
<b>Subtotal - MTA</b>	<b>\$536.7</b>	<b>\$599.0</b>
<b>Library Preservation Fund</b>		
Library - Baseline: 2.286% ADR	\$99.0	\$106.5
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	75.6	79.6
<b>Subtotal - Library</b>	<b>\$174.6</b>	<b>\$186.1</b>
<b>Children's Services</b>		
<i>Children's Services Baseline - Requirement: 4.830% ADR</i>	<i>\$209.1</i>	<i>\$224.9</i>
Children's Services Baseline - Eligible Items Budgeted	231.4	227.8
<i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i>	<i>25.1</i>	<i>27.0</i>
Transitional Aged Youth Baseline - Eligible Items Budgeted	37.1	37.0
Public Education Services Baseline: 0.290% ADR	12.6	13.5
Children and Youth Fund Property Tax Set-Aside: \$0.0375-0.4 per \$100 NAV	121.2	126.5
<i>Public Education Enrichment Fund: 3.057% ADR</i>	<i>132.3</i>	<i>142.4</i>
1/3 Annual Contribution to Preschool for All	44.1	47.5
2/3 Annual Contribution to SF Unified School District	88.2	94.9
<b>Subtotal - Children's Services</b>	<b>\$534.6</b>	<b>\$547.3</b>
<b>Recreation and Parks</b>		
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	\$75.6	\$79.6
<i>Recreation &amp; Parks Baseline - Requirement</i>	<i>82.2</i>	<i>85.2</i>
Recreation & Parks Baseline - Budgeted	88.6	95.0
<b>Subtotal - Recreation and Parks</b>	<b>\$164.3</b>	<b>\$174.6</b>
<b>Other</b>		
<i>Housing Trust Fund Requirement</i>	<i>\$45.2</i>	<i>\$44.5</i>
Housing Trust Fund Budget	45.2	44.5
Dignity Fund	56.1	59.1
Street Tree Maintenance Fund: 0.5154% ADR	22.3	24.0
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	4.0	4.2
City Services Auditor: 0.2% of Citywide Budget	26.1	25.7
<b>Subtotal - Other</b>	<b>\$153.7</b>	<b>\$157.4</b>
<b>Recently Adopted Expenditure Requirements</b>		
<i>Our City, Our Home Baseline Requirement (Nov 2018 Prop C)</i>	<i>215.0</i>	<i>215.0</i>
Our City, Our Home Budget, Estimated	367.9	364.2
<i>Early Care and Education Baseline Requirement (June 2018 Prop C)</i>	<i>91.1</i>	<i>98.0</i>
Early Care and Education Budget	94.7	98.3
<b>Total Baselines and Set-Asides</b>	<b>\$2,026.4</b>	<b>\$2,126.8</b>

<sup>1</sup> FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.



## **EMPLOYMENT COSTS; POST-EMPLOYMENT OBLIGATIONS**

The cost of salaries and benefits for City employees represents slightly less than half of the City's expenditures, totaling \$6.5 billion and \$6.6 billion in fiscal years 2022-23 and 2023-24 in the Original Budget. For the General Fund, the combined salary and benefits Original Budget is \$3.1 billion in each year of the 2022-23 and 2023-24 .

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-employment health and medical benefits. Employees of SF Unified School District ("SFUSD"), SFCCD and the San Francisco Superior Court, called Trial Court below, are not City employees.

### **Labor Relations**

The City's Original Budget for fiscal year 2022-23 included 39,246 full-time and part-time budgeted and funded City positions. City workers are represented by 36 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021; the International Federation of Professional and Technical Engineers, Local 21; and the unions representing Police, Fire, Deputy Sheriffs, and Transit Workers.

Wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Milias-Brown Act, California Government Code Sections 3500-3511) and the City Charter. San Francisco is unusual among California's cities and counties in that nearly all of its employees, including managerial and executive-level employees, are represented by labor organizations.

Further, the City Charter requires binding arbitration to resolve negotiations in the event of impasse. If impasse is reached, the parties are required to convene a tripartite arbitration panel, chaired by an impartial third-party arbitrator, which sets the disputed terms of the new agreement. The award of the arbitration panel is final and binding. This process applies to all City employees except Nurses and a small group of unrepresented employees. Wages, hours and working conditions of nurses are not subject to interest arbitration but are subject to Charter-mandated economic limits. Since 1976, no City employees have participated in a union-authorized strike, which is prohibited by the Charter.

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 sworn police officers and fire fighters.

For fiscal year 2021-22, all parties agreed to a base wage increase schedule of 3% on July 1, 2021 and 0.5% on January 8, 2022 (miscellaneous unions only), with a provision to delay the fiscal year 2021-22 increase by six months if the City's budget deficit for fiscal year 2021-22, as projected in the 2021 March Joint Report, exceeded \$200 million. The scheduled July 1, 2021 wage increase was implemented as the 2021 March Joint Report did not project a \$200 million deficit. For fiscal year 2021-22, the Unrepresented Employee Ordinance was passed approving a wage increase of 3%.

In May 2022, the City negotiated two-year agreements (for fiscal years 2022-23 through 2023-24) with 27 labor unions. For the fiscal year 2022-23, the parties agreed to a base wage increase of 5.25% on July 1, 2022. For fiscal year 2023-24, the parties agreed to a base wage increase schedule of 2.5% on July 1, 2023 and 2.25% on January 6, 2024, with a provision to delay the fiscal year 2023-24 increases by six months if the City's budget deficit for fiscal year 2023-24, as projected in the 2023 March Joint Report, exceeded \$300 million.

The City had previously negotiated a 2.0% base wage increase with labor organizations representing sworn members of the Police department due on July 1, 2020 and delayed to the pay period including January 1, 2021. The parties then agreed to defer this increase until the close of business on June 30, 2022. The parties also previously negotiated a 1% base wage increase to be effective January 1, 2021 and delayed until June 30, 2021. The parties then agreed to defer this increase until the close of business on June 30, 2022 as well. The parties agreed to a base wage increase of 3.0% on July 1, 2021. For the fiscal year 2022-23, the parties agreed to a base wage increase of 3.0% on July 1, 2022, with a provision to delay the increase by six months if the City's budget deficit for fiscal year 2022-23, as projected in the 2022 March Joint Report, exceeded \$200 million.

The City had previously negotiated a 3% base wage increase with labor organizations representing the sworn members of the Fire department due on July 1, 2020 and delayed to the pay period including January 1, 2021. The parties then agreed to defer this increase until the close of business on June 30, 2022. The parties agreed to a base wage increase of 3.0% on July 1, 2021. For the fiscal year 2022-23, the parties agreed to a base wage increase of 3.0% on July 1, 2022, with a provision to delay the increase by six months if the City's budget deficit for fiscal year 2022-23, as projected in the 2022 March Joint Report, exceeded \$200 million.

Also, in May 2022, the MTA negotiated two-year agreements (for fiscal years 2022-23 through 2023-24) with the unions that represent Transit Operators, Mechanics, Station Agents, Parking Control Officers and others. The parties agreed to the same wage increase schedule as the City, with the same wage deferral triggers.

In the Fall of 2022, the City will commence bargaining successor MOUs with labor organizations representing sworn members of Fire and Police departments.

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TABLE A-20

**CITY AND COUNTY OF SAN FRANCISCO (All Funds)**  
**Employee Organizations as of September 27, 2022**

<b>Organization</b>	<b>City Budgeted Positions</b>	<b>Expiration Date of MOU</b>
Automotive Machinists, Local 1414	542	30-Jun-24
Bricklayers, Local 3	3	30-Jun-24
Building Inspectors' Association	88	30-Jun-24
Carpenters, Local 22	101	30-Jun-24
Carpet, Linoleum & Soft Tile	1	30-Jun-24
Cement Masons, Local 300	16	30-Jun-24
Deputy Probation Officers' Association (DPOA)	124	30-Jun-24
Deputy Sheriffs' Association (DSA)	792	30-Jun-24
Electrical Workers, Local 6	1,003	30-Jun-24
Firefighters' Association, Local 798	2,011	30-Jun-23
Glaziers, Local 718	10	30-Jun-24
Hod Carriers, Local 36	3	30-Jun-24
Ironworkers, Local 377	13	30-Jun-24
Laborers, Local 261	883	30-Jun-24
Municipal Attorneys' Association (MAA)	494	30-Jun-24
Municipal Executives' Association (MEA) Fire	12	30-Jun-23
Municipal Executives' Association (MEA) Miscellaneous	1,655	30-Jun-24
Municipal Executives' Association (MEA) Police	16	30-Jun-23
Operating Engineers, Local 3 Miscellaneous	55	30-Jun-24
Operating Engineers, Local 3 Supervising Probation	28	30-Jun-24
Pile Drivers, Local 34	27	30-Jun-24
Plumbers, Local 38	349	30-Jun-24
Police Officers' Association (POA)	2,360	30-Jun-23
Professional and Technical Engineers, Local 21	7,130	30-Jun-24
Roofers, Local 40	11	30-Jun-24
SEIU, Local 1021, H-1	1	30-Jun-24
SEIU, Local 1021 Misc	13,348	30-Jun-24
SEIU, Local 1021 Nurses	1,840	30-Jun-24
SF City Workers United	134	30-Jun-24
SFDA Investigators Association	44	30-Jun-24
Sheet Metal Workers, Local 104	31	30-Jun-24
Sheriffs' Supervisory and Management Association (MSA)	118	30-Jun-24
Stationary Engineers, Local 39	689	30-Jun-24
Teamsters, Local 853	130	30-Jun-24
Teamsters, Local 856, Multi	98	30-Jun-24
Teamsters, Local 856, Supervising Nurses	134	30-Jun-24
Theatrical Stage Emp, Local 16	32	30-Jun-24
TWU, Local 200	512	30-Jun-24
TWU, Local 250-A, Auto Service Work	135	30-Jun-24
TWU, Local 250-A, Miscellaneous	108	30-Jun-24
TWU, Local 250-A, Transit Fare Inspectors	45	30-Jun-24
TWU, Local 250-A, Transit Operator	2,670	30-Jun-24
Union of American Physicians and Dentists (UAPD)	210	30-Jun-24
Unrepresented Employees	93	30-Jun-24
Other	1,147	
	<b>39,246</b>	

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

### *History and Administration*

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

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

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

### *Membership*

Retirement System members include eligible employees of the City, SFUSD, SFCCD, and the San Francisco Trial Courts. The Retirement System estimates that the total active membership as of July 1, 2021 is 44,770, compared to 45,070 as of July 1, 2020. Active membership as of July 1, 2021 includes 10,066 terminated vested members and 1,060 reciprocal members. Terminated vested members are former employees who have vested rights in future benefits from SFERS. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. Monthly retirement allowances are paid to approximately 30,854 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table A-21 shows various member counts in the total Retirement System (City, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2017 through July 1, 2021. The number of retirees supported by each active member can be an important indicator of growing plan maturity and sensitivity to investment returns, assumption changes, and other changes to the System. In particular, if the ratio of retirees to active members grows, it indicates that any actuarial losses on retiree liabilities or assets are likely to place a relatively greater burden on employers and active members. The ratio for SFERS had been relatively stable but increased modestly in 2021 with the decline in number of active members.

TABLE A-21

**City and County of San Francisco  
Employees' Retirement System  
July 1, 2017 through July 1, 2021**

As of July 1st	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Retiree to Active Ratio
2017	33,447	7,381	1,039	41,867	29,127 *	0.871
2018	33,946	8,123	1,060	43,129	29,965 *	0.883
2019	34,202	8,911	1,044	44,157	29,490	0.862
2020	34,521	9,478	1,071	45,070	30,128	0.873
2021	33,644	10,066	1,060	44,770	30,854	0.917

Sources: SFERS' annual Actuarial Valuation Report dated July 1st.  
See Retirement's website, mysfers.org under Publications. The information on such website is not incorporated herein by reference.

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

\*Retiree member counts reflect combining records for members who have both a Safety and a Miscellaneous benefit.

### *Funding Practices*

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

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

At the December 9, 2020 Retirement Board meeting, the Board adopted all recommended demographic assumptions from the experience study dated August 12, 2020. The most significant adjustment was the update to the new Society of Actuaries public plan mortality tables, Pub-2010, for both general and safety members. The Board also adopted lower price and wage inflation rates, from 2.75% to 2.50% and from 3.50% to 3.25%, respectively. The new assumptions were first effective for the July 1, 2020 actuarial valuation. At the November 10, 2021 Board meeting, the Board lowered the assumed long-term investment earnings assumption from 7.40% to 7.20%, effective for the July 1, 2021 actuarial valuation. In the short term, this decrease is expected to result in increases in City contributions. In the long term, the true cost of a pension plan is determined by actual results and not by assumptions. At the November 17, 2022 Board meeting, the Board voted to maintain the actuarial assumptions at their current levels.

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

collective bargaining for employees to contribute all employee contributions through pre-tax payroll deductions.

Prospective purchasers of the City's debt obligations should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, [www.mysfers.org](http://www.mysfers.org), under Publications. The information on such website is not incorporated herein by reference. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's debt obligations are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents and are therefore subject to change.

#### *Employer Contribution History and Annual Valuations*

Fiscal year 2020-21 City employer contributions to the Retirement System were \$791.7 million, which includes \$388.4 million from the General Fund. For fiscal year 2021-22, total City employer contributions to the Retirement System were \$719.5 million, which included \$423.4 million from the General Fund. The fiscal year 2022-23 employer contribution rate is 21.35% (estimated to be 18.21% after cost-sharing), with a total budget of \$721.5 million, which includes \$434.3 million in the General Fund. The rate change reflects a reduction of the amortization period from twenty to five years, including investment gains from fiscal year 2020-21, offset by the drop in assumed investment return from 7.4% to 7.2% and the July 1, 2021 supplemental COLA to all retired members and their beneficiaries. Employer contribution rates anticipate annual increases in pensionable payroll of 3.5%. As discussed under "CITY BUDGET – Five-Year Financial Plan and March Update" increases in retirement costs are projected in the City's Five Year Financial Plan.

Table A-22 shows total Retirement System liabilities, assets and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2016-17 through 2020-21. Information is shown for all employers in the Retirement System (City & County, SFUSD, SFCCD and San Francisco Trial Courts). "Actuarial Liability" reflects the actuarial accrued liability of the Retirement System measured for purposes of determining the funding contribution. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The "Market Percent Funded" column is determined by dividing the market value of assets by the actuarial accrued liability. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the actuarial accrued liability. "Employee and Employer Contributions" reflects the sum of mandated employee and employer contributions received by the Retirement System in the fiscal year ended June 30 prior to the July 1 valuation date.

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TABLE A-22

<b>City and County of San Francisco</b> <b>Employees' Retirement System</b> <b>Fiscal Years 2016-17 through 2020-21</b> <b>(000s)</b>							
As of July 1st	Actuarial Liability	Market Value of Assets	Actuarial Value of Assets	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contributions in prior FY	Employer Contribution Rates <sup>1</sup> in prior FY
2017	\$ 25,706,090	\$ 22,410,350	\$ 22,185,244	87.2%	86.3%	\$ 868,653	21.40%
2018	27,335,417	24,557,966	23,866,028	89.8%	87.3%	983,763	23.46%
2019	28,798,581	26,078,649	25,247,549	90.6%	87.7%	1,026,036	23.31%
2020	29,499,918	26,620,218	26,695,844	90.2%	90.5%	1,143,634	25.19%
2021	31,905,275	35,673,834	30,043,222	111.8%	94.2%	1,245,957	26.90%

<sup>1</sup> Employer contribution rates are shown prior to employer/employee cost-sharing provisions of 2011 Proposition C.

Employer contribution rates for fiscal years 2021-22 and 2022-23 are 24.41% and 21.35%, respectively.

Sources: SFERS' audited year-end financial statements and required supplemental information.

SFERS' annual Actuarial Valuation Report dated July 1st. See the Retirement System's website, mysfers.org, under Publications.

The information on the website is not incorporated herein by reference.

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

As shown in the table above as of July 2021, the Market Percent Funded ratio was much higher than the Actuarial Percent Funded ratio. The Retirement System's investment portfolio had a 33.7% return during fiscal year 2020-21, the highest fiscal return in the System's history. The July 1, 2021 actuarial value of assets only reflects 20% of this high return. Returns in fiscal year 2021-22 were estimated to be -2.78% at June 30, 2022. Global markets remain volatile due to continued uncertainty about tighter monetary policy, inflation, and the effect of the war in Ukraine. Even so, the large gap between market value of assets and actuarial value of assets provides a cushion for future adverse experience. Employer contribution rates are anticipated to continue to decline in the next few years.

The actuarial accrued liability is measured 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.

### *Risks to City's Retirement Plan*

In its 2021 actuarial report, Cheiron identified three primary risks to the System as required by Actuarial Standards of Practice No. 51 (Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions). The material risks identified were as follows: investment risk, interest rate risk, and supplemental COLA risk. Investment risk is the potential for investment returns to be different than expected, while interest rate risk is the potential for longer-term trends to impact economic assumptions such as inflation and wage increases but particularly the discount rate. Supplemental COLA risk is the potential for the cost of future Supplemental COLAs to increase contribution rates.

Supplemental COLAs are mandated by the Charter when investment returns exceed expectations. Certain groups of retirees may not receive a supplemental COLA unless the pension plan is deemed to be fully funded on a market value basis. Due to the large fiscal year 2020-21 return, the plan was deemed to be fully funded on June 30, 2021 and all members in annuitant status received a Supplemental COLA effective July 1, 2021. Supplemental COLAs are capped at 3.5% less any basic COLA. As the majority of retirees have annual basic COLAs capped at 2.0%, a Supplemental COLA when granted typically represents a 1.5% increase in benefit.

Cheiron noted stress testing the supplemental COLA provision shows that the current funding policy of amortizing new supplemental COLAs over five years manages the risk prudently.

#### *Governmental Accounting Standards Board ("GASB") Disclosures*

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. The City discloses accounting and financial information about the Retirement System under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. In general, the City's funding of its pension obligations is not affected by the GASB 68 reporting of the City's pension liability. Funding requirements are specified in the City Charter and are described in "Funding Practices" above.

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

Table A-23 below shows for the five most recent fiscal years the collective Total Pension Liability, Plan Fiduciary Net Position (market value of assets), and Net Pension Liability for all employers who sponsor the Retirement System. The City's audited financial statements disclose only its own proportionate share of the Net Pension Liability and other required GASB 68 disclosures.

**TABLE A-23**

<b>City and County of San Francisco Employees' Retirement System GASB 67/68 Disclosures Fiscal Years 2016-17 through 2020-21 (000s)</b>						
As of June 30th	Collective Total Pension Liability (TPL)	Discount Rate	Plan Fiduciary Net Position	Plan Net Position as % of TPL	Collective Net Pension Liability (NPL)	City and County's Proportionate Share of NPL
2017	\$27,403,715	7.50	\$22,410,350	81.8	\$4,993,365	\$4,697,131
2018	28,840,673	7.50	24,557,966	85.2	4,282,707	4,030,207
2019	30,555,289	7.40	26,078,649	85.3	4,476,640	4,213,807
2020	32,031,018	7.40	26,620,218	83.1	5,410,800	5,107,271
2021	33,088,765	7.40	35,673,834	107.8	(2,585,069)	(2,446,563)

Sources: SFERS fiscal year-end GASB 67/68 Reports as of each June 30.

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



NPL can be quite volatile. The increase in NPL between fiscal year-ends 2018 and 2019 is attributable to the decline in discount rate from 7.5% to 7.4%, while the increase in NPL at fiscal year-end 2020 is due to lower than expected investment returns during fiscal year 2019-2020. The large decline at fiscal year-end 2021 is due to the 33.7% investment portfolio return during the year.

### *Asset Management*

The assets of the Retirement System, (the “Fund”) are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships.

Annualized investment return (net of fees and expenses) for the Retirement System for the five years ending June 30, 2021 was 13.38%. For the ten-year and twenty-year periods ending June 30, 2021, annualized investment returns were 10.41% and 8.19% respectively.

The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System’s investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 1145 Market Street, 5<sup>th</sup> Floor, San Francisco, California 94103, or by calling (415) 487-7000. These documents are not incorporated herein by reference.

### *2011 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. The most recent amendment, Proposition C, was approved by voters in November 2011 to reduce future pension costs and introduced new benefit tiers effective for employees hired on and after January 7, 2012.

In August 2012, then-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.

### *Impact on the Retirement System from Changes in the Economic Environment*

As of June 30, 2021, the audited market value of Retirement System assets was \$35.7 billion. As of September 30, 2022, the unaudited value of the System assets was \$32.5 billion. These values represent, as of the date specified, the estimated value of the Retirement System’s portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be lower or higher. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System’s financial statements.

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

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

#### *Other Employee Retirement Benefits*

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Section A8.510 of the Charter requires the City to pay the full amount required by the actuarial valuations. The actual total employer contributions to CalPERS were \$45.6 million in fiscal year 2020-21. In addition to the required amounts, the City elected to pay an additional amount of \$8.4 million in fiscal years 2017-18, 2018-19 and 2019-2020 and \$5.0 million in fiscal year 2021-22 in order to reduce its unfunded liability. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under “Medical Benefits – Post-Employment Health Care Benefits” and “GASB 75 Reporting Requirements.”

### **Medical Benefits**

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

Medical and COBRA benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the “City Beneficiaries”) are administered by the San Francisco Health Service System (the “San Francisco Health Service System” or “SFHSS”) pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the SFHSS also administers medical benefits to active and retired employees of SFUSD, SFCCD and the San Francisco Superior Court; however, the City is only required to fund medical benefits for City Beneficiaries.

The San Francisco Health Service System is overseen by the City’s Health Service Board (the “Health Service Board”). The plans (the “SFHSS Medical Plans”) for providing medical care to the City Beneficiaries are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The San Francisco Health Service System oversees a trust fund (the “Health Service System Trust Fund”) established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the City Beneficiaries are funded. The San Francisco Health Service System issues an annual, publicly available, independently-audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained through the SFHSS website at [sfhss.org](http://sfhss.org), by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (628)

652-4646. Audited annual financial statements for prior years are posted to the SFHSS website, however the information available on the SFHSS website is not incorporated in this Official Statement by reference.

Under the City Charter, the Health Service System Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an “Other Post-Employment Benefits Trust Fund”). Thus, GASB Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (“GASB 45”) and GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (“GASB 75”), which apply to OPEB trust funds, do not apply to the San Francisco Health Service System Trust Fund. However, the City has been funding the Retiree Health Care Trust Fund for the purpose of prefunding future OPEB payments as described below.

#### *Determination of Employer and Employee Contributions for Medical Benefits*

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

Unions representing approximately 93.3% of City employees, negotiate through collective bargaining rather than applying the “average contribution” to determine the amount the City is required to contribute for active employees. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by SFHSS Beneficiaries. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) (“Nonemployee City Beneficiaries”) are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under “– *Post-Employment Health Care Benefits.*”

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### *City Contribution for Retirees*

The City contributes the full employer contribution amount for medical coverage for eligible retirees who were hired on or before January 9, 2009 pursuant to Charter Section A8.428. For retirees who were hired on or after January 10, 2009, the City contributes a portion of the medical coverage costs based on five coverage / employer contribution classifications that reflect certain criteria outlined in the Table below.

<b>Retiree Medical Coverage / Employer Contribution for Those Hired On or After January 10, 2009</b>	
Years of Credited Service at Retirement	Percentage of Employer Contribution Established in Charter Section A8.428 Subsection (b)(3)
Less than 5 year of Credited Service with the Employers (except for the surviving spouses or surviving domestic partners of active employees who died in the line of duty)	No Retiree Medical Benefits Coverage
At least 5 but less than 10 years of Credited Service with the Employers; or greater than 10 years of Credited Service with the Employers but not eligible to receive benefits under Subsections (a)(4), (b)(5) <b>(A8.428 Subsection (b)(6))</b>	0% - Access to Retiree Medical Benefits Coverage. Including Access to Dependent Coverage
At least 10 but less than 15 years of Credited Service with the Employers <b>(AB.428 Subsection (b)(5))</b>	50%
At least 15 but less than 20 years pf Credited Service with the Employers <b>(AB.428 Subsection (b)(5))</b>	75%
At least 20 years of Credited Service with the Employer; Retired Persons who retired for disability; surviving spouses or surviving domestic partners of active employees who died in the line of duty <b>(AB.428 Subsection (b)(4))</b>	100%

### *Health Care Reform*

The following discussion is based on the current status of the Patient Protection and Affordable Care Act (the “ACA”). Many attempts have been made to completely repeal the ACA, however full repeal has been unsuccessful thus far.

Three ACA taxes impact SFHSS rates for medical coverage. The taxes and the current status are as follow:

- **Excise Tax on High-cost Employer-sponsored Health Plans**

The Excise Tax on High-cost Employer-sponsored Health Plans (Cadillac Tax) is a 40% excise tax on high-cost coverage health plans. The National Defense Authorization Act for Fiscal Year 2020 repealed the Cadillac tax, effective January 1, 2020.

- **Health Insurance Tax (“HIT”)**

The ACA also imposed a tax on health insurance providers, which was passed on to employer sponsored fully-insured plans in the form of higher premiums. The HIT was in effect in 2020 and substantially impacted rates. The tax was repealed effective January 1, 2021 also by the National Defense Authorization Act for Fiscal Year 2020.

- **Medical Device Excise Tax**

The ACA’s medical device excise tax imposes a 2.3 percent tax on sales of medical devices (except certain devices sold at retail). The tax was repealed effective January 1, 2020.

- **Patient-Centered Outcomes Research Institute (PCORI) Fee**

Congress revived and extended the PCORI fee, which had expired in 2019. The PCORI fee, adopted in the ACA, is paid by issuers of health insurance policies and plan sponsors of self-insured health plans to help fund the Patient-Centered Outcomes Research Institute. The fee is based on the average number of lives covered under the policy or plan. The fee applies to policy or plan years ending on or after October 1, 2012, and before October 1, 2029.

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

For fiscal year 2020-21, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$853.8 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$735.6 million; approximately \$236.6 million of this \$735.6 million amount was for health care benefits for approximately 23,201 retired City employees and their eligible dependents, and approximately \$499 million was for benefits for approximately 32,956 active City employees and their eligible dependents.

The 2022 aggregate (employee and employer) cost of medical benefits offered by SFHSS to the City increased by 2.16%, which is below national trends of 4.7% to 5.7%. This can be attributed to several factors including contracting by SFHSS that maintains competition among the health plans, implementing value-based models such as Accountable Care Organizations, increased use of generic prescription, and changing the City’s Blue Shield plan from a fully-funded to a flex-funded product and implementing a narrow network. Flex-funding allows premiums to be set by the City’s actuarial consultant, Aon, without the typical margins added by Blue Shield; however, more risk is assumed by the city, and reserves are required to protect against this risk. The 2022 aggregate cost of benefits offered by SFHSS to the City increased 1.28% which is also less than the national trends.

#### *Post-Employment Health Care Benefits*

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 these employees equal to 2% of their salary, with the City contributing an additional 1%, into a Retiree Health Care Trust Fund.

Under Proposition C, passed by San Francisco voters in November of 2011, employees hired on or before January 9, 2009, were required to contribute 0.25% of compensation into the Retiree Health Care Trust Fund beginning in fiscal year 2016-17. This contribution increased to 0.50% in fiscal year 2017-18, 0.75% in fiscal year 2018-19, and reached the maximum contribution of 1.00% in fiscal year 2019-20. These contributions are matched by the City on a one-to-one basis.

Unlike employee pension contributions that are made to individual accounts, contributions to the Retiree Health Care Trust Fund are non-refundable, even if an employee separates from the City and does not receive retiree health care from the City.

Proposition A, passed by San Francisco voters on November 5, 2013, restricted the City's ability to withdraw funds from the Retiree Health Care Trust Fund. The restrictions allow payments from the fund only when certain conditions are met. The balance in the Retiree Health Care Trust Fund as of June 30, 2019 is approximately \$366.6 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 75.

#### *GASB 75 Reporting Requirements*

In June 2015, GASB issued GASB 75. GASB 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEBs. The new standard is effective for periods beginning after June 15, 2017. The City implemented the provisions of GASB 75 in its audited financial statements for fiscal year 2017-18. According to GASB's Summary of GASB 75, GASB 75 requires recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, and new note disclosures and required supplementary information to enhance decision-usefulness and accountability.

#### *City's Estimated Liability*

The City is required by GASB 75 to prepare a new actuarial study of its postemployment benefits obligation at least once every two years. As of the measurement date of June 30, 2020 (issued December 2021), used in the most recent actuarial valuation report updated June 30, 2020, the retiree health care fiduciary plan net position as a percentage of the total OPEB liability was 11.3%. This reflects the net position of the Retiree Health Care Trust Fund in the amount of \$489.0 million divided by the total OPEB liability of \$4.3 billion. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$3.95 billion, and the ratio of the Net OPEB liability to the covered payroll was 96.7%.

While GASB 75 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 liability. Five-year trend information is displayed in Table A-24, which reflects the annual OPEB expense and the City's charter mandated payments on a percentage basis. For example, for fiscal year 2020-21 the annual OPEB expense was \$320.7 million, and the City paid \$246.0 million, which includes "pay-as-you-go" benefit payments and contributions to the Retiree Health Care Trust Fund.

TABLE A-24

**CITY AND COUNTY OF SAN FRANCISCO**  
**Five-year Trend**  
**Fiscal Years 2015-16 to 2020-21**  
**(000s)**

Fiscal Year	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2015-16	\$326,133	51.8%	\$2,147,434
2016-17	421,402	43.6%	2,384,938
2017-18	355,186	57.4%	3,717,209 <sup>1</sup>
2018-19	320,331	68.2%	3,600,967
2019-20	330,673	71.4%	3,915,815 <sup>2</sup>
2020-21	320,684	76.7%	3,823,335

<sup>1</sup> Starting in FY2017-18, the liability amount reflects what is referred to as Net OPEB Liability due to the implementation of GASB Statement No. 75.

<sup>2</sup> Fiscal Year 2019-20 figures are unaudited.

### Total City Employee Benefits Costs

Table A-25 provides historical and budget information for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. Historically, approximately 50% of health benefit costs are paid from the General Fund. For all fiscal years shown, a “pay-as-you-go” approach was used by the City for health care benefits.

Table A-25 below provides a summary of the City’s employee benefit actual costs for fiscal years 2017-18 through 2020-21 and budgeted costs for fiscal years 2021-22 through 2023-24.

TABLE A-25

**CITY AND COUNTY OF SAN FRANCISCO**  
**Employee Benefit Costs, All Funds**  
**Fiscal Years 2018-19 through 2023-24**  
**(000s)**

	2018-19 Actual <sup>1</sup>	2019-20 Actual <sup>1</sup>	2020-21 Actual <sup>1</sup>	2021-22 Budget <sup>5</sup>	2022-23 Budget <sup>5</sup>	2023-24 Budget <sup>5</sup>
SFERS and PERS Retirement Contributions	\$650,011	\$759,933	\$823,317	\$766,968	\$795,832	\$677,245
Social Security & Medicare	\$219,176	\$231,557	\$229,044	\$250,776	\$280,444	\$292,553
Health - Medical + Dental, active employees <sup>2</sup>	\$522,006	\$555,780	\$564,453	\$585,439	\$610,023	\$656,039
Health - Retiree Medical <sup>2</sup>	\$186,677	\$196,641	\$216,916	\$225,025	\$231,213	\$245,317
Other Benefits <sup>3</sup>	\$26,452	\$28,493	\$24,111	\$23,410	\$26,547	\$24,911
<b>Total Benefit Costs</b>	<b>\$1,604,322</b>	<b>\$1,772,403</b>	<b>\$1,857,841</b>	<b>\$1,851,618</b>	<b>\$1,944,060</b>	<b>\$1,896,066</b>

<sup>1</sup> Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are from the Final Budget, July 30, 2022.

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

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

<sup>4</sup> Figures for fiscal years 2022-23 and 2023-24 reflect the Final Budget, July 30, 2022.

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

## **INVESTMENT OF CITY FUNDS**

### *Investment Pool*

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

### *Investment Policy*

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

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. A complete copy of the Treasurer’s Investment Policy, dated May 2021, is included as an Appendix to this Official Statement.

### *Investment Portfolio*

As of September 30, 2022, the City’s surplus investment fund consisted of the investments classified in Table A-26 and had the investment maturity distribution presented in Table A-27.

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TABLE A-26

**City and County of San Francisco**  
**Investment Portfolio**  
**Pooled Funds**  
**As of September 30, 2022**

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$4,225,000,000	\$4,230,838,104	\$3,916,980,670
Federal Agencies	5,130,594,000	5,132,681,696	4,855,106,126
Public Time Deposits	30,000,000	30,000,000	30,000,000
Negotiable Certificates of Deposit	1,910,000,000	1,910,000,000	1,898,766,520
Commercial Paper	400,000,000	397,026,875	399,004,700
Money Market Funds	1,118,005,369	1,118,005,369	1,118,005,369
Supranationals	668,543,000	676,146,538	640,605,818
<b>Total</b>	<b>\$13,482,142,369</b>	<b>\$13,494,698,582</b>	<b>\$12,858,469,203</b>

September Earned Income Yield: 1.387%

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

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

TABLE A-27

**City and County of San Francisco**  
**Investment Maturity Distribution**  
**Pooled Funds**  
**As of September 30, 2022**

<u>Maturity in Months</u>			<u>Par Value</u>	<u>Percentage</u>
0	to	1	\$1,772,392,369	13.15%
1	to	2	200,000,000	1.48%
2	to	3	330,000,000	2.45%
3	to	4	470,140,000	3.49%
4	to	5	439,900,000	3.26%
5	to	6	275,000,000	2.04%
6	to	12	2,296,466,000	17.03%
12	to	24	2,723,231,000	20.20%
24	to	36	2,347,800,000	17.41%
36	to	48	1,809,675,000	13.42%
48	to	60	817,538,000	6.06%
			<b>\$13,482,142,369</b>	<b>100.00%</b>

Weighted Average Maturity: 594 Days

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

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

### *Further Information*

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

## **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 10-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 makes recommendations to the Mayor and Board of Supervisors on the City's capital expenditures and plans. The CPC reviews and submits the Capital Plan, Capital Budget, and issuances of long-term debt for approval. The CPC is chaired by the City Administrator and includes the President of the Board of Supervisors, the Mayor's Budget Director, the Controller, the City Planning Director, the Director of Public Works, the Airport Director, the Executive Director of the Municipal Transportation Agency, the General Manager of the Public Utilities Commission, the General Manager of the Recreation and Parks Department, and the Executive Director of the Port of San Francisco. 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 10-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 and other funding needs over 10 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 years 2022-2031 Capital Plan ("Adopted Capital Plan") was approved by the CPC on February 22, 2021 and was adopted by the Board of Supervisors on April 30, 2021. The Adopted Capital Plan contains \$38.0 billion in capital investments over the coming decade for all City departments, including \$4.6 billion in projects for General Fund-supported departments. The Adopted Capital Plan proposes \$1.2 billion for General Fund pay-as-you-go capital projects over the next 10 years. The amount for General Fund pay-as-you-go capital projects is \$1 billion lower than the previous capital plan funding

level due to budget impacts in the early years resulting from the COVID-19 pandemic. Major capital projects for General Fund-supported departments included in the Capital Plan consist of critical seismic projects and relocation of staff from seismically vulnerable facilities; upgrades to public health, police, and fire facilities; transportation and utility system improvements; improvements to homeless service sites and permanent supportive housing projects; affordable housing; street and right-of-way improvements; the removal of barriers to accessibility; and park improvements, among other capital projects. \$1.5 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations, subject to planning policy constraints. 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 Adopted Capital Plan recommends \$18.0 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, the Sewer System Improvement Program, and building adequate facilities to support the City's growing transit fleet, among others. Approximately \$8.5 billion of enterprise fund department capital projects are anticipated to be financed with revenue bonds and general obligation bonds. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund and other sources.

While significant investments are proposed in the City's Adopted Capital Plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$7.5 billion in capital needs including enhancements are deferred from the plan's horizon.

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

### **Tax-Supported Debt Service – City General Obligation Bonds**

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds" or "GO bonds") can only be authorized with a two-thirds approval of the voters. As of October 1, 2022, the City had approximately \$2.6 billion aggregate principal amount of GO bonds outstanding. In addition to the City's general obligation bonds, BART, SFUSD and SFCCD also have outstanding general obligation bonds as shown in Table A-33.

Table A-28 shows the annual amount of debt service payable on the City's outstanding GO bonds.

TABLE A-28

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds Debt Service**  
**As of October 1, 2022 <sup>1 2</sup>**

Fiscal Year	Principal	Interest	Annual Debt Service
2022-23	\$173,545,251	\$105,917,805	\$279,463,055
2023-24	175,056,206	97,944,159	273,000,365
2024-25	177,481,476	89,887,165	267,368,641
2025-26	165,756,279	81,804,053	247,560,332
2026-27	172,635,840	74,368,550	247,004,390
2027-28	179,064,035	66,869,778	245,933,814
2028-29	181,156,751	59,409,377	240,566,128
2029-30	179,395,095	51,583,497	230,978,592
2030-31	144,611,950	43,994,155	188,606,105
2031-32	149,965,000	38,340,356	188,305,356
2032-33	118,820,000	32,657,286	151,477,286
2033-34	101,040,000	28,262,795	129,302,795
2034-35	95,040,000	24,705,347	119,745,347
2035-36	80,045,000	21,475,808	101,520,808
2036-37	69,590,000	18,769,081	88,359,081
2037-38	60,880,000	16,429,118	77,309,118
2038-39	42,505,000	14,358,049	56,863,049
2039-40	42,240,000	12,952,057	55,192,057
2040-41	36,635,000	11,535,894	48,170,894
2041-42	37,970,000	10,201,011	48,171,011
2042-43	39,365,000	8,802,762	48,167,762
2043-44	40,820,000	7,352,149	48,172,149
2044-45	42,315,000	5,846,885	48,161,885
2045-46	38,505,000	4,285,480	42,790,480
2046-47	5,005,000	2,880,246	7,885,246
2047-48	5,170,000	2,710,945	7,880,945
2048-49	5,345,000	2,535,881	7,880,881
2049-50	5,530,000	2,354,712	7,884,712
2050-51	5,725,000	2,159,925	7,884,925
2051-52	5,935,000	1,950,338	7,885,338
2052-53	6,155,000	1,732,790	7,887,790
2053-54	6,380,000	1,506,973	7,886,973
2054-55	6,610,000	1,272,671	7,882,671
2055-56	6,855,000	1,029,667	7,884,667
2056-57	7,110,000	777,438	7,887,438
2057-58	7,370,000	515,551	7,885,551
2058-59	3,895,000	243,790	4,138,790
2059-60	4,010,000	123,668	4,133,668
<b>TOTAL <sup>4</sup></b>	<b>\$2,625,532,882</b>	<b>\$949,547,213</b>	<b>\$3,575,080,096</b>

<sup>1</sup> This table only includes the City's General Obligation Bonds and does not include any of the overlapping debt as shown in Table A-33.

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

<sup>3</sup> Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of assessed value.

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

## **Authorized but Unissued City GO Bonds**

Certain GO 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 ("1992 Proposition A") which authorized the issuance of up to \$350.0 million in GO bonds to support San Francisco's Seismic Safety Loan Program ("SSLP"), which provides loans for the seismic strengthening of privately-owned unreinforced masonry affordable housing, market-rate residential, commercial and institutional buildings. Between 1994 and 2015, the City issued \$89.3 million of bonds under the original 1992 Proposition A authorization. In November 2016, voters approved Proposition C ("2016 Proposition C"), which amended the 1992 Proposition A authorization (together, the "1992A/2016A Propositions") to broaden the scope of the remaining \$260.7 million authorization by adding the eligibility to finance the acquisition, improvement, and rehabilitation to convert at-risk multi-unit residential buildings to affordable housing, as well as the needed seismic, fire, health, and safety upgrades and other major rehabilitation for habitability, and related costs. In 2019 and 2020, the City issued \$175.0 million of bonds across two series under the 1992A/2016A Propositions. Currently \$85.7 million remains authorized and unissued.

In November 2018, voters approved Proposition A ("2018 Embarcadero Seawall Improvement Proposition"), authorizing the issuance of up to \$425.0 million in general obligation bonds for repair and improvement projects along the City's Embarcadero and Seawall to protect the waterfront, BART and Muni, buildings, historic piers, and roads from earthquakes, flooding, and sea level rise. On June 2, 2020, the City closed the first series of bonds in the par amount of \$49.7 million, leaving \$375.3 million authorized and unissued.

In November 2019, voters approved Proposition A ("2019 Affordable Housing Proposition"), which authorized the issuance of up to \$600.0 million in general obligation bonds to finance the construction, development, acquisition, and preservation of affordable housing for certain vulnerable San Francisco residents; to assist in the acquisition, rehabilitation, and preservation of existing affordable housing to prevent the displacement of residents; to repair and reconstruct distressed and dilapidated public housing developments and their underlying infrastructure; to assist the City's middle-income residents or workers in obtaining affordable rental or home ownership opportunities including down payment assistance and support for new construction of affordable housing for SFUSD and City College of San Francisco employees; and to pay related costs. On March 30, 2021, the City closed the first series of bonds in the par amount of \$254.6 million, leaving \$345.4 million authorized and unissued.

In March 2020, voters approved Proposition B ("2020 Earthquake Safety and Emergency Response Proposition") which authorized the issuance of up to \$628.5 million in general obligation bonds to aid fire, earthquake and emergency response by improving, constructing, and/or replacing: deteriorating cisterns, pipes, tunnels, and related facilities to ensure firefighters a reliable water supply for fires and disasters; neighborhood fire and police stations and supporting facilities; the City's 911 Call Center; and other disaster response and public safety facilities, and to pay related costs. In 2021, the City closed the first four series of bonds with a total par amount of \$167.8 million, leaving \$460.7 million authorized and unissued.

In November 2020, voters approved Proposition A ("2020 Health and Recovery Bond"), which authorized the issuance of up to \$487.5 million in general obligation bonds to fund permanent investments in transitional supportive housing facilities, shelters, and/or facilities that serve individuals experiencing homelessness, mental health challenges, or substance use; improve the safety and quality of parks; and improve the safety and condition of streets and other public rights of way. In 2021, the City closed the first two series of bonds in an aggregate par amount of \$258.5 million, leaving approximately \$229 million authorized and unissued.

## Refunding General Obligation Bonds

The Board of Supervisors adopted and the Mayor approved Resolution No. 272-04 in May of 2004 (“2004 Resolution”). The 2004 Resolution authorized the issuance of \$800.0 million 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 outstanding General Obligation Bonds. In November of 2011, the Board of Supervisors adopted and the Mayor approved, Resolution No. 448-11 (“2011 Resolution,” and together with the 2004 Resolution, the “Refunding Resolutions”). The 2011 Resolution authorized the issuance of approximately \$1.5 billion 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. In March of 2020, the Board of Supervisors adopted and the Mayor approved, Resolution No. 097-20 (“2020 Resolution,” and together with the 2004 Resolution and 2011 Resolution, the “Refunding Resolutions”). The 2020 Resolution authorized the issuance of approximately \$1.5 billion general obligation refunding bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City. The refunding bonds outstanding as of October 1, 2022, under the Refunding Resolutions, are shown in Table A-29 below.

TABLE A-29

### CITY AND COUNTY OF SAN FRANCISCO General Obligation Refunding Bonds As of October 1, 2022

Series Name	Date Issued	Principal Amount Issued	Amount Outstanding
2015-R1	February 2015	\$293,910,000	\$208,800,000 <sup>1</sup>
2020-R1	May 2020	195,250,000	181,945,000 <sup>2</sup>
2021-R1	May 2021	91,230,000	91,230,000 <sup>3</sup>
2021-R2	September 2021	86,905,000	86,905,000 <sup>4</sup>
2022-R1	May 2022	327,300,000	327,300,000 <sup>5</sup>

<sup>1</sup> Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.

<sup>2</sup> Series 2008-R1 Bonds were refunded by the 2020-R1 Bonds in May 2020.

<sup>3</sup> Series 2013A, 2013B, and 2013C Bonds were refunded by the 2021-R1 Bonds in May 2021.

<sup>4</sup> Series 2011-R1 Bonds, which refunded the 2004-R1 Bonds, were refunded by the 2021-R2 Bonds in September 2021.

<sup>5</sup> Series 2012D, 2012E, 2014A, 2014C, and 2014D Bonds were refunded by the 2022-R1 Bonds in May 2022.

Table A-30 on the following page lists for each of the City’s voter-authorized general obligation bond programs the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued and does not refer to any particular series. As of October 1, 2022, the City had authorized and unissued general obligation bond authority of approximately \$1.5 billion.

TABLE A-30

CITY AND COUNTY OF SAN FRANCISCO General Obligation Bonds As of October 1, 2022 <sup>1</sup>						
Bond Authorization Name	Election Date	Authorized Amount	Series	Bonds Issued	Bonds Outstanding	Authorized & Unissued
Seismic Safety Loan Program	11/3/92	\$350,000,000	1994A	\$35,000,000	-	2
			2007A	\$30,315,450	\$13,912,882	
			2015A	\$24,000,000	-	
Reauthorization to Repurpose for Affordable Housing	11/8/16		2019A	\$72,420,000	\$69,665,000	
			2020C	\$102,580,000	\$95,240,000	\$85,684,550
Clean & Safe Neighborhood Parks	2/5/08	\$185,000,000	2008B	\$42,520,000	-	
			2010B	\$24,785,000	-	
			2010D	\$35,645,000	\$27,185,000	
			2012B	\$73,355,000	-	
			2016A	\$8,695,000	\$6,125,000	-
San Francisco General Hospital & Trauma Center Earthquake Safety	11/4/08	\$887,400,000	2009A	\$131,650,000	-	
			2010A	\$120,890,000	-	
			2010C	\$173,805,000	\$132,565,000	
			2012D	\$251,100,000	-	
			2014A	\$209,955,000	-	-
Earthquake Safety and Emergency Response Bond	6/8/10	\$412,300,000	2010E	\$79,520,000	-	
			2012A	\$183,330,000	-	
			2012E	\$38,265,000	-	
			2013B	\$31,020,000	-	
			2014C	\$54,950,000	-	
			2016C	\$25,215,000	\$18,330,000	-
Road Repaving & Street Safety	11/8/11	\$248,000,000	2012C	\$74,295,000	-	
			2013C	\$129,560,000	-	
			2016E	\$44,145,000	\$32,090,000	-
Clean & Safe Neighborhood Parks	11/6/12	\$195,000,000	2013A	\$71,970,000	-	
			2016B	\$43,220,000	\$19,890,000	
			2018A	\$76,710,000	\$39,460,000	
			2019B	\$3,100,000	-	-
Earthquake Safety and Emergency Response Bond	6/3/14	\$400,000,000	2014D	\$100,670,000	-	
			2016D	\$109,595,000	\$61,840,000	
			2018C	\$189,735,000	\$122,260,000	-
Transportation and Road Improvement	11/4/14	\$500,000,000	2015B	\$67,005,000	\$35,925,000	
			2018B	\$174,445,000	\$89,740,000	
			2020B	\$135,765,000	\$106,235,000	
			2021C-1	\$104,785,000	\$85,285,000	
			2021C-2	\$18,000,000	-	-
Affordable Housing Bond	11/3/15	\$310,000,000	2016F	\$75,130,000	\$41,280,000	
			2018D	\$142,145,000	\$90,010,000	
			2019C	\$92,725,000	\$22,990,000	-
Public Health and Safety Bond	6/7/16	\$350,000,000	2017A	\$173,120,000	\$101,945,000	
			2018E	\$49,955,000	\$32,520,000	
			2020D-1	\$111,925,000	\$79,830,000	
			2020D-2	\$15,000,000	-	-
Embarcadero Seawall Earthquake Safety	11/6/18	\$425,000,000	2020A	\$49,675,000	-	\$375,325,000
Affordable Housing Bond	11/5/19	\$600,000,000	2021A	\$254,585,000	\$174,410,000	\$345,415,000
Earthquake Safety and Emergency Response Bond	3/3/20	\$628,500,000	2021B-1	\$69,215,000	\$65,925,000	
			2021B-2	\$11,500,000	-	
			2021E-1	\$74,090,000	\$60,990,000	
			2021E-2	\$13,000,000	-	\$460,695,000
Health and Recovery Bond	11/4/20	\$487,500,000	2021D-1	\$194,255,000	\$168,455,000	
			2021D-2	\$64,250,000	-	\$228,995,000
SUBTOTAL		\$5,978,700,000		\$4,482,585,450	\$1,794,102,882	\$1,496,114,550
General Obligation Refunding Bonds	Dated Issued			Bonds Issued	Bonds Outstanding	
Series 2015-R1	2/25/15			\$293,910,000	\$187,040,000	
Series 2020-R1	5/7/20			\$195,250,000	\$168,770,000	
Series 2021-R1	5/6/21			\$91,230,000	\$84,035,000	
Series 2021-R2	9/16/21			\$86,905,000	\$64,285,000	
Series 2022-R1	5/18/22			\$327,300,000	\$327,300,000	
SUBTOTAL				\$994,595,000	\$831,430,000	
TOTALS		\$5,978,700,000		\$5,477,180,450	\$2,625,532,882	\$1,496,114,550

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

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

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

### **General Fund Lease 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 financings 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-31 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding long-term lease revenue bonds and certificates of participation as of October 1, 2022.

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TABLE A-31

**CITY AND COUNTY OF SAN FRANCISCO**  
**Lease Revenue Bonds and Certificates of Participation**  
**As of October 1, 2022<sup>1</sup>**

Fiscal Year <sup>2</sup>	Principal	Interest <sup>3</sup>	Annual Payment Obligation
2022-23 <sup>4</sup>	\$53,770,000	\$62,817,366	\$116,587,366
2023-24	67,610,000	61,108,658	128,718,658
2024-25	69,050,000	57,686,331	126,736,331
2025-26	70,595,000	54,244,130	124,839,130
2026-27	73,950,000	50,637,831	124,587,831
2027-28	69,060,000	47,055,725	116,115,725
2028-29	74,220,000	43,633,945	117,853,945
2029-30	74,995,000	40,161,516	115,156,516
2030-31	70,485,000	36,975,914	107,460,914
2031-32	63,590,000	34,282,816	97,872,816
2032-33	64,685,000	31,871,841	96,556,841
2033-34	67,135,000	29,260,160	96,395,160
2034-35	60,275,000	26,761,447	87,036,447
2035-36	60,515,000	24,174,243	84,689,243
2036-37	60,190,000	21,538,229	81,728,229
2037-38	62,625,000	18,910,664	81,535,664
2038-39	65,160,000	16,175,156	81,335,156
2039-40	67,805,000	13,324,472	81,129,472
2040-41	70,555,000	10,357,468	80,912,468
2041-42	56,000,000	7,430,811	63,430,811
2042-43	20,990,000	5,247,200	26,237,200
2043-44	19,855,000	4,388,600	24,243,600
2044-45	20,650,000	3,594,400	24,244,400
2045-46	13,695,000	2,768,400	16,463,400
2046-47	14,245,000	2,220,600	16,465,600
2047-48	13,220,000	1,650,800	14,870,800
2048-49	13,750,000	1,122,000	14,872,000
2049-50	14,300,000	572,000	14,872,000
<b>TOTAL<sup>5</sup></b>	<b>\$1,452,975,000</b>	<b>\$709,972,722</b>	<b>\$2,162,947,722</b>

<sup>1</sup> Excludes the 833 Bryant lease, commercial paper and the following privately placed lease purchase financings (with current outstanding amounts):

SFGH Emergency Backup Generators Project (\$7,344,831)

Gsmart Citywide Emergency Radio Replacement Project (\$16,088,844)

<sup>2</sup> For the 2020-R1 Series, the amount outstanding as of 10/1/22 reflects payment of the 10/1/22 principal payment, as the Base Rental payment was due by 9/25/22.

<sup>3</sup> Totals reflect rounding to nearest dollar.

<sup>4</sup> Excludes payments made to date in current fiscal year.

<sup>5</sup> For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 6.0%. These bonds are in variable rate mode.

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

## **Voter-Approved Lease Revenue Bonds**

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 F, 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 additional bonds at this time.

In 1990, voters approved Proposition C ("1990 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. 1990 Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of July 1, 2022, the total authorized and unissued amount for such financings was \$95.3 million. There is no current plan to issue additional bonds at this time.

In 1994, voters approved Proposition B ("1994 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 1994 Proposition B lease revenue bonds, respectively, leaving \$14.1 million in remaining authorization. There is no current plan to issue additional series of bonds under 1994 Proposition B.

In 2000, voters approved Proposition C ("2000 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"). 2000 Proposition C also authorized the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. In August 2018 the City issued refunding lease revenue bonds to refund Series 2006 and 2007 Open Space Fund lease revenue bonds.

In 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continued the two and one-half cent per \$100.0 in assessed valuation property tax set-aside and established a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorized the issuance of revenue bonds or other evidences of indebtedness. In August 2018 the City issued refunding lease revenue bonds to refund Series 2009A Branch Library Improvement Project lease revenue bonds.

Table A-32 below lists the City's outstanding certificates of participation and voter-authorized lease revenue bonds.

TABLE A-32\*

**CITY AND COUNTY OF SAN FRANCISCO**  
**Outstanding Certificates of Participation and Lease Revenue Bonds<sup>1</sup>**  
**As of October 1, 2022**

<b>Issue Name</b>	<b>Final Maturity</b>	<b>Original Par</b>	<b>Outstanding Principal</b>
<b>CERTIFICATES OF PARTICIPATION</b>			
Series 2009C (525 Golden Gate Avenue)	2022	\$38,120,000	\$4,375,000
Series 2009D - Taxable BABs (525 Golden Gate Avenue)	2041	129,550,000	129,550,000
Refunding Series 2011A (Moscone Center South)	2024	23,105,000	4,540,000
Series 2012A (Multiple Capital Improvement Projects)	2036	42,835,000	29,465,000
Series 2013B - Non-AMT (Port Facilities Project)	2038	4,830,000	4,830,000
Series 2013C - AMT (Port Facilities Project)	2043	32,870,000	21,345,000
Refunding Series 2014-R2 (Juevenile Hall Project)	2034	33,605,000	23,015,000
Series 2015A (War Memorial Veterans Building)	2045	112,100,000	112,100,000
Series 2015B - Taxable (War Memorial Veterans Building)	2024	22,225,000	2,350,000
Refunding Series 2015-R1 (City Office Buildings - Multiple Properties)	2040	123,600,000	101,725,000
Series 2016A (War Memorial Veterans Building)	2032	16,125,000	10,700,000
Series 2017A - Taxable (Hope SF)	2047	28,320,000	25,235,000
Series 2017B (Moscone Convention Center Expansion Project)	2042	412,355,000	370,090,000
Series 2019A (49 South Van Ness Project)	2050	247,810,000	243,485,000
Refunding Series 2019-R1 (Multiple Capital Improvement Projects)	2035	116,460,000	92,615,000
Refunding Series 2020-R1 (Multiple Capital Improvement Projects)	2033	70,640,000	62,785,000 <sup>2</sup>
Series 2020 (Animal Care & Control Project)	2041	47,075,000	45,570,000
Series 2021A (Multiple Capital Improvement Projects)	2041	76,020,000	76,020,000
<b>SUBTOTAL CERTIFICATES OF PARTICIPATION</b>		<b>\$1,577,645,000</b>	<b>\$1,359,795,000</b>
<b>LEASE PURCHASE FINANCINGS</b>			
2010 Lease Purchase Financing (SFGH Emergency Backup Generators)	2025	\$22,549,489	\$7,344,831
2016 Lease Purchase Financing (Public Safety Radio Replacement Project)	2026	34,184,136	16,088,844
<b>SUBTOTAL LEASE PURCHASE FINANCINGS</b>		<b>\$56,733,625</b>	<b>\$23,433,674</b>
<b>FINANCE CORPORATION LEASE REVENUE BONDS</b>			
Refunding Series 2008-1 (Moscone Center Expansion Project) - Variable	2030	\$72,670,000	\$29,100,000
Refunding Series 2008-2 (Moscone Center Expansion Project) - Variable	2030	72,670,000	29,100,000
Refunding Series 2010-R1 (Emergency Communications System)	2024	22,280,000	3,395,000
Refunding Series 2018A (Open Space Fund - Various Park Projects)	2029	34,950,000	22,920,000
Refunding Series 2018B (Branch Library Improvement Program)	2028	13,355,000	8,665,000
<b>SUBTOTAL LEASE REVENUE BONDS</b>		<b>\$215,925,000</b>	<b>\$93,180,000</b>
<b>TOTAL GENERAL FUND OBLIGATIONS</b>		<b>\$1,850,303,625</b>	<b>\$1,476,408,674</b>

<sup>1</sup> Excludes California HFA Revenue Bonds (San Francisco Supportive Housing - 833 Bryant Apartments) (\$26,985,000)

<sup>2</sup> For the 2020-R1 Series, the amount outstanding as of 10/1/22 reflects payment of the 10/1/22 principal payment, as the Base Rental payment was due by 9/25/22.

## **Board Authorized and Unissued Long-Term Certificates of Participation**

*Treasure Island Improvement Project:* In October of 2013, the Board authorized, and the Mayor approved the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation to finance the cost of additions and improvements to the utility infrastructure at Treasure Island. At this time there is not an expected timeline for the issuance of these certificates, but commercial paper is anticipated to be issued to finance the projects in fiscal year 2023-24.

*Housing Trust Fund Project:* In April 2016, the Board authorized and the Mayor approved the issuance of not to exceed \$95.0 million of City and County of San Francisco Certificates of Participation (Affordable Housing Projects) to provide funds to assist in the development, acquisition, construction or rehabilitation of affordable rental housing projects. The City currently issues commercial paper to finance these projects and pays down their commercial paper balance annually rather than issuing certificates at this time.

*Hall of Justice Relocation Projects:* In October 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$62.0 million of City and County of San Francisco Certificates of Participation (Multiple Capital Projects) to finance or refinance tenant improvements involving the construction, acquisition, improvement, renovation, and retrofitting of City-owned properties as needed for the Hall of Justice Improvement Project enabling staff and offices to be consolidated in acquired City-owned properties. The City funded \$4.6 million in project fund and related financing costs related to this authorization for the 444 Sixth Street acquisition as part of the Certificates of Participation, Series 2021A. The City expects to issue the remainder of the long-term COPs in fiscal year 2023-24.

*HOPE SF Project:* In December 2019, the Board authorized, and the Mayor approved the issuance of not to exceed \$83.6 million of City and County of San Francisco Certificates of Participation to finance or refinance certain capital improvements, including but not limited to certain properties generally known as Hunters View, Sunnysdale, and Potrero Terrace and Annex housing developments. As of October 1, 2022, \$28.3M has been issued (Series 2017A) and \$55.3 million remains unissued from the authorization. The City anticipates issuing the remaining long-term COPs from this authorization in fiscal year 2023-24.

*Department of Public Health Facilities Improvements:* In November 2020, the Board authorized and the Mayor approved the issuance of not to exceed \$157.0 million of City and County of San Francisco Certificates of Participation to finance projects for the Department of Public Health (“DPH”), including but not limited to certain projects generally known as the Homeless Services Center, Laguna Honda Hospital Wings Reuse Project, AITC Immunization and Travel Clinic Relocation, and San Francisco General Hospital Chiller and Cooling Tower Replacement Project. The City anticipates issuing the certificates in fiscal year 2023-24.

*Critical Repairs and Recovery Stimulus (FY2022):* In July 2021, the Board authorized and the Mayor approved the issuance of not to exceed \$67.5 million of City and County of San Francisco Certificates of Participation, to finance and refinance certain capital improvements generally consisting of critical repairs, renovations and improvements to City-owned buildings, facilities and works utilized by various City departments and local economic stimulus projects. The City anticipates issuing the certificates in fiscal year 2023-24.

*Critical Repairs, Recovery Stimulus and Street Repaving Projects (FY2023):* In July 2022 the Board authorized and in August 2022 the Mayor approved the issuance of not to exceed \$140.0 million of City and County of San Francisco Certificates of Participation, to finance and refinance certain capital

improvements generally consisting of (a) street repaving and reconstruction, (b) critical repairs, including renovations and improvements to City-owned buildings, facilities and works utilized by various City departments and (c) local economic stimulus projects. The City anticipates issuing the long-term certificates in fiscal year 2023-24.

*Affordable Housing and Community Development Projects:* In July 2022 the Board authorized and in August 2022 the Mayor approved the appropriation of not to exceed \$112.0 million of Certificate of Participation proceeds to the Mayor's Office of Housing and Community Development for a notice of funding availability (NOFA) to finance land acquisition with priority for development of 100% affordable projects in California Debt Limit Allocation Committee (CDLAC) designated high/resources areas and/or high need areas, repairs for Public Housing or Federal Housing and Urban Development (HUD) co-ops, affordable housing for educators, elevators in the City's Single Room Occupancy (SRO) portfolio, and acquisition for non-profit sites. An additional \$34.8 million of Certificate of Participation proceeds were appropriated for financing costs. The associated legislation authorizing the issuance of these Certificates of Participation has not yet gone to the Board.

### **Commercial Paper Program**

In March 2009, the Board authorized and the Mayor approved a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "Original CP Program"). In July of 2013, the Board authorized, and the Mayor approved an additional \$100.0 million of Lease Revenue Commercial Paper Certificates of Participation, Series 3 and 3-T and Series 4 and 4-T (the "Second CP Program" and together with the Original CP Program, the "City CP Program") that increased the total authorization of the City CP Program to \$250.0 million. Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project.

The Series 1 and 1-T and Series 2 and 2-T CP notes are secured by credit facilities from: (i) State Street Bank and Trust Company (with a maximum principal amount of \$75 million) and (ii) U.S. Bank National Association (with a maximum principal amount of \$75 million). These credit facilities expire in May 2023. The Series 3 and 3-T and 4 and 4-T are secured by a \$100 million revolving letter of credit issued by Bank of the West, which expires in April 2026.

As of October 20, 2022, the outstanding principal amount of CP Notes is \$33.7 million. The interest rate for the \$12.6 million outstanding tax-exempt CP Notes is 2.70%. The interest rate for the \$21.1 million outstanding tax-exempt CP Notes is 4.25%. The projects with Board Authorized and Unissued Certificates of Participation currently utilizing the CP Program includes the Housing Trust Fund, HOPE SF, DPH Facilities Improvements, Critical Repairs & Recovery Stimulus, and Hall of Justice Relocation Project - Tenant Improvements. Additionally, there is a short-term financing for Police Vehicle acquisition utilizing the City's CP Program and expected to be paid down over 5-years beginning FY2022-23. The following is a summary of the outstanding liability by project associated with the CP Notes outstanding.

<b>Project</b>	<b>CP Notes Liability as of 10/20/2022</b>
Housing Trust Fund	\$17,965,985
HOPE SF	\$3,179,015
DPH Facilities Improvements	\$8,551,011
Critical Repairs & Recovery Stimulus	\$1,541,394
Police Vehicle Acquisition	\$2,416,878
HOJ Relocation – Tenant Improvements	\$40,717
<b>TOTAL</b>	<b>\$33,695,000</b>

### **Overlapping Debt**

Table A-33 shows bonded debt and long-term obligations as of October 1, 2022 sold in the public capital markets, except for those financings otherwise noted in the table, by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

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TABLE A-33

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Direct and Overlapping Debt and Long-Term Obligations**  
**As of October 1, 2022**

<u>2022-23 Assessed Valuation</u> (includes unitary utility valuation):	\$329,109,287,967 <sup>1</sup>
<b><u>GENERAL OBLIGATION BONDED DEBT</u></b>	
San Francisco City and County	\$2,625,532,882
San Francisco Unified School District	1,118,600,000
San Francisco Community College District	436,085,000
<b>TOTAL GENERAL OBLIGATION BONDED DEBT</b>	<b>\$4,180,217,882</b>
<b><u>LEASE OBLIGATIONS BONDS</u></b>	
San Francisco City and County	\$1,469,063,846
<b>TOTAL LEASE OBLIGATION BONDED DEBT</b>	<b>\$1,469,063,846 <sup>2</sup></b>
<b>TOTAL COMBINED DIRECT DEBT</b>	<b>\$5,649,281,728</b>
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT</u></b>	
Bay Area Rapid Transit District General Obligation Bond (34.740%)	\$848,855,342
San Francisco Community Facilities District No. 4	4,420,000
San Francisco Community Facilities District No. 6	111,562,516
San Francisco Community Facilities District No. 7	30,155,000
San Francisco Community Facilities District No. 2009-1, Improvement Areas 1 and 2	2,337,095
San Francisco Community Facilities District No. 2014-1 Transbay Transit Center	497,545,000
San Francisco Community Facilities District No. 2016-1 Treasure Island, Improvement Areas 1 and 2	83,295,000
San Francisco Special Tax District No. 2020-1 Mission Rock Facilities	106,230,000
City of San Francisco Assessment District No. 95-1	260,000
ABAG Community Facilities District No. 2004-1 Seismic Safety Improvements	8,530,000
ABAG Community Facilities District No. 2006-1 San Francisco Rincon Hill	4,655,000
ABAG Community Facilities District No. 2006-2 San Francisco Mint Plaza	2,685,000
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>	<b>\$1,700,529,953</b>
<b><u>OVERLAPPING TAX INCREMENT DEBT:</u></b>	
Successor Agency to the San Francisco Redevelopment Agency	\$629,826,904
Transbay Joint Powers Authority	259,590,000
<b>TOTAL OVERLAPPING INCREMENT DEBT</b>	<b>\$889,416,904</b>
<b><u>OVERLAPPING TAX INCREMENT REVENUE DEBT:</u></b>	
San Francisco Infrastructure and Revitalization Financing District No. 1	\$29,390,000
<b>TOTAL OVERLAPPING INCREMENT DEBT</b>	<b>\$29,390,000</b>
<b>TOTAL DIRECT AND OVERLAPPING BONDED DEBT</b>	<b>\$8,268,618,585 <sup>3</sup></b>
<b><u>Ratios to 2022-23 Assessed Valuation (\$329,109,287,967)</u></b>	<b>Actual Ratio</b>
Direct General Obligation Bonded Debt (\$4,180,217,882)	1.27% <sup>4</sup>
Combined Direct Debt (\$5,649,281,728)	1.72%
Total Direct and Overlapping Bonded Debt	2.51%
<b><u>Ratio to 2022-23 Redevelopment Incremental Valuation (\$42,244,048,147)</u></b>	
Total Overlapping Tax Increment Debt	2.11%

<sup>1</sup> Includes \$578,793,600 homeowner's exemption for FY22-23.

<sup>2</sup> Excludes 833 Bryant lease and privately placed SFGH Emergency Backup Generators Project, outstanding in the principal amount of \$7,344,831 as of 10/1/22.

<sup>3</sup> Excludes tax and revenue anticipation notes, enterprise revenue bonds and airport improvement corporation bonds, as well as issue to be sold.

<sup>4</sup> 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. The City's general obligation debt as a percentage of FY22-23 AV is 0.8%.

Source: California Municipal Statistics Inc., City and County of San Francisco

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

### Article XIII A of the California Constitution

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

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

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



## **Article XIII B of the California Constitution**

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

## **Articles XIII C and XIII D of the California Constitution**

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

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

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

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement

purposes and community benefit purposes and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

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

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

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

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

### **Future Initiatives and Changes in Law**

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

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

## **LEGAL MATTERS AND RISK MANAGEMENT**

### **Pending Litigation**

There are a number of lawsuits and claims routinely pending against the City. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on its General Fund lease obligations or other debt obligations, nor have an adverse impact on City finances.

### **Ongoing Investigations**

Public Works Investigation. On January 28, 2020 the City's former Director of Public Works Mohammad Nuru was indicted on federal criminal charges of public corruption, including honest services wire fraud and lying to Federal Bureau of Investigation officials. The allegations contained in the complaint involve various schemes, including an attempt by Mr. Nuru and Mr. Nick Bovis, a local restaurateur who was also indicted by the federal government, to bribe an Airport Commissioner to influence the award of lease of space at the San Francisco International Airport, Mr. Nuru using his official position to benefit a developer of a mixed-use project in San Francisco in exchange for personal gifts and benefits; Mr. Nuru attempting to use his former position as the chair of the Transbay Joint Powers Authority to secure a lease for Mr. Bovis in the Salesforce Transit Center, in exchange for personal benefits provided by the restaurateur; Mr. Nuru providing Mr. Bovis with inside information on City projects regarding contracts for portable bathroom trailers and small container-like housing units for use by the homeless, so that Mr. Bovis could win the contracts for those projects; and Mr. Nuru obtaining free and discounted labor and construction

equipment from contractors to help him build a personal vacation home while those contractors were also engaging in business with the City. Mr. Nuru resigned from employment with the City two weeks after his arrest.

On May 20, 2021 Mr. Bovis pled guilty to honest services wire fraud and wire fraud. On December 17, 2021 Mr. Nuru also pled guilty to honest services wire fraud. In August 2022, Mr. Nuru was sentenced to 7 years in prison.

As a result of the announcement of the Nuru and Bovis arrests, the City Attorney and Controller commenced a joint investigation seeking to identify officials, employees and contractors involved in these schemes or other related conduct, and to identify contracts, grants, gifts, and other government decisions possibly tainted by conflicts of interest and other legal or policy violations. The Controller's Office, in conjunction with the City Attorney's Office, has put into place interim controls to review Public Works contracts for red flags and process failures. The Controller's Office is also working with the City Attorney's Office to identify whether stop payments, cancellations or other terminations are justified on any open contracts, purchase orders or bids. Also, the Controller, in coordination with the City Attorney's Office, has made periodic public reports setting forth assessments of patterns and practices to help prevent fraud and corruption and recommendations about best practices, including possible changes in City law and policy.

On March 10, 2020, the City Attorney transmitted to the Mayor its preliminary report of investigations of alleged misconduct by the City's Director of the Department of Building Inspections ("DBI"). The allegations involve violations of the City Campaign and Conduct Code and DBI's Code of Professional Conduct by the Director by (i) providing intentional and preferential treatment to certain permit expeditors, (ii) accepting gifts and dinners in violation of DBI's professional code of conduct, and (iii) otherwise violating City laws and policies by abusing his position to seek positions for his son and son's girlfriend. The Mayor placed the Director of Building Inspection on administrative leave, and he resigned shortly thereafter.

On June 29, 2020, the Controller released its preliminary assessment of Citywide procurement practices, with an emphasis on the Public Works Department. The report is subject to public comment and review and could be revised in the future. The preliminary assessment focused on City laws, practices and policies and made recommendations to make improvements on such City laws and policies to improve transparency, reduce the risk of loss and abuse in City contracting in the future. The Controller expects to issue additional reports in the future. Reviews of the City internal controls will be released in a subsequent report. Finally, the City Attorney investigation continues with respect to the review certain contracts and payments made to outside vendors. To date, the City Attorney's investigation has led to the release of at least four city employees (including the Director of Public Works and the Director of Building Inspections, as described above) or officials from their City positions.

On September 24, 2020 the Controller issued an additional report noting that Mr. Nuru also solicited donations from private sources and directed those donations to a non-profit supporting the Department of Public Works. Such arrangements, which were neither accepted or disclosed by the City, created a perceived risk of "pay-to-play" relationships. The report made recommendations to the Board of Supervisions that, among other things, would restrict the ability of department heads from soliciting donations from interested parties in the future and would increase transparency surrounding gifts made to benefit City departments.

On November 30, 2020, Harlan L. Kelly, Jr., the General Manager of the San Francisco Public Utilities Commission (“PUC”), was charged in a federal criminal complaint with one count of honest services wire fraud. The complaint alleges that Mr. Kelly engaged in a long-running bribery scheme and corrupt partnership with Walter Wong, a San Francisco construction company executive and permit expediting consultant, who ran or controlled multiple entities doing business with the City. The complaint further alleges that as part of the scheme, Mr. Wong provided items of value to Mr. Kelly in exchange for official acts by Mr. Kelly that benefited or attempted to benefit Mr. Wong’s business ventures. Earlier criminal charges filed against Walter Wong alleged that Mr. Wong conspired with multiple City officials, including Mr. Nuru, in a conspiracy and money laundering scheme. Mr. Wong pled guilty in July of this year and is cooperating with the ongoing federal investigation.

Mr. Kelly resigned on December 1, 2020, and the PUC’s Commission acted on his resignation on December 8, 2020. Dennis J. Herrera (the current City Attorney) was nominated by the Mayor to be the General Manager of the PUC and his nomination was confirmed by the PUC on September 28, 2021. Mr. Herrera assumed office as General Manager of PUC on November 1, 2021.

On July 8, 2021 the San Francisco District Attorney announced the arrest of former Department of Public Works bureau manager Gerald “Jerry” Sanguinetti. Mr. Sanguinetti was charged with five felony counts of perjury and two misdemeanor charges arising from his alleged failure to report more than a quarter million dollars of income and file financial disclosure statements associated with the sale to the Public Works Department of merchandise by a company owned by his wife. The charges arise out of the continuing investigation into public corruption involving the Public Works Department. The Public Works Department investigation is ongoing.

Recology Settlement. On March 4, 2021, the City Attorney announced an approximately \$100 million settlement with Recology San Francisco (“Recology”), the contractor handling the City’s waste and recycling collection. The settlement arose from overcharges that were uncovered as part of the continuing public integrity investigation tied to Mr. Nuru and others. As part of the Settlement, Recology was required to lower commercial and residential rates starting April 1, 2021 and make a \$7 million settlement payment to the City under the California Unfair Competition Law and the San Francisco Campaign and Governmental Conduct Code. In addition, Recology will be enjoined for four years from making any gift to any City employee or any contribution to a nonprofit at the behest of a City employee. The comprehensive settlement agreement with Recology was approved by the Board of Supervisors. The bribery and corruption public integrity investigation related to the Nuru matter is ongoing.

On May 16, 2022 the Controller’s Office released a public integrity assessment report on the review of rate-setting and rate reporting processes, and profits earned by Recology that were over and above allowed profit margins. The report found that Recology netted profits of \$23.4 million over and above the allowed profit margin set in the 2017 Rate Application. Even after taking into account the 2021, \$101 million settlement in restitution, penalties, and interest to ratepayers affected by the erroneous calculation of revenues in the rate application, Recology consistently exceeded their allowable operating profits.

On June 7, 2022, the voters of San Francisco passed Proposition F, a ballot measure that allows the City to oversee Recology more closely, including certain changes to the composition of the Refuse Rate Board. The changes are intended to provide more oversight with respect to monitoring rates to residential and commercial customers.

In addition to the ongoing joint investigation by the City Attorney's Office and the Controller's Office into City contracting policies and procedures, the City's Board of Supervisors has initiated a series of public hearings before its Government Audit and Oversight Committee to examine issues raised by the federal complaints. That committee also considered the Controller's periodic reports. The full Board of Supervisors is considering retaining additional independent services relating to the matters that were the subject of the federal indictment. The City can give no assurance regarding when the City's investigation will be completed or what the outcome will be. The criminal investigation by the Federal Bureau of Investigation and the United States Attorney's office is ongoing.

### **Risk Retention Program**

Citywide risk management is coordinated by the Risk Management Division of the City Administrator's Office. With certain exceptions, it is the general policy of the City to first evaluate self-insurance and not purchase commercial liability insurance for the risks of losses to which it is exposed. The City believes 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 decision to obtain commercial insurance depends on various factors. For property insurance, these factors include 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 limits. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (i.e. the Airport, MTA, the PUC, 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. In recent years, the City has purchased Cyber Liability insurance for departments and certain enterprise fund departments providing critical City services and/or managing high volumes of confidential/personal data.

Through coordination between 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 Annual Comprehensive Financial Report. The appropriations are sized based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The City is self-insured for the financial risk and liability to provide workers' compensation benefits to its employees. The administration of workers' compensation claims and disbursement of all benefit payments is managed by the Workers' Compensation Division of the City's Department of Human Resources and its contracted third-party claims administrator. Estimates of future workers' compensation costs are based on the following criteria: (i) the frequency and severity of historical claim filings; (ii) average claim losses by expense category; (iii) gross payroll and workforce composition; (iv) benefit cost

inflation, including increases to the statewide average weekly wage, and medical cost growth; and (v) regulatory developments that impact benefit cost and delivery. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual claim benefit expenditures and an allocated share of overhead expenses for self-insurance administration. The City continues to develop and implement programs to lower or mitigate workers' compensation costs.



**APPENDIX B**

**AMENDED AND RESTATED RATE AND METHOD  
OF APPORTIONMENT OF SPECIAL TAX**

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## EXHIBIT B

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

#### AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

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

#### A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**“Market Rate Unit”** means a Residential Unit that is not a Below Market Rate Unit.

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

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

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

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

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

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

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

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

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

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

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

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



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

**“RMA”** means this Rate and Method of Apportionment of Special Tax.

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

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

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

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

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

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

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

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

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

**“TJPA”** means the Transbay Joint Powers Authority.

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

## **B. DATA FOR CFD ADMINISTRATION**

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

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

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

## **C. DETERMINATION OF THE MAXIMUM SPECIAL TAX**

### ***1. Base Special Tax***

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

#### **FOR-SALE RESIDENTIAL SQUARE FOOTAGE**

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

### RENTAL RESIDENTIAL SQUARE FOOTAGE

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

### OFFICE/HOTEL SQUARE FOOTAGE

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

### RETAIL SQUARE FOOTAGE

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

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

## 2. *Determining the Maximum Special Tax for Taxable Parcels*

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

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

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

## **D. CHANGES TO THE MAXIMUM SPECIAL TAX**

### **1. *Annual Escalation of Base Special Tax***

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

### **2. *Adjustment of the Maximum Special Tax***

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

### **3. *Converted Apartment Buildings***

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

### **4. *BMR Unit/Market Rate Unit Transfers***

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

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

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

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

## **6. *Prepayments***

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

**E. METHOD OF LEVY OF THE SPECIAL TAX**

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

**F. COLLECTION OF SPECIAL TAX**

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

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

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

**G. EXEMPTIONS**

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



## **H. PREPAYMENT OF SPECIAL TAX**

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

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

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

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

#### **I. INTERPRETATION OF SPECIAL TAX FORMULA**

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

#### **J. SPECIAL TAX APPEALS**

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

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

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

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

This is a summary of certain provisions of the Fiscal Agent Agreement that are not otherwise described or discussed in this Official Statement. This summary is not intended to be definitive, and reference must be made to the text of the Fiscal Agent Agreement for the complete terms.

This summary is provided in connection with issuance of the 2022 Bonds (as defined in the main body of this Official Statement). The 2022 Bonds constitute Parity Bonds under the Fiscal Agent Agreement, and are secured by a lien and charge upon the Special Taxes and certain funds and accounts established under the Fiscal Agent Agreement equal to and on a parity with the lien and charge securing the outstanding Parity Bonds.

### DEFINITIONS

Except as otherwise defined in this summary, the terms shall have the meanings previously given in this Official Statement. In addition, the following terms have the following meanings when used in this summary:

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

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

***“Administrative Expense Fund”*** means the fund designated the “City and County of San Francisco Community Facilities City No. 2014-1 (Transbay Transit Center) Administrative Expense Fund” established and administered under the Fiscal Agent Agreement.

***“Agreement”*** or ***“Fiscal Agent Agreement”*** means the Fiscal Agent Agreement by and between the City and Zions Bank, a Division of ZB, National Association, as Fiscal Agent, dated as of November 1, 2017, as supplemented by the First Supplement to Fiscal Agent Agreement, dated as of February 1, 2019, the Second Supplement to Fiscal Agent Agreement, dated as of May 1, 2020, the Third Supplement to Fiscal Agent Agreement, dated as of November 1, 2021, the Fourth Supplement to Fiscal Agent Agreement, dated as of December 1, 2022, and any other Supplemental Agreement.

***“Allocated Bond Proceeds Account”*** means the account designated “Allocated Bond Proceeds Account” within the Improvement Fund established under the Fiscal Agent Agreement. The Allocated Bond Proceeds Account was required to be established by the City pursuant to the JCFA.

***“Annual Debt Service”*** means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking payment due in such Bond Year); provided that for purposes of calculating Annual Debt Service with respect to Parity Bonds proposed to be issued under the Fiscal Agent Agreement, the amount described in the preceding clause (i) for a Bond Year shall be reduced by any capitalized interest applicable to the proposed Parity Bonds for such Bond Year.

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

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

***“BART Improvement Account”*** means the account designated the “BART Improvement Account” within the Improvement Fund, which account is established pursuant to the Fiscal Agent Agreement.

***“Board”*** means the Board of Supervisors of the City as the legislative body.

***“Bond”*** or ***“Bonds”*** means the 2017 Bonds, the 2019 Bonds the 2020B Bonds, the 2021B Bonds, the 2022 Bonds and, if the context requires, any Parity Bonds, at any time Outstanding under the Fiscal Agent Agreement or any Supplemental Agreement.

***“Bond Fund”*** means the fund designated the “City and County of San Francisco Community Facilities City No. 2014-1 (Transbay Transit Center) Special Tax Bonds Bond Fund” established and administered under the Fiscal Agent Agreement.

***“Bond Year”*** means the one-year period beginning on September 2 in each year and ending on September 1 in the following year, except as provided in the Fiscal Agent Agreement.

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

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

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

***“CFD Value”*** means the market value, as of the date of the appraisal described below and/or the date of the most recent City real property tax roll, as applicable, of all parcels of real property in the CFD subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such nondelinquent parcels the value of the then existing improvements and any facilities to be constructed or acquired with any amounts then on deposit in the

Improvement Fund and with the proceeds of any proposed series of Parity Bonds, as determined with respect to any parcel or group of parcels by reference to (i) an appraisal performed within six (6) months of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the “Appraiser”) selected by the City, or (ii) in the alternative, the assessed value of all such nondelinquent parcels and improvements thereon as shown on the then current City real property tax roll available to the Finance Director. It is expressly acknowledged that, in determining the CFD Value, the City may rely on an appraisal to determine the value of some or all of the parcels in the CFD and/or the most recent City real property tax roll as to the value of some or all of the parcels in the CFD. Neither the City nor the Finance Director shall be liable to the Owners, the Original Purchaser or any other person or entity in respect of any appraisal provided for purposes of this definition or by reason of any exercise of discretion made by any Appraiser pursuant to this definition.

“**City**” means the City and County of San Francisco, and any successor thereto.

“**Closing Date**” means the date of initial issuance and delivery of the applicable series of Bonds under the Fiscal Agent Agreement.

“**Continuing Disclosure Agreement**” means a Continuing Disclosure Agreement executed by the City and the dissemination agent identified therein, and dated the date of issuance and delivery of the applicable series of Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

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

“**Debt Service**” means the scheduled amount of interest and amortization of principal payable on the Bonds and the scheduled amount of interest and amortization of principal payable on any Parity Bonds during the period of computation, in each case excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

“**Depository**” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to the Fiscal Agent Agreement.

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

“**Fair Market Value**” means with respect to the Permitted Investments the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed

investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest if the return paid by such fund is without regard to the source of the investment.

***“Federal Securities”*** means:

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

(b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

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

***“Fiscal Agent”*** means Zions Bancorporation, National Association, the Fiscal Agent appointed by the City and acting as an independent fiscal agent with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Fiscal Agent Agreement.

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

***“Improvement Fund”*** means the fund designated “City and County of San Francisco Community Facilities City No. 2014-1 (Transbay Transit Center), Special Tax Bonds, Improvement Fund,” established under the Fiscal Agent Agreement.

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

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

***“Interest Payment Date”*** for the 2022 Bonds means each September 1 and March 1 of every calendar year, commencing with March 1, 2023.

***“JCFA”*** means the Joint Community Facilities Agreement, dated as of December 1, 2014, by and between the City and the Transbay Joint Powers Authority, as amended from time to time

**“JCFA (BART)”** means the Joint Community Facilities Agreement, dated as of December 1, 2014, by and between the City and the San Francisco Bay Area Rapid Transit District, as amended from time to time.

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

**“Officer’s Certificate”** means a written certificate of the City signed by an Authorized Officer of the City.

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

**“Original Purchaser”** and **“Participating Underwriter”** means the first purchasers of the applicable series of Bonds from the City.

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

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

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

**“Parity Bonds”** means additional bonds issued by the City for the CFD and payable on a parity basis with any then Outstanding Bonds under the Fiscal Agent Agreement.

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

(a) Federal Securities;

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

(c) interest-bearing demand or time deposits (including certificates of deposit) or deposit accounts in federal or state chartered savings and loan associations or in federal or State of

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

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

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

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

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

(h) money market funds (including money market funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services) which invest in Federal Securities or which are rated in the highest short-term rating category by any Rating Agency;

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

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

(k) the California Asset Management Program;

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

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

**“Project”** means those items described as the “Facilities” in the Resolution of Formation.

**“Qualified Reserve Fund Credit Instrument”** means an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Fiscal Agent, provided that all of the following requirements are met at the time of acceptance thereof by the Fiscal Agent: (a) in the case of a commercial bank, the long-term credit rating of such bank at the time of delivery of the irrevocable standby or direct-pay letter of credit is at least "A" from S&P or "A" from Moody’s and, in the case of an insurance company, the claims paying ability of such insurance company at the time of delivery of the insurance policy or surety bond is at least "A" from S&P, or "A"



from Moody's or, if not rated by S&P or Moody's but is rated by A.M. Best & Company, is rated at the time of delivery in the highest rating category by A.M. Best & Company; (b) such letter of credit, insurance policy or surety bond has a stated term that extends at least to the final maturity date of the Related Parity Bonds; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Fiscal Agent is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payments with respect to the all or a portion of any Related Parity Bonds.

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

***“Rating Agency”*** means any nationally recognized rating agency.

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

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

***“Reserve Fund”*** means the fund designated the “City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center), Special Tax Bonds, Reserve Fund” established and administered under Fiscal Agent Agreement.

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

***“Resolution”*** or ***“Resolution of Issuance”*** means the Original Resolution of Issuance as supplemented in connection with the issuance of Bonds.

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

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

**“Special Tax Fund”** means the special fund designated “City and County of San Francisco Community Facilities City No. 2014-1 (Transbay Transit Center), Special Tax Fund” established and administered under the Fiscal Agent Agreement.

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

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

**“Special Taxes”** means the special taxes levied by the Board of Supervisors within the CFD under the Act, the Ordinance and the Fiscal Agent Agreement.

**“State”** means the State of California.

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

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

**“2017 Bonds”** means the 2017A Bonds and the 2017B Bonds.

**“2017A Bonds”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017A (Federally Taxable).

**“2017B Bonds”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2017B (Federally Taxable - Green Bonds).

**“2019 Bonds”** means the 2019A Bonds and the 2019B Bonds, both of which shall constitute Related Parity Bonds.

**“2019A Bonds”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2019A (Federally Taxable).

**“2019B Bonds”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2019B (Federally Taxable - Green Bonds).

**“2020B Bonds”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2020B (Federally Taxable - Green Bonds).

**“2021B Bonds”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2021B (Federally Taxable - Green Bonds).

**“2022 Qualified Reserve Fund Credit Instrument”** means an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Fiscal Agent, provided that all of the following requirements are met at the time of acceptance thereof by the Fiscal Agent: (a) in the case of a commercial bank, the long-term credit rating of such bank at the time of delivery of the irrevocable standby or direct-pay letter of credit is at least "A" from S&P or "A" from Moody's and, in the case of an insurance company, the claims paying ability of such insurance company at the time of delivery of the insurance policy or surety bond is at least "A" from S&P or "A" from Moody's or, if not rated by S&P or Moody's but is rated by A.M. Best & Company, is rated at the time of delivery in the highest rating category by A.M. Best & Company; (b) such letter of credit, insurance policy or surety bond has a stated term that extends at least to the final maturity date of the 2022A Bonds and any 2022 Related Parity Bonds; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the 2022 Reserve Requirement with respect to which funds are proposed to be released; and (d) the Fiscal Agent is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payments with respect to all or a portion of the 2022A Bonds and any 2022 Related Parity Bonds.

**“2022 Related Parity Bonds”** means any series of Parity Bonds for which (i) the Proceeds are deposited into the 2022 Reserve Fund so that the balance therein is equal to the 2022 Reserve Requirement following issuance of such Parity Bonds and (ii) the related Supplemental Agreement specifies that the 2022 Reserve Fund shall act as a reserve for the payment of the principal of, and interest and any premium on, such series of Parity Bonds.

**“2022 Reserve Fund”** means the fund designated the “City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center), Special Tax Bonds, 2022 Reserve Fund” established and administered under the Fiscal Agent Agreement.

**“2022 Reserve Requirement”** means, as of the date of calculation, which shall be (A) the date of issuance of the 2022A Bonds and any 2022 Related Parity Bonds and (B) the date of defeasance or redemption of any of the 2022A Bonds or 2022 Related Parity Bonds, an amount equal to the lesser of (i) Maximum Annual Debt Service on the 2022A Bonds and any 2022 Related Parity Bonds between the date of such calculation and the final maturity of such Bonds or (ii) one hundred twenty-five percent (125%) of average Annual Debt Service on the 2022A Bonds and any 2022 Related Parity Bonds between the date of such calculation and the final maturity of such Bonds and (iii) 10% of the original principal amount of the 2022A Bonds and any 2022 Related Parity Bonds (or, if the 2022A Bonds and any 2022 Related Parity Bonds have more than a de minimis amount of original issue discount or premium, 10% of the issue price of the 2022A Bonds and any 2022 Related Parity Bonds); provided that, with respect to the issuance of any 2022 Related Parity Bonds, if the 2022 Reserve Fund would have to be increased by an amount greater than ten percent (10%) of the stated principal amount of the 2022 Related Parity Bonds (or, if the 2022 Related Parity Bonds have more than a de minimis amount of original issue discount or premium, of the issue price of such 2022 Related Parity Bonds), then the Reserve Requirement shall be such lesser amount as is determined by a deposit of such ten percent (10%); and provided that accrued interest on any 2022 Related

Parity Bonds deposited with the Fiscal Agent upon delivery of such 2022 Related Parity Bonds shall be excluded for purposes of the calculation of the Reserve Requirement.

**“2022A Bonds”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2022A (Tax-Exempt).

**“2022A Subaccount of the BART Improvement Account”** means the account designated the “2022A Subaccount of the BART Improvement Account” within the Improvement Fund, which subaccount is established pursuant to Section 21.04.

**“2022B Bonds”** means the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2022B (Federally Taxable - Green Bonds).

## THE BONDS

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

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

Bond Register. The Fiscal Agent will keep, or cause to be kept, at its Principal Office sufficient books for the registration and transfer of the Bonds which books shall show the series number, date, amount, rate of interest and last known owner of each Bond and shall at all times be open to inspection by the City during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the ownership of the Bonds. The City and the Fiscal Agent will

treat the Owner of any Bond whose name appears on the Bond register as the absolute Owner of such Bond for any and all purposes, and the City and the Fiscal Agent shall not be affected by any notice to the contrary. The City and the Fiscal Agent may rely on the address of the Owner as it appears in the Bond register for any and all purposes.

## **FUNDS AND ACCOUNTS**

The Fiscal Agent Agreement establishes various funds and accounts for the payment of the Bonds, the payment of costs of issuing the bonds, the payment of costs of the Project and the administration of the CFD. Moneys in the funds and accounts must be invested in accordance with the Fiscal Agent Agreement. Unless otherwise specified in the Fiscal Agent Agreement, interest earnings from investment are retained in the funds and accounts to be used for their purposes. The following funds and accounts are established by the Fiscal Agent Agreement:

Administrative Expense Fund. The Administrative Expense Fund is held by the Fiscal Agent. Moneys in the Administrative Expense Fund are held by the Fiscal Agent for the benefit of the City and are used to pay Administrative Expense, or a Cost of Issuance upon receipt by the Fiscal Agent of an Officer's Certificate stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense or a Cost of Issuance and the nature of such Administrative Expense or such Cost of Issuance. Annually, on the last day of each Fiscal Year, the Fiscal Agent shall withdraw any amounts then remaining in the Administrative Expense Fund that have not been allocated to pay Administrative Expenses incurred but not yet paid, and which are not otherwise encumbered, and transfer such amounts to the Special Tax Fund.

Special Tax Fund. The Special Tax Fund is held by the Fiscal Agent to the credit of which the Fiscal Agent shall deposit amounts received from or on behalf of the City consisting of Special Tax Revenues and amounts transferred from the Administrative Expense Fund and the Bond Fund. Moneys in the Special Tax Fund are held by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, and, pending disbursement, are subject to a lien in favor of the Owners of the Bonds.

The City shall promptly remit any Special Tax Revenues received by it to the Fiscal Agent for deposit by the Fiscal Agent to the Special Tax Fund. At least seven (7) days prior to each Interest Payment Date or redemption date, as applicable, the Fiscal Agent shall withdraw from the Special Tax Fund and transfer to the Bond Fund amounts required to pay Debt Service on the Bonds, and to replenish the Reserve Fund, if necessary. Each calendar year, following the transfers for the March 1 Interest Payment Date occurring in such calendar year, when amounts (including investment earnings) have been accumulated in the Special Tax Fund sufficient to make the transfers pursuant to the preceding paragraph for the September 1 Interest Payment Date occurring in such calendar year, the Finance Director, during the period up to but not including December 10 of such calendar year, may in his or her sole discretion direct in writing the disposition of moneys in the Special Tax Fund in excess of the amounts needed for such September 1 Interest Payment Date as follows: (i) direct the Fiscal Agent to transfer money to the Improvement Fund (or the accounts therein) for payment or reimbursement of the costs of the Project, (ii) direct the Fiscal Agent to transfer money to the Administrative Expense Fund, in an amount not to exceed the amount included in the Special Tax levy for Administrative Expenses for such Fiscal Year and (iii) direct the Fiscal Agent to transfer money for any other lawful purpose

Bond Fund. The Bond Fund is held by the Fiscal Agent. Moneys in the Bond Fund are held by the Fiscal Agent for the benefit of and are subject to a lien in favor of the Owners of the Bonds. Moneys in the Bond Fund shall be disbursed for the payment of the principal of, and interest and any premium on, the

Bonds as provided below. Within the Bond Fund, there may be established a Capitalized Interest Account that is used to pay interest on a particular series of Bonds.

If the amount in the Bond Fund is not enough to pay the required Debt Service on an Interest Payment Date, the Fiscal Agent withdraws the amount needed from the Reserve Fund, the 2022 Reserve Fund or such other reserve funds, if any, established under a Supplemental Agreement. If there is not enough money in the Bond Fund and such reserves funds to pay the scheduled Debt Service, the Fiscal Agent must apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, if any, and then to payment of principal due on the Bonds by reason of sinking payments.

If at any time it appears to the Fiscal Agent that there is a danger of deficiency in the Bond Fund and that the Fiscal Agent may be unable to pay Debt Service on the Bonds in a timely manner, the Fiscal Agent shall report that to the Finance Director. The City covenants to increase the levy of the Special Taxes in the next Fiscal Year (subject to the maximum amount authorized by the Resolution of Formation) in accordance with the procedures set forth in the Act for the purpose of curing Bond Fund deficiencies. Any excess moneys remaining in the Bond Fund following the payment of debt service on the Bonds, shall be transferred to the Special Tax Fund.

Reserve Fund. The Reserve Fund is held by the Fiscal Agent. Moneys in the Reserve Fund are held in trust by the Fiscal Agent for the benefit of and are subject to a lien in favor of the Owners of the 2017 Bonds and any Related Parity Bonds. Moneys in the Reserve Fund are used as a reserve for the payment of principal of, and interest and any premium on, the 2017 Bonds and any Related Parity Bonds.

Except as otherwise provided in the Fiscal Agent Agreement, all amounts drawn on the Reserve Fund shall be used by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the 2017 Bonds and any Related Parity Bonds or, in accordance with the provisions of the Fiscal Agent Agreement, for the purpose of redeeming 2017 Bonds and any Related Parity Bonds from the Bond Fund.

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

Amounts in the Reserve Fund shall be withdrawn for purposes of making payment to the federal government to comply with any obligation to do so under this Fiscal Agent Agreement, upon receipt by the Fiscal Agent of an Officer's Certificate specifying the amount to be withdrawn and to the effect that such amount is needed for rebate purposes; provided, however, that no amounts in the Reserve Fund shall be used for rebate unless the amount in the Reserve Fund following such withdrawal equals the Reserve Requirement.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding 2017 Bonds and any related Parity Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon the written request of the Finance Director, transfer any cash or Permitted Investments in the Reserve Fund to the Bond Fund to be applied, on the redemption date to the payment and redemption of all of the Outstanding 2017 Bonds and any Related Parity Bonds. In the event that the amount so transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding 2017 Bonds and any Related Parity Bonds, the balance in the Reserve Fund shall be transferred to the City, at the written direction of the

Finance Director, to be used by the City for any lawful purpose. Notwithstanding the foregoing, no amounts shall be transferred from the Reserve Fund until after (i) the calculation of any amounts due to the federal government under the rebate provisions of the Fiscal Agent Agreement following payment of the 2017 Bonds and any Related Parity Bonds and withdrawal of any such amount from the Reserve Fund for purposes of making such payment to the federal government, and (ii) payment of any fees and expenses due to the Fiscal Agent.

Whenever Special Taxes are prepaid and the 2017 Bonds and any Related Parity Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund (determined on the basis of the principal of the 2017 Bonds and any Related Parity Bonds to be redeemed and the then-Outstanding principal of the 2017 Bonds and any Related Parity Bonds, but in any event not in excess of the amount that will leave the balance in the Reserve Fund following the proposed redemption equal to the Reserve Requirement) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the 2017 Bonds and any Related Parity Bonds.

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

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

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

2022 Reserve Fund. The 2022 Reserve Fund is held by the Fiscal Agent. Moneys in the 2022 Reserve Fund are held in trust by the Fiscal Agent for the benefit of and are subject to a lien in favor of the Owners of the 2022A Bonds and any 2022 Related Parity Bonds. Moneys in the 2022 Reserve Fund are used as a reserve for the payment of principal of, and interest and any premium on, the 2022A Bonds and any 2022 Related Parity Bonds.

Except as otherwise provided in the Fiscal Agent Agreement, all amounts drawn on the 2022 Reserve Fund shall be used by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the 2022A Bonds and any 2022 Related Parity Bonds or, in accordance with the provisions of the Fiscal Agent Agreement, for the purpose of redeeming 2022A Bonds and any 2022 Related Parity Bonds from the Bond Fund.

Whenever, on or before any Interest Payment Date, or on any other date at the request of the Finance Director, the amount in the 2022 Reserve Fund exceeds the 2022 Reserve Requirement, the Fiscal Agent shall transfer an amount equal to the excess from the 2022 Reserve Fund to the Bond Fund, to be used to pay interest on the 2022A Bonds and any 2022 Related Parity Bonds on the next Interest Payment Date.

Amounts in the 2022 Reserve Fund shall be withdrawn for purposes of making payment to the federal government to comply with any obligation to do so under this Fiscal Agent Agreement, upon receipt by the Fiscal Agent of an Officer's Certificate specifying the amount to be withdrawn and to the effect that such amount is needed for rebate purposes; provided, however, that no amounts in the 2022 Reserve Fund shall be used for rebate unless the amount in the 2022 Reserve Fund following such withdrawal equals the 2022 Reserve Requirement.

Whenever the balance in the 2022 Reserve Fund exceeds the amount required to redeem or pay the Outstanding 2022A Bonds and any 2022 Related Parity Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon the written request of the Finance Director, transfer any cash or Permitted Investments in the 2022 Reserve Fund to the Bond Fund to be applied, on the redemption date to the payment and redemption of all of the Outstanding 2022A Bonds and any 2022 Related Parity Bonds. In the event that the amount so transferred from the 2022 Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding 2022A Bonds and any 2022 Related Parity Bonds, the balance in the 2022 Reserve Fund shall be transferred to the City, at the written direction of the Finance Director, to be used by the City for any lawful purpose. Notwithstanding the foregoing, no amounts shall be transferred from the 2022 Reserve Fund until after (i) the calculation of any amounts due to the federal government under the rebate provisions of the Fiscal Agent Agreement following payment of the 2022A Bonds and any 2022 Related Parity Bonds and withdrawal of any such amount from the 2022 Reserve Fund for purposes of making such payment to the federal government, and (ii) payment of any fees and expenses due to the Fiscal Agent.

Whenever Special Taxes are prepaid and any 2022A Bonds and any 2022 Related Parity Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the 2022 Reserve Fund (determined on the basis of the principal of the 2022A Bonds and any 2022 Related Parity Bonds to be redeemed and the then-Outstanding principal of the 2022A Bonds and any 2022 Related Parity Bonds, but in any event not in excess of the amount that will leave the balance in the 2022 Reserve Fund following the proposed redemption equal to the 2022 Reserve Requirement) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the 2022A Bonds and any 2022 Related Parity Bonds.

The City shall have the right at any time to direct the Fiscal Agent to release funds from the 2022 Reserve Fund, in whole or in part, by tendering to the Fiscal Agent: (i) a 2022 Qualified Reserve Fund Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such 2022 Qualified Reserve Fund Credit Instrument will cause interest on the 2022A Bonds and any 2022 Related Parity Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Fiscal Agent, and upon delivery by the City to the Fiscal



Agent of written calculation of the amount permitted to be released from the 2022 Reserve Fund (upon which calculation the Fiscal Agent may conclusively rely), the Fiscal Agent shall transfer such funds from the 2022 Reserve Fund to the City to be deposited in the Improvement Fund and used for the purposes thereof. The Fiscal Agent shall comply with all documentation relating to a 2022 Qualified Reserve Fund Credit Instrument as shall be required to maintain such 2022 Qualified Reserve Fund Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Fiscal Agent Agreement. If the 2022 Reserve Requirement is being maintained partially in cash and partially with a 2022 Qualified Reserve Fund Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Bond Fund with respect to the 2022A Bonds and any 2022 Related Parity Bonds. If the 2022 Reserve Requirement is being maintained with two or more 2022 Qualified Reserve Fund Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Bond Fund with respect to the 2022A Bonds and any 2022 Related Parity Bonds shall be pro-rata with respect to each such instrument.

In the event that a 2022 Qualified Reserve Fund Credit Instrument is available to be drawn upon for only one or more particular series of Bonds, a separate subaccount in the 2022 Reserve Fund may be established for such series, and the calculation of the 2022 Reserve Requirement with respect to all other Bonds payable from the 2022 Reserve Fund shall exclude the debt service on such issue of Bonds.

The City shall have no obligation to replace the 2022 Qualified Reserve Fund Credit Instrument or to fund the 2022 Reserve Fund with cash if, at any time that any 2022 Related Parity Bonds are Outstanding, amounts are not available under the 2022 Qualified Reserve Fund Credit Instrument or if the rating of the claims-paying ability of the provider of the 2022 Qualified Reserve Fund Credit Instrument is downgraded.

Improvement Fund. The Improvement Fund is held by the Fiscal Agent and moneys in it are used by the City to pay for the acquisition and/or construction of the Project.

## **CITY COVENANTS**

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

No Extension of Time. In order to prevent any accumulation of claims for interest after maturity, the City may not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and may not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default under the Fiscal Agent Agreement, to the benefits of the Fiscal Agent Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

No Encumbrance. The City will not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien under the Fiscal Agent Agreement for the benefit of the Bonds, except as permitted by the Fiscal Agent Agreement.

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

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

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

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

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

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

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

with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits or combinations during the preceding and then current year.

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

The Finance Director shall fix and levy the amount of Special Taxes within the CFD required for the timely payment of principal of and interest on any outstanding Bonds of the CFD becoming due and payable during the ensuing year, replenishment of the Reserve Fund or other reserve account and payment of Administrative Expenses during such year, taking into account the balances in such funds and in the Special Tax Fund. The Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings pursuant to the Rate and Method.

Except as set forth in the Ordinance, Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property. The Finance Director is hereby authorized to employ consultants to assist in computing the levy of the Special Taxes hereunder and any reconciliation of amounts levied to amounts received. The fees and expenses of such consultants and the costs and expenses of the Finance Director (including a charge for City staff time) in conducting its duties hereunder shall be an Administrative Expense hereunder.

As provided in the Fiscal Agent Agreement, delinquent Special Taxes are subject to judicial foreclosure to recover such Special Taxes and costs of collection. The proceeds of such foreclosure are to be credited to the Reserve Fund and to the Bond Fund, after the payment of costs.

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

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

and Method, will be sufficient to pay principal of and interest on the Bonds when due following such adjustment.

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

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

## INVESTMENTS

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

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

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

Except as otherwise provided in the next sentence, all investments of amounts deposited in any fund or account created by or pursuant to the Fiscal Agent Agreement, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Fiscal Agent Agreement or the Act) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under the applicable provisions of Code and (unless valuation is undertaken at least annually) investments of funds in the Reserve Fund shall be valued at their present value (within the meaning of section 148 of the Tax Code).

Investments in the funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, provided that the Fiscal Agent or the Finance Director, as applicable, shall at all times account for such investments in accordance with the funds and accounts to which they are credited and otherwise as provided in the Fiscal Agent Agreement. The Fiscal Agent or the Finance Director, as applicable, shall sell at Fair Market Value, or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and neither the Fiscal Agent nor the Finance Director shall be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance with the Fiscal Agent Agreement.

### **CITY LIABILITY**

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

In the absence of bad faith, the City, including the Finance Director, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of the Fiscal Agent Agreement. The City, including the Finance Officer, shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Fiscal Agent Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations under the Fiscal Agent Agreement, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The City and the Finance Director may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be the City Attorney, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Fiscal Agent Agreement in good faith and in accordance therewith.

### **THE FISCAL AGENT**

The City shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactory established, if disputed. The Fiscal Agent undertakes to perform such duties, and only such duties, as are specifically set forth in the Fiscal Agent Agreement, and no implied covenants or obligations shall be read into the Fiscal Agent Agreement against the Fiscal Agent.

Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate

trust business, provided such company shall be eligible under the following paragraph, shall be the successor to such Fiscal Agent without the execution or filing of any paper or any further act.

The City may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000, and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

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

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

If, by reason of the judgment of any court, the Fiscal Agent is rendered unable to perform its duties under the Fiscal Agent Agreement, all such duties and all of the rights and powers of the Fiscal Agent thereunder shall be assumed by and vest in the Finance Officer of the City in trust for the benefit of the Owners. The City covenants for the direct benefit of the Owners that its Finance Director in such case shall be vested with all of the rights and powers of the Fiscal Agent under the Fiscal Agent Agreement, and shall assume all of the responsibilities and perform all of the duties of the Fiscal Agent thereunder, in trust for the benefit of the Owners of the Bonds. In such event, the Finance Director may designate a successor Fiscal Agent qualified to act as Fiscal Agent thereunder.

The recitals of facts, covenants and agreements in the Fiscal Agent Agreement and in the Bonds contained shall be taken as statements, covenants and agreements of the City, and the Fiscal Agent assumes no responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Fiscal Agent Agreement or of the Bonds, or shall the Fiscal Agent incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Fiscal Agent Agreement or in the Bonds assigned to or imposed upon it. The Fiscal Agent shall not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful misconduct. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

The Fiscal Agent shall not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts. No provision of the Fiscal Agent Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Fiscal Agent Agreement, or in the exercise of any of its rights or powers.

The Fiscal Agent shall be under no obligation to exercise any of the rights or powers vested in it by the Fiscal Agent Agreement at the request or direction of any of the Owners pursuant to the Fiscal Agent Agreement unless such Owners shall have offered to the Fiscal Agent reasonable security or indemnity

against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

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

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

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

Whenever in the administration of its duties under the Fiscal Agent Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Fiscal Agent Agreement, such matter (unless other evidence in respect thereof be in the Fiscal Agent Agreement specifically prescribed) may, in the absence of willful misconduct on the part of the Fiscal Agent, be deemed to be conclusively proved and established by an Officer's Certificate, and such certificate shall be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of the Fiscal Agent Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

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

## **AMENDMENT**

The Fiscal Agent Agreement and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least 60% in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the City of any pledge or lien upon the Special Taxes superior to

or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Fiscal Agent Agreement), or reduce the percentage of Bonds required for the amendment of the Fiscal Agent Agreement. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent.

The Fiscal Agent Agreement and the rights and obligations of the City and of the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(A) to add to the covenants and agreements of the City in the Fiscal Agent Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power in the Fiscal Agent Agreement reserved to or conferred upon the City;

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

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

(D) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from gross federal income taxation of interest on the Bonds.

(E) in connection with the issuance of any Parity Bonds under and pursuant to the Fiscal Agent Agreement.

Any amendment of the Fiscal Agent Agreement may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent shall be furnished an opinion of counsel that any such Supplemental Agreement entered into by the City and the Fiscal Agent complies with the provisions of the Fiscal Agent Agreement and the Fiscal Agent may conclusively rely on such opinion and shall be absolutely protected in so relying.

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

Such Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement) and a notice shall have been mailed provided in the Fiscal Agent Agreement. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Fiscal Agent Agreement. Any such consent shall be binding upon



the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice provided for in the Fiscal Agent Agreement has been mailed.

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

### **DISCHARGE**

The City shall have the option to pay and discharge all or a portion of the indebtedness on all Bonds Outstanding in any one or more of the following ways:

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

(B) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds and accounts provided for in the Bond Fund, the Reserve Fund, the 2022 Reserve Fund or such other debt service reserve fund established by a Supplemental Agreement, as applicable, is fully sufficient to pay all such Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Fiscal Agent, in trust, cash and/or Federal Securities in such amount as the City shall determine, as confirmed by an independent certified public accountant, will, together with the interest to accrue thereon and moneys then on deposit in the fund and accounts provided for in the Bond Fund and the Reserve Fund, the 2022 Reserve Fund or such other debt service reserve fund established by a Supplemental Agreement, as applicable (to the extent invested in Federal Securities), be fully sufficient to pay and discharge the indebtedness on all such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

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

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

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

**APPENDIX D**  
**FORM OF CO-BOND COUNSEL OPINION**

December \_\_, 2022

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

**OPINION:**     \$31,190,000 San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2022A (Tax-Exempt)

                     \$47,380,000 San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2022B (Federally Taxable – Green Bonds)

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Members of the Board of Supervisors:

We have acted as co-bond counsel to the City and County of San Francisco (the “City”) in connection with the issuance by the City, for and on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center), of (i) the \$31,190,000 San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2022A (Tax-Exempt) (the “2022A Bonds”) and the \$47,380,000 San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Special Tax Bonds, Series 2022B (Federally Taxable – Green Bonds) (the “2022B Bonds”; together with the 2022A Bonds, the “Bonds”), dated the date hereof. In such capacity, we have examined such law and such certified proceedings, certifications, opinions and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being sections 53311 et seq. of the California Government Code (the “Act”), Resolution No. 2-15 of the Board of Supervisors of the City adopted on January 13, 2015 and signed by the Mayor on January 20, 2015, as supplemented, including by Resolution No. 469-22 of the Board of Supervisors adopted on November 8, 2022, and signed by the Mayor on November 17, 2022 (collectively, the “Resolution”) and a Fiscal Agent Agreement (the “Master Fiscal Agent Agreement”), dated as of November 1, 2017, by and between the City and Zions Bancorporation, National Association, as fiscal agent (the “Fiscal Agent”) as supplemented, including by a Fourth Supplement to Fiscal Agent Agreement, dated as of December 1, 2022 (the “Fourth Supplement”; together with the Master Fiscal Agent Agreement, as previously supplemented, the “Fiscal Agent Agreement”). Under the Fiscal Agent Agreement, the City has pledged certain revenues (“Special Tax Revenues”) for the payment of principal, premium (if any) and interest on the Bonds when due.

Regarding questions of fact material to our opinion, we have relied on representations of the City contained in the Resolution and in the Fiscal Agent Agreement, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The City is a municipal corporation and chartered city and county, duly organized and existing under its charter and the laws of the State of California, with the power to adopt the Resolution, enter into the Fiscal Agent Agreement and perform the agreements on its part contained therein, and issue the Bonds.
2. The Fiscal Agent Agreement has been duly authorized, executed and delivered by the City, and constitutes a valid and binding obligation of the City, enforceable against the City.
3. The Fiscal Agent Agreement creates a valid lien on the Special Tax Revenues and other funds pledged by the Fiscal Agent Agreement for the security of the Bonds, on a parity with other bonds issued or to be issued under the Fiscal Agent Agreement.
4. The Bonds have been duly authorized and executed by the City, and are valid and binding limited obligations of the City, payable solely from the Special Tax Revenues and other funds provided therefor in the Fiscal Agent Agreement.
5. The interest on the 2022A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It should be noted however that for tax years beginning after December 31, 2022, interest on the 2022A Bonds may be subject to the corporate alternative minimum tax. The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the 2022A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2022A Bonds.
6. The City does not intend for the interest on the 2022B Bonds to be excluded from gross income for federal income tax purposes. We express no opinion regarding federal tax consequences arising with respect to the 2022B Bonds.
7. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Fiscal Agent Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Moreover, our opinions are not a guarantee of a particular result, and are not binding on any court; rather, our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations, opinions, and covenants referenced above. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

#### CONTINUING DISCLOSURE CERTIFICATE

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

###### Special Tax Bonds, Series 2022A (Tax-Exempt)

###### Special Tax Bonds, Series 2022B (Federally Taxable – Green Bonds)

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City and County of San Francisco (the “City”) with respect to the City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) (the “District”) in connection with the issuance of the District’s Special Tax Bonds, Series 2022A (Tax-Exempt) (the “2022A Bonds”) and Special Tax Bonds, Series 2022B (Federally Taxable – Green Bonds) (the “2022B Bonds” and, together with the 2022A Bonds, the “2022 Bonds”). The 2022 Bonds are issued pursuant to Resolution No. 2-15, which was approved by the Board of Supervisors on January 13, 2015 and signed by the Mayor on January 20, 2015, as supplemented by Resolution No. 247-17 adopted by the Board of Supervisors on June 13, 2017 and signed by the Mayor on June 22, 2017, Resolution No. 419-18 adopted by the Board of Supervisors on December 4, 2018 and signed by the Mayor on December 12, 2018, Resolution No. 172-20 adopted by the Board of Supervisors on April 28, 2020 and signed by the Mayor on May 1, 2020, Resolution No. 439-21 adopted by the Board of Supervisors on September 21, 2021 and signed by the Mayor on September 29, 2021, and Resolution No. 469-22 adopted by the Board of Supervisors on November 8, 2022 and signed by the Mayor on November 17, 2022 (collectively, the “Resolution”) and the Fiscal Agent Agreement, dated as of November 1, 2017, as supplemented by the First Supplement to Fiscal Agent Agreement, dated as of February 1, 2019, the Second Supplement to Fiscal Agent Agreement, dated as of May 1, 2020, the Third Supplement to Fiscal Agent Agreement, dated as of November 1, 2021, and the Fourth Supplement to Fiscal Agent Agreement, dated as of December 1, 2022 (collectively, the “Fiscal Agent Agreement”), by and between the City and Zions Bancorporation, National Association, as fiscal agent, and pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California). The City covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the 2022 Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

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

“Beneficial Owner” shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2022 Bonds (including persons holding 2022 Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any 2022 Bonds or to dispose of ownership of any 2022 Bonds; or (b) is treated as the owner of any 2022 Bonds for federal income tax purposes.

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

“Downtown Rail Extension” shall mean the extension of the Caltrain rail tracks from their current San Francisco terminus at 4th & King Streets to the Salesforce Transit Center to accommodate both Caltrain and California High Speed Rail.

“Financial Obligation” shall mean “financial obligation” as such term is defined in the Rule.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the City, with notice of such selection or change in fiscal year to be provided as set forth herein for a Listed Event.

“Holder” shall mean either the registered owners of the 2022 Bonds, or, if the 2022 Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

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

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

“Participating Underwriter” shall mean any of the original underwriters or purchasers of the 2022 Bonds required to comply with the Rule in connection with offering of the 2022 Bonds.

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

Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the Fiscal Agent Agreement.

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

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City’s Fiscal Year (which is June 30), commencing with the report for the 2021-22 Fiscal Year (which is due not later than March 31, 2023), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to such date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

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

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

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

(a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities. The financial statements required by this subsection (a) shall be accompanied by the following statement:

THE CITY'S ANNUAL FINANCIAL STATEMENT IS PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15C2-12. NO FUNDS OR ASSETS OF THE CITY ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE 2022 BONDS, AND THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE CITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE 2022 BONDS.

(b) the principal amount of the 2022 Bonds outstanding as of June 30 next preceding the date of the Annual Report.

(c) the balance in the Allocated Bond Proceeds Account as of June 30 next preceding the date of the Annual Report.

(d) the balance in the 2022 Reserve Fund for the 2022A Bonds and the balance in the Reserve Fund for the 2022B Bonds, each as of June 30 next preceding the date of the Annual Report.

(e) the total assessed value of all parcels subject to the Special Taxes and the current year's assessed value for the District.

(f) concerning delinquent parcels:

- number of parcels delinquent in payment of Special Tax,
- amount of total delinquency and as a percentage of total Special Tax levy, and
- status of the District's actions on covenants to pursue foreclosure proceedings upon delinquent properties.

(g) identity of any delinquent taxpayer obligated for more than 10% of the annual Special Tax levy, together with the assessed value of the applicable properties and a summary of the results of any foreclosure sales, if available.

(h) for the Fiscal Year for which the Annual Report is being issued, identify any Certificate of Occupancy or Tax Commencement Authorization that has been issued on a parcel subject to the Special Taxes.

(i) to the extent not otherwise provided pursuant to the preceding items a-h, annual information required to be filed with respect to the District since the last Annual Report with the California Debt and Investment Advisory Commission pursuant to Sections 50075.1, 50075.3, 53359.5(b), 53410(d) or 53411 of the California Government Code.

(j) updated information of the type set forth in Tables 1 and 2 in the Official Statement, dated November 30, 2022 (the "Official Statement") relating to the 2022 Bonds.

(k) a statement confirming that, during the most recent Fiscal Year, proceeds of the 2022B Bonds in the Allocated Bond Proceeds Account were spent only on Green Projects (as defined in the Official Statement), including the Downtown Rail Extension. The City shall no longer be obligated to include this statement in its Annual Report beginning with the Annual Report for the Fiscal Year that follows the earliest to occur of (i) the expenditure of all of the proceeds of the 2022 Bonds in the Allocated Bond Proceeds Account and (ii) completion of the Downtown Rail Extension.

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

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

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 1-10 with respect to the 2022 Bonds not later than ten business days after the occurrence of the event:

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

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

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 11-18 with respect to the 2022 Bonds not later than ten business days after the occurrence of the event, if material:

11. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the 2022 Bonds or other material events affecting the tax status of the 2022 Bonds;



12. Modifications to rights of 2022 Bond holders;
13. Unscheduled or contingent 2022 Bond calls;
14. Release, substitution, or sale of property securing repayment of the 2022 Bonds;
15. Non-payment related defaults;
16. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
17. Appointment of a successor or additional trustee or the change of name of a trustee; or
18. Incurrence of a Financial Obligation of the City, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders.

(c) Within ten (10) business days after the City receives a written statement from the Climate Bonds Initiative to the effect that the 2022 Bonds are no longer certified in accordance with the “Low Carbon Land Transport Criteria” under the Climate Bonds Standard, the City will post, or cause to be posted, notice of such written statement with the MSRB.

(d) Within ten (10) business days after the District is removed from the Teeter Plan, the City will post, or cause to be posted, notice of such event with the MSRB.

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

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

(g) If the City learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection 5(b)(13) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2022 Bonds pursuant to the Resolution.

**SECTION 6. Termination of Reporting Obligation.** The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2022 Bonds. If such termination occurs prior to the final maturity of the 2022 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

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

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

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the City with respect to the 2022 Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2022 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount of the 2022 Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

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

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

**SECTION 10. Remedies.** In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the 2022 Bonds may take such actions as may be necessary and appropriate to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California, and that the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

[Remainder of page intentionally left blank.]

**SECTION 11. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the 2022 Bonds, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2022

CITY AND COUNTY OF SAN FRANCISCO

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Anna Van Degna  
Director of the Office of Public Finance

Approved as to form:

DAVID CHIU, CITY ATTORNEY

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

AGREED AND ACCEPTED:

GOODWIN CONSULTING GROUP, INC., as Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A**

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO

Name of Bond Issue: City and County of San Francisco Community Facilities District No. 2014-1  
(Transbay Transit Center) Special Tax Bonds, Series 2022A (Tax-Exempt) and  
Special Tax Bonds, Series 2022B (Federally Taxable – Green Bonds)

Date of Issuance: \_\_\_\_\_, 2022

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the City has not provided an Annual Report with respect to the above-captioned 2022 Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated \_\_\_\_\_, 2022. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_, 20\_\_

CITY AND COUNTY OF SAN FRANCISCO

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

## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2022 Bonds. The 2022 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each issue of the 2022 Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at <http://www.dtcc.com>. *Information on such website is not incorporated by reference herein.*

Purchases of 2022 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2022 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2022 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2022 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2022 Bonds, except in the event that use of the book-entry system for the 2022 Bonds is discontinued.

To facilitate subsequent transfers, all 2022 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2022 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2022 Bonds: DTC's records reflect only the identity of the Direct Participants to whose accounts such 2022 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2022 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2022 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2022 Bond documents. For example, Beneficial Owners of 2022 Bonds may wish to ascertain that the nominee holding the 2022 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2022 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

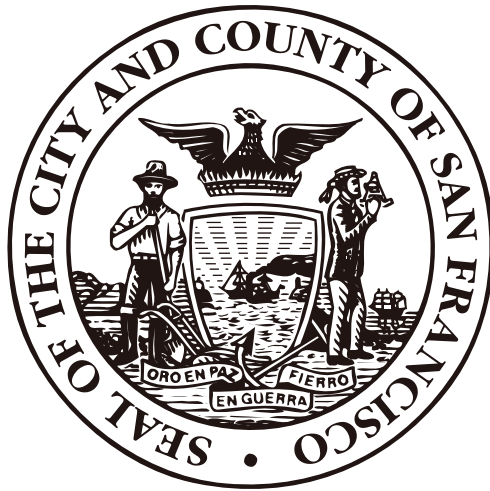
Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2022 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2022 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2022 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Fiscal Agent, or City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2022 Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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





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