**NEW ISSUE — BOOK-ENTRY ONLY**

**RATINGS:**
**Moody's: Aa2**
**S&P: AA**
**Fitch: AA**
**(See "Ratings" herein)**

*In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the City, interest with respect to the Certificates (i) is not excludable from gross income for United States Federal income tax purposes; and (ii) is exempt from personal income taxes imposed by the State of California.*

# $28,320,000
# CITY AND COUNTY OF SAN FRANCISCO
# CERTIFICATES OF PARTICIPATION (HOPE SF), SERIES 2017A (FEDERALLY TAXABLE)

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

**Dated: Date of Delivery** **Due: April 1, as shown on the inside cover**

*This cover page contains certain information for general reference only. It is* ***not*** *intended to be a summary of the security for or the terms of the Certificates (as defined herein). Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

The $28,320,000 City and County of San Francisco Certificates of Participation (HOPE SF), Series 2017A (Federally Taxable) (the "**Certificates**"), will be sold to provide funds to: (i) finance or refinance a portion of the costs of the acquisition, construction, installation or improvement to, or rehabilitation of, mixed-use housing development in the City and County of San Francisco's (the "City") HOPE SF – Hunters View project and related improvements and equipment (the "**Project**"); (ii) fund the 2017 Reserve Account of the Reserve Fund (as defined herein) for the Certificates established under the Trust Agreement (as defined herein); and (iii) pay costs of execution and delivery of the Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE PROJECT."

The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2017 (the "**Trust Agreement**"), between the City and U.S. Bank National Association, as trustee (the "**Trustee**"), and in accordance with the Charter of the City (the "**Charter**"). See "THE CERTIFICATES—Authority for Execution and Delivery." The Certificates evidence the principal and interest components of the Base Rental (as defined herein) payable by the City pursuant to a Project Lease, dated as of June 1, 2017 (the "**Project Lease**"), by and between the Trustee, as lessor, and the City, as lessee. The City has covenanted in the Project Lease to take such action as may be necessary to include and maintain all Base Rental and Additional Rental (as defined herein) payments in its annual budget, and to make necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES—Covenant to Budget." The obligation of the City to pay Base Rental is in consideration for the use and occupancy of the land and facilities subject to the Project Lease (the "**Leased Property**"), and such obligation may be abated in whole or in part if there is substantial interference with the City's use and occupancy of the Leased Property. See "CERTAIN RISK FACTORS—Abatement."

The Certificates will be delivered in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company ("**DTC**"). Individual purchases of the Certificates will be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof. Principal and interest evidenced and represented by the Certificates will be paid by the Trustee to DTC, which will in turn remit such payments to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES—Form and Registration." Interest evidenced and represented by the Certificates is payable on April 1 and October 1 of each year, commencing October 1, 2017. Principal will be paid as shown on the inside cover hereof. See "THE CERTIFICATES—Payment of Principal and Interest."

**The Certificates are subject to prepayment prior to their respective payment dates as described herein.** See "THE CERTIFICATES—Prepayment of the Certificates."

**THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS UNDER THE PROJECT LEASE DOES NOT CONSTITUTE AN OBLIGATION TO LEVY OR PLEDGE, OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY SHALL BE OBLIGATED TO MAKE BASE RENTAL PAYMENTS SUBJECT TO THE TERMS OF THE PROJECT LEASE AND NEITHER THE CITY NOR ANY OF ITS OFFICERS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE EXECUTION AND DELIVERY OF THE CERTIFICATES. SEE "CERTAIN RISK FACTORS."**

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**CERTIFICATE PAYMENT SCHEDULE**
(See inside cover)

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*The Certificates are offered when, as and if executed and received by the initial purchasers, subject to the approval of the validity of the Project Lease by Hawkins Delafield & Wood LLP, San Francisco, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel. It is expected that the Certificates in book-entry form will be available for delivery through DTC on or about June 14, 2017.*

Dated: June 1, 2017.

## CERTIFICATE PAYMENT SCHEDULE

(Base CUSIP* Number: 79765D)

| Certificate Payment Date (April 1) | Principal Amount | Interest Rate | Yield† | CUSIP* Suffix |
|---|---|---|---|---|
| 2018 | $ 745,000 | 3.50% | 1.36% | T26 |
| 2019 | 555,000 | 3.50 | 1.61 | T34 |
| 2020 | 575,000 | 3.50 | 1.86 | T42 |
| 2021 | 595,000 | 3.50 | 2.08 | T59 |
| 2022 | 615,000 | 3.50 | 2.28 | T67 |
| 2023 | 640,000 | 3.50 | 2.50 | T75 |
| 2024 | 660,000 | 3.50 | 2.70 | T83 |
| 2025 | 685,000 | 3.50 | 2.84 | T91 |
| 2026 | 705,000 | 3.50 | 3.00 | U24 |
| 2027 | 730,000 | 3.50 | 3.10 | U32 |
| 2028 | 760,000 | 3.20 | 3.20 | U40 |
| 2029 | 780,000 | 3.35 | 3.35 | U57 |
| 2030 | 810,000 | 3.55 | 3.50‡ | U65 |
| 2031 | 835,000 | 3.65 | 3.60‡ | U73 |
| 2032 | 865,000 | 3.70 | 3.65‡ | U81 |
| 2033 | 900,000 | 3.70 | 3.68‡ | U99 |
| 2034 | 935,000 | 3.70 | 3.70 | V23 |
| 2035 | 965,000 | 3.75 | 3.73‡ | V31 |
| 2036 | 1,005,000 | 3.75 | 3.75 | V49 |
| 2037 | 1,040,000 | 3.80 | 3.80 | V56 |

$5,835,000 3.90% Term Certificates due April 1, 2042 –Yield† 3.90% CUSIP* 79765D V64

$7,085,000 4.00% Term Certificates due April 1, 2047 –Yield† 4.00% CUSIP* 79765D V72

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

† Reoffering yields furnished by the initial purchasers. The City takes no responsibility for the accuracy thereof.

‡ Yield to the first optional call date of April 1, 2027 at par.

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

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

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

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

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

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

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## CITY AND COUNTY OF SAN FRANCISCO

**MAYOR**

Edwin M. Lee

**BOARD OF SUPERVISORS**

London Breed, *Board President, District 5*

Sandra Lee Fewer, *District 1*
Mark Farrell, *District 2*
Aaron Peskin, *District 3*
Katy Tang, *District 4*
Jane Kim, *District 6*

Norman Yee, *District 7*
Jeff Sheehy, *District 8*
Hillary Ronen, *District 9*
Malia Cohen, *District 10*
Ahsha Safai, *District 11*

**CITY ATTORNEY**

Dennis J. Herrera

**CITY TREASURER**

José Cisneros

**OTHER CITY AND COUNTY OFFICIALS**

Naomi M. Kelly, *City Administrator*
Benjamin Rosenfield, *Controller*
Nadia Sesay, *Director of Public Finance*

**PROFESSIONAL SERVICES**

**Special Counsel**
Hawkins Delafield & Wood LLP
*San Francisco, California*

**Co-Municipal Advisors**

Kitahata & Company
*San Francisco, California*

Public Resources Advisory Group
*Oakland, California*

**Disclosure Counsel**
Orrick, Herrington & Sutcliffe LLP
*San Francisco, California*

**Trustee**
U.S. Bank National Association
*San Francisco, California*

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## APPENDICES

## OFFICIAL STATEMENT

**$28,320,000**
**CITY AND COUNTY OF SAN FRANCISCO**
**CERTIFICATES OF PARTICIPATION (HOPE SF),**
**SERIES 2017A (FEDERALLY TAXABLE)**

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

## INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City and County of San Francisco (the "**City**") of its $28,320,000 City and County of San Francisco Certificates of Participation (HOPE SF), Series 2017A (Federally Taxable) (the "**Certificates**"). Any capitalized term not defined herein will have the meaning given to such term in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Definitions." The references to any legal documents, instruments and the Certificates in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions.

The City, exercising its powers under the City's Charter (the "**Charter**") to convey and lease property for City purposes, conveys certain real property to the Trustee (as defined herein) under the Property Lease (as defined herein) in exchange for the proceeds of the sale of the Certificates and other consideration. The Trustee leases the Leased Property (as defined herein) back to the City for the City's use under the Project Lease (as defined herein). The City will be obligated under the Project Lease to make Base Rental payments and Additional Rental payments (together, the "**Rental Payments**") to the Trustee each year during the term of the Project Lease (subject to certain conditions under which the obligation to pay Base Rental may be abated as discussed herein). Each payment of Base Rental consists of principal and interest components, and when received by the Trustee in each rental period, is deposited in trust for payment of the Certificates. The Trustee creates the "certificates of participation" in the Project Lease, evidencing and representing proportional interests in the principal and interest components of Base Rental it receives from the City. The Trustee will apply Base Rental it receives to pay principal and interest evidenced and represented by each Certificate when due according to the Trust Agreement (as defined herein), which governs the security and terms of payment of the Certificates. The money received from sale of the Certificates will be applied by the Trustee at the direction of the City to finance or refinance the Project.

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

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

**The City anticipates that it will also execute and deliver in June 2017 the City and County of San Francisco Certificates of Participation, Series 2017B (Moscone Convention Center Expansion Project) (the "Moscone Center Certificates"), in an aggregate principal amount of approximately $450 million. Principal and interest evidenced and represented by the Moscone Center Certificates will be payable from the general fund of the City. The Moscone Center Certificates are not being offered pursuant to this Official Statement.**

## THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the "**Bay**"). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The City's population in 2016 was approximately 877,000.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "**Bay Area**"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education. Major corporations headquartered in the City include: Salesforce, Uber Technologies Inc., Twitter, Wells Fargo, Gap Inc., and Pacific Gas & Electric. The City is also a leading center for financial activity in the State and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco Regional Office of Thrift Supervision. The California State Supreme Court is also based in the City.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2016, approximately 25.2 million people visited the City and spent an estimated $9.0 billion during their visit, of which approximately $750 million was generated to the City in direct spending from convention visitors.

The City benefits from a highly skilled, educated and professional labor force. The per-capita personal income of the City for fiscal year 2015-16 was $95,815 and unemployment was 3.4%. The San Francisco Unified School District operates 16 transitional kindergarten schools, 72 elementary and K-8 school sites, 12 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 46 State-funded preschool sites, and sponsors 13 independent charter schools. Higher education institutions located in the City include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport ("**SFO**"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In fiscal year 2015-16, SFO serviced approximately 51.4 million passengers and handled 451,501 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking the City with the San Francisco Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway, operated by the City, provides bus and streetcar service within the City. The Port of San Francisco (the "**Port**"), which administers 7.5 miles of Bay waterfront held in "public trust" by the Port on behalf of the people of the State, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities and natural resource protection.

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City to his current term on November 3, 2015. The City's adopted budget for fiscal years 2016-17 and 2017-18 totals $9.59 billion and $9.72 billion, respectively. The General Fund portion of each year's adopted budget is $4.86 billion in fiscal year 2016-17 and $5.09 billion in fiscal year 2017-18, with the balance being allocated to all other funds, including enterprise fund departments, such as SFO, the San Francisco Municipal Transportation Agency, the Port Commission and the San Francisco Public

Utilities Commission. The City employed 31,342 full-time-equivalent employees at the end of fiscal year 2015-16. According to the Controller of the City (the "**Controller**"), the fiscal year 2016-17 total net assessed valuation of taxable property in the City is approximately $211.5 billion.

More detailed information about the City's governance, organization and finances may be found in APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2016."

## RECENT DEVELOPMENTS

The information contained in APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" was prepared by the City for inclusion in official statements relating to publicly offered securities of the City and updated as of May 22, 2017. The following information supplements and amends the information set forth in Appendix A as of the date of this Official Statement. Investors are advised to carefully consider the information presented below, together with other information presented in this Official Statement, in order to make an informed investment decision.

***City's Proposed Budget.*** On June 1, 2017, the Mayor issued his Proposed Budget and Annual Appropriation Ordinance as of June 1, 2017 for Fiscal Year Ending June 30, 2018 and Fiscal Year Ending June 30, 2019 (the "**Proposed Budget**"). For fiscal year 2017-18, the Proposed Budget appropriates annual revenues, fund balance, transfers, and reserves of approximately $10.11 billion, of which the City's General Fund accounts for approximately $5.14 billion. For fiscal year 2018-19, the Proposed Budget appropriates revenues, fund balance, transfers and reserves of approximately $10.00 billion, of which the General Fund accounts for approximately $5.31 billion. The Mayor's Five-Year Financial Plan projected General Fund shortfalls of $87 million and $200 million in fiscal years 2017-18 and 2018-19, respectively. The Proposed Budget addresses the shortfalls through improved revenue projections, one time-funding of non-recurring capital and equipment costs, savings in health benefit costs, and identification of alternative sources for funding of costs at the Department of Public Health. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET."

## THE CERTIFICATES

### Authority for Execution and Delivery

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2017 (the "**Trust Agreement**"), by and between the City and U.S. Bank National Association, as trustee (the "**Trustee**"). Each Certificate represents a proportionate interest in the right of the Trustee to receive Base Rental payments (comprising principal and interest components) payable by the City pursuant to a Project Lease, dated as of June 1, 2017 (the "**Project Lease**"), by and between the Trustee, as lessor, and the City, as lessee. The City is obligated under the Project Lease to pay the Base Rental in consideration for its use and occupancy of the land and facilities subject to the Project Lease (the "**Leased Property**"). The Leased Property will be originally conveyed to the Trustee pursuant to a Property Lease, dated as of June 1, 2017 (the "**Property Lease**"), by and between the City, as lessor, and the Trustee, as lessee.

The Trust Agreement, the Property Lease, and the Project Lease were approved by the Board of Supervisors of the City by its Ordinance No. 266-10, adopted on October 26, 2010 ("**Ordinance No. 266-10**"), and signed by then Mayor Gavin Newsom on November 5, 2010. Ordinance No. 266-10 authorized the execution and delivery of up to $38,000,000 aggregate principal amount evidenced and represented by the Certificates under the Trust Agreement and the payment of a maximum annual Base Rental payment under the Project Lease. Certain amendments to the execution and delivery date of the Certificates in Ordinance No. 266-10 were approved by the Board of Supervisors of the City by its Ordinance No. 096-17, adopted on May 2, 2017 ("**Ordinance No. 096-17**"), and signed by Mayor Edwin M. Lee on May 12, 2017.

Under Section 9.108 of the Charter, the City is authorized to enter into lease-financing agreements with a public agency or nonprofit corporation only with the assent of the majority of the voters voting upon a proposition for the purpose. The lease-financing arrangements with the Trustee for the Certificates do not fall under this provision, since the Trustee is neither a public agency nor a nonprofit corporation.

**Purpose**

The proceeds of the Certificates will be used to: (i) finance or refinance a portion of the costs of the acquisition, construction, installation or improvement to, or rehabilitation of, mixed-use housing development in the City's HOPE SF – Hunters View project and related improvements and equipment (the "**Project**"); (ii) fund the 2017 Reserve Account of the Reserve Fund for the Certificates established under the Trust Agreement; and (iii) pay costs of execution and delivery of the Certificates. See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein, for a further description of the expected application of proceeds of sale of the Certificates.

**Form and Registration**

The Certificates are being executed and delivered in the aggregate principal amount shown on the cover hereof.

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

**Payment of Principal and Interest**

The principal evidenced and represented by the Certificates will be payable on April 1 of each year shown on the inside cover hereof, or upon prepayment prior thereto, and will evidence and represent the sum of the principal components of the Base Rental payments. Payment of the principal and premium, if any, evidenced and represented by the Certificates upon their respective Certificate Payment Dates or prepayment prior thereto, will be made upon presentation and surrender of such Certificates at the Principal Office of the Trustee. Principal and premium, if any, will be payable in lawful money of the United States of America.

Interest evidenced and represented by the Certificates is payable on April 1 and October 1 of each year (each, an "**Interest Payment Date**"), commencing on October 1, 2017, and continuing to and including their respective Certificate Payment Dates or until prepayment prior thereto, and will evidence and represent the sum of the interest components of the Base Rental payments. Interest evidenced and represented by the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest evidenced and represented by each Certificate will accrue from the Interest Payment Date next preceding the date of execution and delivery thereof, unless (i) the Certificate is executed after a Regular Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest evidenced and represented thereby will be payable from such Interest Payment Date; or (ii) the Certificate is executed prior to the close of business on the first Regular Record Date, in which event interest evidenced and represented thereby will be payable from the date of delivery; provided, however, that if at the time of execution of any Certificate interest thereon is in default, such interest will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the date of delivery.

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

**Prepayment of the Certificates**

***Optional Prepayment***

The Certificates with a Certificate Payment Date on or before April 1, 2027, are not subject to optional prepayment prior to their respective stated Certificate Payment Dates. The Certificates with a Certificate Payment Date on or after April 1, 2028 are subject to prepayment prior to their respective stated Certificate Payment Dates, as a whole or in part on any date on or after April 1, 2027, in the event the City exercises its option under the Project Lease to prepay the principal component of Base Rental payments, at a prepayment price equal to 100% of the principal amount evidenced and represented by the Certificates to be prepaid plus accrued interest to the date fixed for prepayment.

***Special Mandatory Prepayment***

The Certificates are subject to mandatory prepayment prior to their respective Certificate Payment Dates, as a whole or in part on any date, at a Prepayment Price equal to the principal amount thereof plus accrued but unpaid interest to the prepayment date, without premium, from amounts deposited in the Base Rental Fund following an event of damage, destruction or condemnation of the Leased Property or any portion thereof or upon loss of the use or possession of the Leased Property or any portion thereof due to a title defect.

***Mandatory Sinking Account Installment Prepayment***

The $5,835,000 Term Certificates with a Certificate Payment Date of April 1, 2042, are subject to sinking account installment prepayment prior to their stated final Certificate Payment Date, in part, by lot, from scheduled payments of the principal component of Base Rental payments, at the principal amount thereof, plus accrued interest to the prepayment date, without premium, on April 1 in each of the years and in the amounts set forth below:

| Sinking Account Payment Date (April 1) | Sinking Account Installment Amount |
|---|---|
| 2038 | $1,080,000 |
| 2039 | 1,120,000 |
| 2040 | 1,165,000 |
| 2041 | 1,210,000 |
| 2042† | 1,260,000 |

† Final Certificate Payment Date.

The $7,085,000 Term Certificates with a Certificate Payment Date of April 1, 2047, are subject to sinking account installment prepayment prior to their stated final Certificate Payment Date, in part, by lot, from scheduled payments of the principal component of Base Rental payments, at the principal amount thereof, plus accrued interest to the prepayment date, without premium, on April 1 in each of the years and in the amounts set forth below:

| Sinking Account Payment Date (April 1) | Sinking Account Installment Amount |
|---|---|
| 2043 | $1,310,000 |
| 2044 | 1,360,000 |
| 2045 | 1,415,000 |
| 2046 | 1,470,000 |
| 2047† | 1,530,000 |

† Final Certificate Payment Date.

***Selection of Certificates for Prepayment***

Whenever provision is made in the Trust Agreement for the prepayment of the principal amount evidenced and represented by the Certificates (other than from Sinking Account Installments) and less than all of the principal amount evidenced and represented by the Outstanding Certificates are to be prepaid, the City will direct the principal amount evidenced and represented by the Certificates scheduled to be paid on each Certificate Payment Date to be prepaid. Among the Certificates scheduled to be paid on a particular Certificate Payment Date, the Trustee, with the consent of the City, will select Certificates for prepayment by lot in any manner which the Trustee in its sole discretion deems fair and appropriate; provided, however, that the portion of any Certificate to be prepaid will be in Authorized Denominations and all Certificates to remain Outstanding after any prepayment in part will be in Authorized Denominations.

***Notice of Prepayment***

Notice of prepayment will be given to the respective Owners of Certificates designated for prepayment by Electronic Notice or first-class mail, postage prepaid, at least 30 but not more than 45 days before any prepayment date, at their addresses appearing on the registration books maintained by the Trustee; provided, however, that so long as the DTC book-entry system is used for any Certificates, notice with respect thereto will be given solely to DTC, as nominee of the registered Owner, in accordance with its operational requirements. Notice will also be given as required by the Continuing Disclosure Certificate. See "CONTINUING DISCLOSURE" herein.

Each notice of prepayment will specify: (i) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (ii) the date of prepayment, (iii) the place or places where the prepayment will be made, including the name and address of the Trustee, (iv) the prepayment price, (v) the CUSIP numbers (if any) assigned to the Certificates to be prepaid, (vi) the Certificate numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the amount of such Certificate to be prepaid, and (vii) the original delivery date and stated Certificate Payment Date of each Certificate to be prepaid in whole or in part. Each notice will further state that on the specified date there will become due and payable with respect to each Certificate or portion thereof being prepaid the prepayment price, together with interest evidenced and represented thereby accrued but unpaid to the prepayment date, and that from and after such date, if sufficient funds are available for prepayment, interest evidenced and represented thereby will cease to accrue and be payable. Neither the failure to receive any notice nor any defect therein will affect the proceedings for such prepayment.

***Effect of Prepayment***

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

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

*Conditional Notice; Cancellation of Optional Prepayment*

The City may provide a conditional notice of prepayment and such notice will specify its conditional status.

If the Certificates are subject to optional prepayment, and the Trustee does not have on deposit moneys sufficient to prepay the principal, plus the applicable premium, if any, evidenced and represented by the Certificates proposed to be prepaid on the date fixed for prepayment, and interest with respect thereto, the prepayment will be canceled, and in such case, the City, the Trustee and the Owners will be restored to their former positions and rights under the Trust Agreement, and the City will continue to pay the Base Rental payments as if no such notice were given. Such a cancellation of an optional prepayment at the election of the City will not constitute a default under the Trust Agreement, and the Trustee and the City will have no liability from such cancellation. In the event of such cancellation, the Trustee will send notice of such cancellation to the Owners in the same manner as the related notice of prepayment. Neither the failure to receive such cancellation notice nor any defect therein will affect the sufficiency of such cancellation.

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

*Purchase of Certificates*

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

## ESTIMATED SOURCES AND USES OF FUNDS

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

| | |
|---|---|
| Sources of Funds: | |
| Certificate Par Amount | $28,320,000.00 |
| *Plus* Original Issue Premium | 284,173.45 |
| Total Sources: | $28,604,173.45 |
| | |
| Uses of Funds: | |
| Commercial Paper Redemption | $18,905,580.40 |
| Project Fund | 6,094,319.60 |
| Commercial Paper Fees & Interest(1) | 1,296,419.60 |
| 2017 Reserve Account | 1,593,955.00 |
| Purchaser's Discount | 220,935.79 |
| Costs of Delivery(2) | 492,963.06 |
| Total Uses: | $28,604,173.45 |

(1) Commercial paper notes issued to pay commercial paper program fees and accrued interest.
(2) Includes amounts for legal fees, Trustee's fees and expenses, municipal advisory fees, rating agency fees, escrow and title insurance fees, printing costs and other delivery costs.

## CERTIFICATE PAYMENT SCHEDULE

The Trust Agreement requires that Base Rental payments payable by the City pursuant to the Project Lease on each March 25 and September 25 be deposited in the Base Rental Fund maintained by the Trustee. Pursuant to the Trust Agreement, on April 1 and October 1 of each year, commencing October 1, 2017, the Trustee will apply such amounts in the Base Rental Fund as are necessary to make principal and interest payments evidenced and represented by the Certificates as the same shall become due and payable, as shown in the following table.

| Payment Date | Principal | Interest | Total Payments |
|---|---|---|---|
| 10/1/2017 | - | $ 315,536.31 | $ 315,536.31 |
| 4/1/2018 | $ 745,000.00 | 530,808.75 | 1,275,808.75 |
| 10/1/2018 | - | 517,771.25 | 517,771.25 |
| 4/1/2019 | 555,000.00 | 517,771.25 | 1,072,771.25 |
| 10/1/2019 | - | 508,058.75 | 508,058.75 |
| 4/1/2020 | 575,000.00 | 508,058.75 | 1,083,058.75 |
| 10/1/2020 | - | 497,996.25 | 497,996.25 |
| 4/1/2021 | 595,000.00 | 497,996.25 | 1,092,996.25 |
| 10/1/2021 | - | 487,583.75 | 487,583.75 |
| 4/1/2022 | 615,000.00 | 487,583.75 | 1,102,583.75 |
| 10/1/2022 | - | 476,821.25 | 476,821.25 |
| 4/1/2023 | 640,000.00 | 476,821.25 | 1,116,821.25 |
| 10/1/2023 | - | 465,621.25 | 465,621.25 |
| 4/1/2024 | 660,000.00 | 465,621.25 | 1,125,621.25 |
| 10/1/2024 | - | 454,071.25 | 454,071.25 |
| 4/1/2025 | 685,000.00 | 454,071.25 | 1,139,071.25 |
| 10/1/2025 | - | 442,083.75 | 442,083.75 |
| 4/1/2026 | 705,000.00 | 442,083.75 | 1,147,083.75 |
| 10/1/2026 | - | 429,746.25 | 429,746.25 |
| 4/1/2027 | 730,000.00 | 429,746.25 | 1,159,746.25 |
| 10/1/2027 | - | 416,971.25 | 416,971.25 |
| 4/1/2028 | 760,000.00 | 416,971.25 | 1,176,971.25 |
| 10/1/2028 | - | 404,811.25 | 404,811.25 |
| 4/1/2029 | 780,000.00 | 404,811.25 | 1,184,811.25 |
| 10/1/2029 | - | 391,746.25 | 391,746.25 |
| 4/1/2030 | 810,000.00 | 391,746.25 | 1,201,746.25 |
| 10/1/2030 | - | 377,368.75 | 377,368.75 |
| 4/1/2031 | 835,000.00 | 377,368.75 | 1,212,368.75 |
| 10/1/2031 | - | 362,130.00 | 362,130.00 |
| 4/1/2032 | 865,000.00 | 362,130.00 | 1,227,130.00 |
| 10/1/2032 | - | 346,127.50 | 346,127.50 |
| 4/1/2033 | 900,000.00 | 346,127.50 | 1,246,127.50 |
| 10/1/2033 | - | 329,477.50 | 329,477.50 |
| 4/1/2034 | 935,000.00 | 329,477.50 | 1,264,477.50 |
| 10/1/2034 | - | 312,180.00 | 312,180.00 |
| 4/1/2035 | 965,000.00 | 312,180.00 | 1,277,180.00 |
| 10/1/2035 | - | 294,086.25 | 294,086.25 |
| 4/1/2036 | 1,005,000.00 | 294,086.25 | 1,299,086.25 |
| 10/1/2036 | - | 275,242.50 | 275,242.50 |
| 4/1/2037 | 1,040,000.00 | 275,242.50 | 1,315,242.50 |
| 10/1/2037 | - | 255,482.50 | 255,482.50 |
| 4/1/2038 | 1,080,000.00 | 255,482.50 | 1,335,482.50 |
| 10/1/2038 | - | 234,422.50 | 234,422.50 |
| 4/1/2039 | 1,120,000.00 | 234,422.50 | 1,354,422.50 |
| 10/1/2039 | - | 212,582.50 | 212,582.50 |
| 4/1/2040 | 1,165,000.00 | 212,582.50 | 1,377,582.50 |
| 10/1/2040 | - | 189,865.00 | 189,865.00 |

| Payment Date | Principal | Interest | Total Payments |
|---|---|---|---|
| 4/1/2041 | $ 1,210,000.00 | $ 189,865.00 | $ 1,399,865.00 |
| 10/1/2041 | - | 166,270.00 | 166,270.00 |
| 4/1/2042 | 1,260,000.00 | 166,270.00 | 1,426,270.00 |
| 10/1/2042 | - | 141,700.00 | 141,700.00 |
| 4/1/2043 | 1,310,000.00 | 141,700.00 | 1,451,700.00 |
| 10/1/2043 | - | 115,500.00 | 115,500.00 |
| 4/1/2044 | 1,360,000.00 | 115,500.00 | 1,475,500.00 |
| 10/1/2044 | - | 88,300.00 | 88,300.00 |
| 4/1/2045 | 1,415,000.00 | 88,300.00 | 1,503,300.00 |
| 10/1/2045 | - | 60,000.00 | 60,000.00 |
| 4/1/2046 | 1,470,000.00 | 60,000.00 | 1,530,000.00 |
| 10/1/2046 | - | 30,600.00 | 30,600.00 |
| 4/1/2047 | 1,530,000.00 | 30,600.00 | 1,560,600.00 |
| Total: | $28,320,000.00 | $19,415,580.06 | $47,735,580.06 |

## SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

### Source of Payment

The Certificates evidence and represent proportionate interests in the right to receive Base Rental payments required to be made by the City to the Trustee under the Project Lease so long as the City has use and occupancy of the Leased Property. The Project Lease terminates on April 1, 2047, or upon the earlier termination upon payment of all of the Certificates in accordance with the Trust Agreement, unless extended upon the event of abatement. See "—Abatement of Base Rental Payments" below.

Pursuant to the Trust Agreement, the City has granted to the Trustee, for the benefit of the Owners, a first and exclusive lien on, and security interest in, all amounts on hand from time to time in the funds and accounts established under the Trust Agreement, including: (i) all Base Rental payments received by the Trustee from the City; (ii) the proceeds of any insurance (including the proceeds of any self-insurance and any liquidated damages received in respect of the Leased Property), and eminent domain award received by the Trustee and not required to be used for repair or replacement of the Leased Property; (iii) proceeds of rental interruption insurance policies with respect to the Leased Property received by the Trustee; (iv) all amounts on hand from time to time in the 2017 Reserve Account of the Reserve Fund and the Base Rental Fund established under the Trust Agreement, including amounts transferred to the Base Rental Fund from other funds and accounts, as provided in the Trust Agreement (including proceeds of the Certificates no longer needed to complete the Project or to pay costs of execution and delivery of the Certificates); and (v) any additional property subjected to the lien of the Trust Agreement by the City or anyone on its behalf, all subject only to the provisions of the Trust Agreement, the Property Lease and the Project Lease. The City will pay to the Trustee the Base Rental payments to the extent required under the Project Lease, which Base Rental payments are designed to be sufficient, in both time and amount, to pay, when due, the annual principal and interest evidenced and represented by the Certificates.

### Covenant to Budget

The City has covenanted in the Project Lease to take such action as may be necessary to include all Rental Payments in its annual budget and to make the necessary annual appropriations for such Rental Payments. The Project Lease provides that such covenants on the part of the City are deemed and construed to be ministerial duties imposed by law.

If the City defaults on its covenant in the Project Lease to include all Rental Payments in the applicable annual budget and such default continues for 60 days or more, the Trustee may, subject to applicable laws regarding use of such property, either re-let the Leased Property for the account of the City or may retain the Project Lease and hold the City liable for all Rental Payments on an annual basis.

For a discussion of the budget and finances of the City, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—CITY BUDGET" and APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2016." For a discussion of the City's investment policy regarding pooled cash, see APPENDIX G – "CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER—INVESTMENT POLICY."

**Base Rental Payments; Additional Rental**

***Base Rental Payments***

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

The Base Rental payments are payable by the City on March 25 and September 25 of each year during the term of the Lease, commencing September 25, 2017, provided that any such payment will be for that portion of the applicable period that the City has use and occupancy of all or a portion of the Leased Property. In the event that during any such period the City does not have use and occupancy of all or a portion of the Leased Property due to material damage to, destruction of or condemnation of the Leased Property, or defects in the title to the Leased Property, Base Rental payments are subject to abatement. See "— Abatement of Base Rental Payments" below and "CERTAIN RISK FACTORS—Abatement." The obligation of the City to make Base Rental payments is payable solely from annual appropriations of the City from any legally available funds of the City and the City has covenanted in the Project Lease to take such action as may be necessary to include all Base Rental and Additional Rental due under the Project Lease in its annual budget and to make necessary annual appropriations for all such Base Rental and Additional Rental, subject to the abatement provisions under the Project Lease. See "—Covenant to Budget" above.

***Additional Rental***

Additional Rental payments due from the City to the Trustee include, among other things, amounts sufficient to pay any taxes and insurance premiums, and to pay all fees, costs and expenses of the Trustee in connection with the Trust Agreement and all other fees, costs and expenses of the Trustee incurred from time to time in administering the Project Lease and the Trust Agreement. The City is also responsible for repair and maintenance of the Leased Property during the term of the Project Lease.

**Limited Obligation**

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

**Abatement of Base Rental Payments**

The Trustee will collect and receive all of the Base Rental payments, and all payments of Base Rental received by the Trustee under the Project Lease will be deposited into the Base Rental Fund. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified in the Project Lease is absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Project Lease regarding rental abatement. Any abatement of Base Rental payments could affect the City's ability to pay debt service on the Certificates.

The City's obligation under the Project Lease to make Rental Payments will be abated during any period in which there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property, or due to noncompletion of any portion thereof, except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the 2017 Reserve Account of the Reserve Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for Rental Payments or to the Trustee for payments in respect of the Certificates. The amount of annual rental abatement will be such that the resulting Rental Payments in any Project Lease Year during which such interference continues do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference. Abatement of Base Rental payments will commence with such damage, destruction or condemnation and end when use and occupancy or possession is restored. In the event of abatement, the term of the Project Lease may be extended until all amounts due under the Project Lease and the Trust Agreement are fully paid, but in no event later than April 1, 2057. See "CERTAIN RISK FACTORS—Abatement."

In order to mitigate the risk that an abatement event will cause a disruption in payment of Base Rental, the Project Lease requires the City to maintain rental interruption insurance throughout the term of the Project Lease in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of at least 24 months. See "—Insurance with Respect to the Leased Property" below. During any period of abatement with respect to all or any part of the Leased Property, the Trustee is required to use the proceeds of the rental interruption insurance to make payments of principal and interest evidenced and represented by the Certificates. The City is also required by the Project Lease to replace or repair Leased Property destroyed or damaged to the extent that there is substantial interference with the City's use and occupancy, or to prepay Certificates such that resulting Rental Payments are sufficient to pay all amounts due under the Project Lease and the Trust Agreement with respect to the Certificates remaining Outstanding. See "—Replacement, Maintenance and Repairs" below. In lieu of abatement of Rental Payments, the City in its sole discretion may elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to the substitution provisions of the Project Lease. See "—Addition, Release and Substitution of Leased Property" below. In addition, the Trust Agreement establishes a 2017 Reserve Account of the Reserve Fund and requires the Trustee to use any moneys on deposit in the Reserve Fund to make payments of principal and interest represented by the Certificates. See "Reserve Fund; 2017 Reserve Account," below.

**Reserve Fund; 2017 Reserve Account**

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee, and within the Reserve Fund, there is created a 2017 Reserve Account to be held by the Trustee. The 2017 Reserve Account will only be available to support payments of the principal and interest components of Base Rental evidenced and represented by the Certificates. Simultaneously with the delivery of the Certificates, the City will cause to be deposited into the 2017 Reserve Account of the Reserve Fund established under the Trust Agreement a portion of the proceeds of the Certificates, which amount will be at least equal to the Reserve Requirement. The Reserve Requirement means, with respect to the Certificates, as of any date of calculation by the City, (i) 10% of the initial principal amount evidenced by the Certificates (or, for any issue price having more than a de minimis amount of original issue discount or premium, the issue price of such Certificates); (ii) 100% of the maximum annual Base Rental; or (iii) 125% of the average annual Base Rental evidenced by the Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Certificates. The Reserve Requirement for a series of Additional Certificates shall be determined in a supplement to the Trust Agreement entered into in connection with such Additional Certificates. The Reserve Requirement shall be applied separately for each series of Certificates or on an aggregate basis if the Reserve Fund or any account therein secures more than one series of Certificates on a parity basis. As of the date of delivery of the Certificates, the Reserve Requirement is $1,593,955.

The Reserve Fund is required to be maintained by the Trustee until the Base Rental is paid in full pursuant to the Project Lease or until there are no longer any Certificates Outstanding; provided, however, that the final Base Rental payment may, at the City's option, be paid from the Reserve Fund.

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

If on any Interest Payment Date the amounts on deposit in the Base Rental Fund are less than the principal and interest evidenced and represented by the Certificates due on such date, the Trustee will transfer from the Reserve Fund for credit to the Base Rental Fund an amount sufficient to make up such deficiency (provided that if the amounts on deposit in a Reserve Account within the Reserve Fund are restricted to a series of Certificates, then such amounts will only be available for such series of Certificates). In the event of any such transfer, the Trustee will immediately provide written notice to the City of the amount and the date of such transfer.

Any moneys in the Reserve Fund in excess of the Reserve Requirement on each April 1 and October 1, commencing October 1, 2017, and at such other time or times as directed by the City, will be transferred to the Base Rental Fund and applied to the payment of the principal and interest evidenced and represented by the Certificates on the next succeeding Interest Payment Date, or transferred to such other fund as the City may designate. The Reserve Fund may secure Additional Certificates on a parity basis or, alternatively, a separate account in the Reserve Fund may be established for one or more series of Additional Certificates.

**Replacement, Maintenance and Repairs**

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

**Insurance with Respect to the Leased Property**

The Project Lease requires the City to maintain or cause to be maintained throughout the term of the Project Lease (but during the period of construction of any Facilities financed with the proceeds of any Additional Certificates only the insurance described in clauses (i) and (v) below will be required with respect to such Facilities and Additional Certificates and may be provided by the contractor under the construction contract for such Facilities): (i) general liability insurance against damages occasioned by construction of improvements to or operation of the Leased Property with minimum coverage limits of $5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with excess coverage or any other liability insurance coverage carried by the City; (ii) all risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the principal amount evidenced and represented by the Outstanding Certificates, with such insurance covering, as nearly as practicable, loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance; (iii) boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than $5,000,000 per accident; and (iv) rental interruption insurance, with the Trustee as a named insured, as its interests may appear, in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of at least 24 months (such amount to be adjusted annually on or prior to April 1 of each year, to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding 24 months) to insure against loss of rental income from the Leased Property caused by perils covered by the insurance described in (ii) above, with such insurance not subject to any deductible; and (v) in the case of construction of any Facilities financed with the proceeds of Additional Certificates, builders' risk insurance in an amount equal to the lesser of the principal amount evidenced and represented by the Additional Certificates, or the replacement cost of such Facilities, which insurance will be outstanding until Final Completion of such Facilities. Except as provided above, all policies of insurance required under the Project Lease may provide for a deductible amount that is commercially reasonable as determined by the City Risk Manager.

The Project Lease further requires the City to maintain earthquake insurance in an amount equal to the principal amount evidenced and represented by the Outstanding Certificates (to the extent commercially available, in the judgment of the City's Risk Manager); provided that no such earthquake insurance is required if the Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies. Based upon current market conditions and the recommendations of the Risk Manager of the City, the City has determined not to obtain earthquake insurance as of the date of this Official Statement.

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

THE CITY MAY SELF-INSURE AGAINST ANY OF THE RISKS REQUIRED TO BE INSURED AGAINST IN THE PROJECT LEASE, EXCEPT FOR SELF-INSURANCE FOR RENTAL INTERRUPTION INSURANCE AND TITLE INSURANCE.

**Eminent Domain**

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

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

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

**Additional Certificates**

The City may, from time to time amend the Trust Agreement and the Project Lease to authorize one or more series of Additional Certificates secured by Base Rental payments under the Project Lease on a parity with the Outstanding Certificates, provided that, among other requirements, the Base Rental payable under the amended Project Lease is sufficient to pay all principal and interest evidenced and represented by the Outstanding Certificates and such Additional Certificates, and that the amended Base Rental is not in excess of the fair rental value of the Leased Premises.

## THE LEASED PROPERTY

The Leased Property consists of two of the ten district police stations operated in the City by the San Francisco Police Department: (1) the Mission Station; and (2) the Northern Station.

**Mission Station**

The Mission Station is housed in a 24,800 square foot, two-story building on a one-acre lot located at 630 Valencia Street in the Mission District of the City, just over a mile from City Hall. The Mission Station was reconstructed in 1994 as a base of operations for police protection and emergency response services for the Mission, Castro, and Noe Valley neighborhoods of the City.

The Mission Station currently supports approximately 157 police officers and staff and up to 22 detainees. The building also houses the Station Investigation Team, consisting of approximately 12 staff members, and the Community Engagement Division, consisting of approximately 26 staff members. The construction type of the building is moment-resisting structural steel frame with concrete masonry walls on a concrete slab-on-grade foundation, supported by native sandy soils with engineered fill. The building contains office space, a reception area, community meeting room, detention facilities, and storage. The site also includes storage areas and parking. The station was built in compliance with then-applicable State and City building codes for essential facilities. The City's Director of Real Estate has estimated that the value of the Leased Property is approximately $9.9 million.

Some hazardous materials remediation occurred in connection with site preparation and construction prior to 1994. Two new fuel storage tanks were installed in 1994. A 1998 environmental assessment concluded that no further hazards remediation was necessary, that the two underground fuel storage tanks showed no indication of leakage, and no other recognized environmental conditions were identified.

Construction of the Mission Station was originally funded from general obligation bonds approved by the voters of the City in November 1987. The leased property was then made subject to a project lease securing a series of certificates of participation in 1999 which has since been repaid in full, resulting in termination and release of the lease. City title in this portion of the Leased Property is unencumbered as of the date of this Official Statement.

**Northern Station**

The Northern Station is housed in a 17,200 square foot, one-story building on a one and half-acre lot located at 1125 Fillmore Street in the Fillmore District of the City, approximately one mile from City Hall. The Northern Station was originally constructed in 1951 and renovated in 1987 as a base of operations for police protection and emergency response services for the Western Addition, Pacific Heights, Japantown, Polk Gulch, Russian Hill and the Marina neighborhoods of the City.

The Northern Station currently supports approximately 152 police officers and staff and up to 10 detainees. The construction type of the building is unreinforced brick masonry bearing and shear walls at the exterior perimeter with a timber framed flexible roof diaphragm. The building contains office space, a reception area, detention facilities, and storage. The site includes parking, maintenance and support areas. The station was built in compliance with then-applicable State and City building codes for essential facilities. The City's Director of Real Estate has estimated that the value of the Leased Property is approximately $19.8 million.

The leased property was made subject to a site lease securing a series of certificates of participation in 2010. The site lease was amended in 2016 and the leased property was released from the amended site lease. City title in this portion of the Leased Property is unencumbered as of the date of this Official Statement.

## THE PROJECT

The Project is a portion of each of three phases of a three-phase revitalization project for the Hunters View housing development in the Bayview-Hunters Point neighborhood of the City, part of the larger "HOPE SF" initiative to replace four publicly owned housing developments in the City. The overall Hunters View project consists of demolishing and replacing severely deteriorated public housing sites to create a sustainable, mixed-income community with neighborhood retail, community facilities, parks and playgrounds, in addition to 750 new housing units consisting of 267 public housing units (replaced on a one-for-one basis), as well as market-rate and affordable rental and ownership housing. The total estimated cost of all phases of the project is $450 million. Construction of Phase 1 commenced in early 2010 and was completed in summer 2013. Phase II construction of infrastructure and multifamily rental buildings began in fall 2014 and is expected to be completed in summer 2017. Phase III is scheduled to begin construction in winter 2018 with expected completion in fall 2020. Phase III, like all phases, will ultimately include not only new housing, but also new streets, pedestrian walkways, open space, sewers, lighting and other necessary infrastructure. Phase I and Phase IIA are managed by the Office of Community Investment and Infrastructure, in partnership with the Mayor's Office of Housing and Community Development and the San Francisco Housing Authority. Phase IIB and Phase III are managed by the Mayor's Office of Housing and Community Development, in partnership with the San Francisco Housing Authority. Funding will be provided from several sources, including the Mayor's Office of Housing and Community Development, the San Francisco Housing Authority, private developers and the sale of market rate homes, the federal government (including direct subsidies and low-income housing tax credits and tax-exempt private activity bonds), the State government, conventional mortgage lending, and voter-approved revenue bond financing.

Proceeds of the Certificates will be used to reimburse the City for funds advanced from the City's general fund for the Project, and to repay outstanding commercial paper issued to provide interim financing for the Project, and to complete the Phase III, the final phase of Hunters View.

## CERTAIN RISK FACTORS

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

### Rental Payments Not a Debt of the City

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

The Certificates represent and are payable solely from Base Rental payments made by the City pursuant to the Project Lease and amounts held in the 2017 Reserve Account of the Reserve Fund and the Base Rental Fund established pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the application of such amounts for the purposes and on the terms and conditions set forth therein. The City will be obligated to make Rental Payments subject to the terms of the Project Lease, and neither the City nor any of its officers will incur any liability or any other obligation with respect to the delivery of the Certificates.

**Additional Obligations**

Subject to certain Charter restrictions, the City may incur other obligations, which may constitute additional charges against its revenues, without the consent of the Owners of the Certificates. To the extent that the City incurs additional obligations, the funds available to make payments of Base Rental may be decreased. The City is currently liable on other obligations payable from its general revenues. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—CAPITAL FINANCING AND BONDS—Lease Payments and Other Long-Term Obligations", "—Board Authorized and Unissued Long-Term Obligations," and "—Overlapping Debt." See also APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2016."

**Abatement**

The obligation of the City under the Project Lease to make Base Rental payments is in consideration for the use and right of occupancy of the Leased Property.

The Project Lease provides that if an event occurs which subjects the City's Base Rental payment obligation to abatement, the amount of annual rental abatement will be such that the resulting Rental Payments in any Project Lease Year during which substantial interference with the City's use of the Leased Property continues (excluding amounts held by the Trustee in the Base Rental Fund and the Reserve Fund, proceeds of rental interruption insurance, and other lawfully available moneys of the City) do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement will continue for the period commencing with the date of damage, destruction, condemnation or discovery of title defect, and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of the title defect; and the term of the Project Lease will be extended by the period during which the rental is abated under the Project Lease, but in no event beyond April 1, 2057.

If moneys are drawn from the 2017 Reserve Account to make Base Rental payments during a period of rental abatement, moneys remaining in the 2017 Reserve Account of the Reserve Fund after such payments may be less than the Reserve Requirement. The City is not required by the Project Lease or the Trust Agreement, and cannot be compelled, to replenish the 2017 Reserve Account of the Reserve Fund to the Reserve Requirement.

It is not possible to predict the circumstances under which such an abatement of Base Rental payments may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the Project Lease or at the time of the abatement or may be adjusted during an event of abatement. Upon abatement, it may be that the value of the Leased Property is substantially higher or lower than its value at the time of execution and delivery of the Certificates. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Certificates.

If damage, destruction, condemnation or title defect with respect to the Leased Property or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with moneys in the 2017 Reserve Account of the Reserve Fund and any available insurance proceeds and other moneys available under the Trust Agreement, are insufficient to make all payments evidenced and represented by the Certificates during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Project Lease or Trust Agreement for nonpayment under such circumstances. Failure to pay principal, premium, if any, or interest evidenced and represented by the Certificates as a result of abatement of the City's obligation to make Rental Payments under the Project Lease is not an event of default under the Trust Agreement or the Project Lease.

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

## 2017 Reserve Account

At the time of delivery of the Certificates, proceeds of the Certificates in the amount of $1,593,955 will be deposited in the 2017 Reserve Account of the Reserve Fund. In the event of abatement or default, the amounts on deposit in the 2017 Reserve Account may be significantly less than the amount of Base Rental due at the time of abatement or default.

## Limited Recourse on Default; Re-letting of the Leased Property

The Project Lease and the Trust Agreement provide that, if there is a default by the City, the Trustee may, subject to applicable laws regarding use of such property, take possession of and re-let the Leased Property for the account of the City. The Leased Property is unique and re-letting might prove to be difficult or impossible; in addition, the Project Lease provides that the Leased Property may only be re-let for purposes of a police station in accordance with the original bond measure that financed the Leased Property. The amounts received from any such re-letting may be insufficient to pay the scheduled principal and interest represented by the Certificates when due, and the City is not required by the Project Lease or the Trust Agreement, and cannot be compelled, to replenish the 2017 Reserve Account to the Reserve Fund Requirement. In addition, the Trust Agreement provides that no remedies such as re-letting may be exercised so as to cause the interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes or subject to State personal income taxes. The enforcement of any remedies provided for in the Project Lease and in the Trust Agreement could prove to be both expensive and time consuming.

The Project Lease provides that any remedies on default will be exercised by the Trustee. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental and/or Additional Rental payments when due, or if the City breaches any other terms, covenants or conditions contained in the Project Lease, the Property Lease or in the Trust Agreement (and does not remedy such breach with all reasonable dispatch within 60 days after notice thereof or, if such breach cannot be remedied within such 60-day period, the City fails to take corrective action within such 60-day period and diligently pursue the same to completion), the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of Certificates then outstanding, will proceed), without any further notice: (i) to re-enter the Leased Property and eject all parties in possession therefrom and, without terminating the Project Lease, re-let the Leased Property as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable, or (ii) in lieu of the above, so long as the Trustee does not terminate the Project Lease or the City's possession of the Leased Property, to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due by pursuing any remedy available in law or in equity.

## Enforcement of Remedies

The enforcement of any remedies provided in the Project Lease and the Trust Agreement could prove both expensive and time consuming. The rights and remedies provided in the Project Lease and the Trust Agreement may be limited by and are subject to the limitations on legal remedies against cities and counties in the State, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against municipal corporations in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

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

**No Acceleration on Default**

In the event of a default, there is no remedy of acceleration of the Base Rental payments. Certificate Owners would have to sue for payment of unpaid Base Rental in each rental period as and when it becomes due. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

**Release and Substitution of the Leased Property**

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

**City Long-Term Challenges**

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

Significant capital investments are proposed in the City's adopted ten-year capital plan. However identified funding resources are below those necessary to maintain and enhance the City's physical infrastructure. As a result, over $10 billion in capital needs are deferred from the capital plan's ten-year horizon. Over two-thirds of these unfunded needs relate to the City's transportation and waterfront infrastructure, where state of good repair investment has lagged for decades. Mayor Edwin Lee has convened a taskforce to recommend funding mechanisms and strategies to bridge a portion of the gaps in the City's transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding resources.

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

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

There is no assurance that other challenges not discussed in this Official Statement may become material to investors in the future. For more information, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2016."

**Risk of Sea Level Changes and Flooding**

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

The City is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the City and the local economy.

**Seismic Risks**

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

In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Survey, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more quakes of about magnitude 6.7 or larger will occur in the San Francisco Bay Area before the year 2045. Such earthquakes may be very destructive. In addition to the potential damage to City-owned buildings and facilities (on which the City does not generally carry earthquake insurance), due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly long-term harm to the City's economy, tax receipts, and residential and business real property values.

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 "**Seawall**"). The Seawall was constructed over 100 years ago and sits on reclaimed land, rendering it vulnerable to seismic risk. The Seawall provides flood and wave protection to downtown San Francisco, and stabilizes hundreds of acres of filled land. Preliminary findings of the study indicate that a strong earthquake may cause most of the Seawall to settle and move outward toward the Bay, which would significantly increase earthquake damage and disruption along the waterfront.

The Port Commission estimates that seismic retrofitting of the Seawall could cost as much as $3 billion, with another $2 billion or more needed to prepare the Seawall for rising sea levels. The study estimates that approximately $1.6 billion in Port assets and $2.1 billion of rents, business income, and wages are at risk from major damage to the Seawall.

The Leased Property is located in the City and therefore also within a seismically active region. The obligation of the City to make payments of Base Rental may be abated if the Leased Property or any improvements thereon are damaged or destroyed by natural hazard such as earthquake or flood. The City is not obligated under the Project Lease to maintain earthquake insurance on the Leased Property so long as the City's Risk Manager determines that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies, and the City does not expect to obtain earthquake insurance.

**Climate Change Regulations**

The U.S. Environmental Protection Agency (the "**EPA**") has taken steps towards the regulation of greenhouse gas ("**GHG**") emissions under existing federal law. On December 14, 2009, the EPA made an "endangerment and cause or contribute finding" under the Clean Air Act, codified at 40 C.F.R. 1. In the finding, the EPA determined that the body of scientific evidence supported a finding that six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The EPA also found that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. This finding requires that the EPA regulate emissions of certain GHGs from motor vehicles.

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

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including the State, and have been proposed on the federal level. The State passed Assembly Bill 32, the "California Global Warming Solutions Act of 2006," which requires the Statewide level of GHGs to be reduced to 1990 levels by 2020. On October 20, 2011, the California Air Resources Board ("**CARB**") made the final adjustments to its implementation of Assembly Bill 32: the "California Cap-and-Trade Program" (the "**Program**") which was implemented in January 2012. The Program covers regulated entities emitting 25,000 metric tons of carbon dioxide equivalent (MtCO2e) per year or more and entities in certain listed industries, including major industrial sources, electricity generating facilities, and fuel suppliers. Non-covered entities are encouraged to opt-in and voluntarily participate in the Program. It is expected that the Program will result in rising electricity and fuel costs, which may adversely affect the City and the local economy.

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

**Other Events**

Seismic events, wildfires, tsunamis, and other natural or man-made events such as cybersecurity breaches may damage City infrastructure and adversely impact the City's ability to provide municipal services. For example, in November 2016, the San Francisco Municipal Transportation Agency (the "**SFMTA**") was subjected to a ransomware attack which disrupted some of the SFMTA's internal computer systems but did not impact any of the critical transportation systems. Therefore, the attack did not interrupt Muni services nor did it compromise customer privacy or transaction information. The SFMTA, however, took the precaution of turning off the ticket machines and faregates in the Muni Metro subway stations from Friday, November 25 until the morning of Sunday, November 27. While the City takes prudent measures to prevent cyberattacks, no assurance can be given that the City will not be the target of future cybersecurity attacks that could adversely impact the City's operations.

As another example, in August 2013, a massive wildfire in Tuolumne County and the Stanislaus National Forest burned over 257,135 acres (the "**Rim Fire**"), which area included portions of the City's Hetch Hetchy Project. The Hetch Hetchy Project is comprised of dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir which supplies 85% of San Francisco's drinking water), hydroelectric generator and transmission facilities and water transmission facilities. Hetch Hetchy facilities affected by the Rim Fire included two power generating stations and the southern edge of the Hetch Hetchy Reservoir. There was no impact to drinking water quality. The City's hydroelectric power generation system was interrupted by the fire, forcing the San Francisco Public Utilities Commission to spend approximately $1.6 million buying power on the open market and using existing banked energy with PG&E. The Rim Fire inflicted approximately $40 million in damage to parts of the City's water and power infrastructure located in the region. In September 2010, a Pacific Gas and Electric Company ("**PG&E**") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. There are numerous gas transmission and distribution pipelines owned, operated and maintained by PG&E throughout the City.

**Risk Management and Insurance**

The Project Lease obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property. The City is also required to maintain rental interruption insurance in an amount equal to but not less than 24 months Base Rental payments. The Project Lease allows the City to self-insure against any or all risks, except rental interruption and title defects, through an alternative risk management program such as its risk management retention program. The City expects to self-insure for all hazards for which the Project Lease permits self-insurance. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Project Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest evidenced and represented by the Certificates when due.

The City employs a full-time Risk Manager, as well as safety and loss control professionals, for the prevention and mitigation of property, liability and employee claims for injury or damage. For information concerning the self-insurance and risk management programs of the City see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—LITIGATION AND RISK MANAGEMENT—Risk Retention Program."

**State Law Limitations on Appropriations**

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

**Changes in Law**

The City cannot provide any assurance that the State Legislature or the City's Board of Supervisors will not enact legislation that will result in a reduction of the City's General Fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES—Articles XIII C and XIII D of the California Constitution."

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

**Bankruptcy**

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

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the "**Bankruptcy Code**"), which governs the bankruptcy proceedings for public agencies such as the City. Third parties, however, cannot bring involuntary bankruptcy proceedings against the City. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the rights of the Owners of the Certificates may be materially and adversely affected as follows: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment superior to that of Owners of the Certificates; and (iv) the possibility of the adoption of a plan (an "**Adjustment Plan**") for the adjustment of the City's various obligations over the objections of the Trustee or all of the Owners of the Certificates and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners of the Certificates if the Bankruptcy Court finds that such Adjustment Plan is "fair and equitable" and in the best interests of creditors. The adjustment of similar obligations is currently being litigated in federal court in connection with bankruptcy applications by the cities of San Bernardino and Stockton. The Adjustment Plans in these cities propose significant reductions in the amounts payable by the cities under lease revenue obligations substantially similar to the Certificates. The City can provide no assurances about the outcome of the bankruptcy cases of other California municipalities or the nature of any Adjustment Plan if it were to file for bankruptcy. The City is not currently considering filing for protection under the Bankruptcy Code.

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

**State of California Financial Condition**

The City receives a significant portion of its funding from the State. The City's fiscal year 2016-17 Annual Appropriation Ordinance projects that approximately $679.4 million or 14.5% of the City's $4.7 billion General Fund revenues will come from State sources. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—CITY BUDGET—Impact of the State of California Budget on Local Finances."

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

**Federal Funding**

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. Changes to or termination or replacement of the Affordable Care Act, for example, could increase costs to the City, and the City's financial condition may also be impacted by the withholding of federal grants or other funds flowing to "sanctuary jurisdictions" or suspension or termination of federal grants for transportation or other projects.

On March 1, 2013, automatic spending cuts to federal defense and other discretionary spending (referred to as "**sequestration**") went into effect, and Congress was unable to enact a regular budget or a continuing resolution for the 2014 fiscal year, which began on October 1, 2013. As a result, certain appropriations lapsed on October 1, 2013, and the United States federal government entered a partial shutdown with furloughs of certain federal workers and suspension of certain services not exempted by law until October 16, 2013. Among other impacts, the City's receipt of federal subsidies for the interest payments on its obligations issued as "Build America Bonds" was delayed (the City's payment of interest on such obligations is not dependent upon federal subsidies and were not adversely affected by such delay). The City cannot predict the outcome of future federal budget deliberations. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—CITY BUDGET—Impact of Federal Government on Local Finances." See also APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—OTHER CITY TAX REVENUES" and "—INVESTMENT OF CITY FUNDS."

**Other**

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

## TAX MATTERS

The following discussion is a summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Certificates by original purchasers of the Certificates who are U.S. Holders (as defined below). This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Certificates will be held as "capital assets" under the Code, and it does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Certificates as a position in a "hedge" or "straddle" for United States Federal income tax purposes, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Certificates in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code. Each prospective purchaser of the Certificates should consult with its own tax advisor concerning the United States Federal income tax and other tax consequences to it of the acquisition, ownership and disposition of the Certificates as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Certificate that is for United States Federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

**U.S. Holders – Interest Income**

Interest and original issue discount (as defined below) evidenced by the Certificates are not excludable from gross income for United States Federal income tax purposes.

**Original Issue Discount**

For United States Federal income tax purposes, a Certificate will be treated as issued with original issue discount ("**OID**") if the excess of a Certificate's "stated redemption price at maturity" over its "issue price" equals or exceeds a statutorily determined de minimis amount. The "issue price" of each Certificate in a particular issue equals the first price at which a substantial amount of such issue is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Certificate is the sum of all payments provided by such Certificate other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. In general, if the excess of a Certificate's stated redemption price at maturity over its issue price is less than .25 percent of the Certificate's stated redemption price at maturity multiplied by the number of complete years to its maturity (the "**de minimis amount**"), then such excess, if any, constitutes de minimis OID, and the Certificate is not treated as being issued with OID and all payments of stated interest (including stated interest that would otherwise be characterized as OID) is treated as qualified stated interest, as described below.

Payments of qualified stated interest evidenced by a Certificate are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received in accordance with the U.S. Holder's regular method of tax accounting. A U.S. Holder of a Certificate having a payment date of more than one year from its date of delivery generally must include OID in income as ordinary interest as it accrues on a constant-yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. The amount of OID included in income by the U.S. Holder of a Certificate is the sum of the daily portions of OID with respect to such Certificate for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such Certificate. The daily portion of OID on any Certificate is determined by allocating to each day in any "accrual period" a ratable portion of the OID allocable to the accrual period. All accrual periods with respect to a Certificate may be of any length and the accrual periods may vary in length over the term of the Certificate, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or final day of an accrual period. The amount of OID allocable to an accrual period is generally equal to the difference between (i) the product of the Certificate's "adjusted issue price" at the beginning of such accrual period and such Certificate's yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Certificate at the beginning of any accrual period is the issue price of the Certificate plus the amount of accrued OID includable in income for all prior accrual periods minus the amount of any prior payments on the Certificate other than qualified stated interest payments. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (i) the amount payable at the maturity of the Certificate (other than a payment of qualified stated interest) and (ii) the Certificate's adjusted issue price as of the beginning of the final accrual period. Under the OID rules, U.S. Holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

A U.S. Holder may elect to include in gross income all interest that with respect to a Certificate using the constant-yield method described above under the heading "Original Issue Discount," with the modifications described below. For purposes of this election, interest includes, among other things, stated interest, OID and de minimis OID, as adjusted by any amortizable bond premium described below under the heading "Bond Premium". In applying the constant-yield method to a Certificate with respect to which this election has been made, the issue price of the Certificate will equal its cost to the electing U.S. Holder, the issue date of the Certificate will be the date of its acquisition by the electing U.S. Holder, and no payments on the Certificate will be treated as payments of qualified stated interest. The election will generally apply only to the Certificate with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service. If this election is made with respect to a Certificate with amortizable bond premium, then the electing U.S. Holder will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludable from gross income) held by the electing U.S. Holder as of the beginning of the taxable year in which the Certificate with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the Internal Revenue Service.

U.S. Holders of any Certificates issued with OID should consult their own tax advisors with respect to the treatment of OID for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Certificates.

**Bond Premium**

In general, if a U.S. Holder acquires a Certificate for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Certificate after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Certificate (a "Taxable Premium Bond"). In general, if a U.S. Holder of a Taxable Premium Bond elects to amortize the premium as "amortizable bond premium" over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the U.S. Holder will make a corresponding adjustment to such holder's basis in the Taxable Premium Bond. Any such election applies to all debt instruments of the U.S. Holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired, and is irrevocable without the Internal Revenue Service's consent. A U.S. Holder of a Taxable Premium Bond that so elects to amortize bond premium does so by offsetting the qualified stated interest allocable to each interest accrual period under the U.S. Holder's regular method of Federal tax accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is treated as a bond premium deduction under Section 171(a)(1) of the Code, subject to certain limitations. If a Taxable Premium Bond is optionally callable before maturity at a price in excess of its stated redemption price at maturity, special rules may apply with respect to the amortization of bond premium. Under certain circumstances, the U.S. Holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the U.S. Holder's original acquisition cost.

U.S. Holders of any Taxable Premium Bonds should consult their own tax advisors with respect to the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of Taxable Premium Bonds.

**U.S. Holders – Disposition of Certificates**

Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Certificate, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such U.S. Holder's adjusted tax basis in the Certificate. A U.S. Holder's adjusted tax basis in a Certificate generally will equal such U.S. Holder's initial investment in the Certificate, increased by any OID included in the U.S. Holder's income with respect to the Certificate and decreased by the amount of any payments, other than qualified stated interest payments, received and bond premium amortized with respect to such Certificate. Such gain or loss generally will be long-term capital gain or loss if the Certificate was held for more than one year.

**U.S. Holders – Defeasance**

U.S. Holders of the Certificates should be aware that, for Federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Certificates to be deemed to be no longer outstanding under the resolution of the Certificates (a "defeasance"), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for Federal income tax purposes, the character and timing of receipt of payments on the Certificates subsequent to any such defeasance could also be affected. U.S. Holders of the Certificates are advised to consult with their own tax advisors regarding the consequences of a defeasance for Federal income tax purposes, and for state and local tax purposes.

**U.S. Holders – Backup Withholding and Information Reporting**

In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest, and the accrual of OID on a Certificate and the proceeds of the sale of a Certificate before maturity within the United States. Backup withholding at a rate of 28% for the years 2003-2010 and at a rate of 31% for the year 2011 and thereafter, will apply to such payments and to payments of OID unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States Federal income tax returns.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

**Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Certificates under state law and could affect the market price or marketability of the Certificates.

Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

## OTHER LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Certificates and with regard to the tax status of the interest evidenced and represented by the Certificates (see "TAX MATTERS" herein) are subject to the legal opinion of Hawkins Delafield & Wood LLP, San Francisco, California, Special Counsel. The signed legal opinion of Special Counsel, dated and premised on facts existing and law in effect as of the date of original delivery of the Certificates, will be delivered to the underwriters of the Certificates at the time of original delivery of the Certificates.

The proposed form of the legal opinion of Special Counsel is set forth in Appendix F hereto. The legal opinion to be delivered may vary that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distributions of it by recirculation of this Official Statement or otherwise will create no implication that Special Counsel has reviewed or express any opinion concerning any of the matters referred to in the opinion subsequent to its date. In rendering its opinion, Special Counsel will rely upon certificates and representations of facts to be contained in the transcript of proceedings for the Certificates, which Special Counsel will not have independently verified

Certain legal matters will be passed upon for the City by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel.

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

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

## PROFESSIONALS INVOLVED IN THE OFFERING

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

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City (the "**Annual Report**") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2016-17, which is due not later than March 27, 2018, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("**MSRB**"). The notices of enumerated events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the initial purchasers of the Certificates in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**"). The ratings on certain obligations of the City were upgraded by Fitch Ratings on March 28, 2013. Under certain continuing disclosure undertakings of the City, the City was required to file a notice of such upgrade with the Electronic Municipal Market Access system of the MSRB by April 11, 2013. The City filed such notice on May 17, 2013.

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

## ABSENCE OF LITIGATION

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

## RATINGS

Moody's Investors Service, Inc. ("**Moody's**"), Standard & Poor's Ratings Services ("**S&P**"), and Fitch Ratings ("**Fitch**"), have assigned municipal bond ratings of "Aa2," "AA," and "AA" respectively, to the Certificates. Certain information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Certificates. The ratings reflect only the views of each rating agency, and any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody's, at www.moodys.com; S&P, at www.sandp.com; and Fitch, at www.fitchratings.com. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Certificates. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

## SALE OF THE CERTIFICATES

The Certificates were sold by competitive bid on June 1, 2017. The Certificates were awarded to Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "**Purchaser**"), who submitted the lowest true interest cost bid, at a purchase price of $28,383,237.66. Under the terms of its bid, the Purchaser will be obligated to purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by Special Counsel, and certain other conditions to be satisfied by the City.

The Purchaser has certified the reoffering prices or yields for the Certificates set forth on the inside cover of this Official Statement, and the City undertakes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the original issue premium on the reoffering of the Certificates is $284,173.45, and the Purchaser's gross compensation (or "spread") is $220,935.79. The Purchaser may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Purchaser.

## MISCELLANEOUS

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

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

**CITY AND COUNTY OF SAN FRANCISCO**

By: /s/ Benjamin Rosenfield
Controller

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**APPENDIX A**

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

**This Appendix contains information that is current as of May 22, 2017.**

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

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

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## CITY GOVERNMENT

### City Charter

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

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

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

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

### Mayor and Board of Supervisors

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

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

*TABLE A-1*

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

| Name | First Elected or Appointed | Current Term Expires |
|---|---|---|
| Sandra Lee Fewer, *District 1* | 2017 | 2021 |
| Mark Farrell, *District 2* | 2010 | 2019 |
| Aaron Peskin, *District 3* | 2017 | 2021 |
| Katy Tang, *District 4* | 2013 | 2019 |
| London Breed, Board President, *District 5* | 2017 | 2021 |
| Jane Kim, *District 6* | 2010 | 2019 |
| Norman Yee, *District 7* | 2017 | 2021 |
| Jeff Sheehy, *District 8* | 2017 | 2021 |
| Hillary Rohen, *District 9* | 2017 | 2021 |
| Malia Cohen, *District 10* | 2010 | 2019 |
| Ahsha Safai, *District 11* | 2017 | 2021 |

**Other Elected and Appointed City Officers**

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

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

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

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

Naomi M. Kelly was appointed to a five-year term as City Administrator by Mayor Lee on February 7, 2012 and re-appointed for a second five-year term on February 8, 2017. The City Administrator has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. In January 2012, Mrs. Kelly became Acting City Administrator. From January 2011, she served as Deputy City Administrator where she was responsible for the Office of Contract Administration, Purchasing, Fleet Management and Central Shops. Mrs. Kelly led the effort to successfully roll out the City's new Local Hire program last year by streamlining rules and regulations, eliminating duplication and creating administrative efficiencies. In 2004, Mrs. Kelly served as the City Purchaser and Director of the Office of Contract Administration. Mrs. Kelly has also served as Special Assistant in the Mayor's Office of Neighborhood Services, in the Mayor's Office of Policy and Legislative Affairs and served as the City's Executive Director of the Taxicab Commission.

## CITY BUDGET

### Overview

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

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. In July 2016, the City adopted a full two-year budget. The City's fiscal year 2016-17 adopted budget appropriates annual revenues, fund balance, transfers and reserves of approximately $9.59 billion, of which the City's General Fund accounts for approximately $4.86 billion. In fiscal year 2017-18 appropriated revenues, fund balance, transfers and reserves total approximately $9.72 billion and $5.09 billion of General Fund budget. For a further discussion of the fiscal years 2016-17 and 2017-18 adopted budgets, see "City Budget Adopted for Fiscal Years 2016-17 and 2017-18" herein.

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

### Budget Process

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

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

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

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

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

**November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle**

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

Proposition A requires four significant changes:

1. Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets are currently approved by the Board of Supervisors for five departments: the Airport, Child Support Services, the Port, the Public Utilities Commission and MTA. All other departments prepared balanced, rolling two-year budgets.

2. Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office on December 16, 2016, for fiscal year 2017-18 through fiscal year 2021-22, to be considered by the Board of Supervisors. See "Five Year Financial Plan" below. This plan was most recently updated on March 23, 2017.

3. Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year.

4. Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions by May 15.

On April 13, 2010, the Board of Supervisors unanimously adopted policies to 1) codify year the City's current practice of maintaining an annual General Reserve for current year fiscal pressures not anticipated in the budget and roughly double the size of the General Reserve by fiscal year 2015-16, and 2) create a new Budget Stabilization Reserve funded by excess receipts from volatile revenue streams to augment the existing Rainy Day Reserve to help the City mitigate the impact of multi-year downturns. On November 8 and 22, 2011, the Board of Supervisors unanimously adopted additional financial policies limiting the future approval of Certificates of Participation and other long-term obligations to 3.25% of discretionary revenue, and specifying that selected nonrecurring revenues may only be spent on nonrecurring expenditures. On December 16, 2014, the Board of Supervisors unanimously adopted financial policies to implement voter-approved changes to the City's Rainy Day Reserve, as well as changes to the General Reserve which would increase the cap from 2% to 3% of revenues and reduce deposit requirements during a recession. These policies are described in further detail below under "Budgetary Reserves." The Controller's Office may propose additional financial policies by October 1 of any year.

**Role of Controller; Budgetary Analysis and Projections**

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

In addition to the five year planning responsibilities established in Proposition A of November 2009 and discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the most recent of these reports, the fiscal year 2016-17 Nine Month Budget Status Report (the "Nine Month Report"), on May 10, 2017. The City Charter also directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 15, 2016 the Controller released the Discussion of the Mayor's fiscal year 2016-17 and fiscal year 2017-18 Proposed Budget (the "Revenue Letter" as described in "Budget Process" above). All of these reports are available from the Controller's website: www.sfcontroller.org. The information from said website is not incorporated herein by reference.

**General Fund Results: Audited Financial Statements**

The General Fund portions of the fiscal years 2016-17 and 2017-18 Original Budgets total $4.86 billion and $5.09 billion, respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2012-13 through 2015-16 and the Original Budgets for fiscal years 2016-17 and 2017-18. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

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

*TABLE A-2*

**CITY AND COUNTY OF SAN FRANCISCO**
**Budgeted General Fund Revenues and Appropriations for**
**Fiscal Years 2012-13 through 2017-18**
**(000s)**

| | FY2012-13 Final Revised Budget | FY2013-14 Final Revised Budget | FY2014-15 Final Revised Budget | FY2015-16 Final Revised Budget | FY2016-17 Original Budget [2] | FY2017-18 Original Budget [3] |
|---|---|---|---|---|---|---|
| Prior-Year Budgetary Fund Balance & Reserves | $557,097 | $674,637 | $941,702 | $1,236,090 | $178,109 | $195,221 |
| Budgeted Revenues | | | | | | |
| Property Taxes | $1,078,083 | $1,153,417 | $1,232,927 | $1,291,000 | $1,412,000 | $1,468,000 |
| Business Taxes | 452,853 | 532,988 | 572,385 | 634,460 | 669,450 | 697,887 |
| Other Local Taxes | 733,295 | 846,924 | 910,430 | 1,062,535 | 1,117,245 | 1,262,875 |
| Licenses, Permits and Franchises | 25,378 | 25,533 | 27,129 | 27,163 | 28,876 | 29,187 |
| Fines, Forfeitures and Penalties | 7,194 | 4,994 | 4,242 | 4,550 | 4,580 | 4,578 |
| Interest and Investment Earnings | 6,817 | 10,946 | 6,853 | 10,680 | 13,970 | 14,353 |
| Rents and Concessions | 21,424 | 23,060 | 22,692 | 15,432 | 16,140 | 15,828 |
| Grants and Subventions | 721,837 | 799,188 | 856,336 | 900,997 | 959,099 | 978,866 |
| Charges for Services | 169,058 | 177,081 | 210,020 | 219,628 | 236,102 | 236,786 |
| Other | 13,384 | 14,321 | 21,532 | 31,084 | 61,334 | 27,821 |
| Total Budgeted Revenues | $3,229,323 | $3,588,452 | $3,864,545 | $4,197,529 | $4,518,796 | $4,736,181 |
| Bond Proceeds & Repayment of Loans | 627 | 1,105 | 1,026 | 918 | 881 | 881 |
| Expenditure Appropriations | | | | | | |
| Public Protection | $1,058,324 | $1,102,667 | $1,158,771 | $1,211,007 | $1,298,185 | $1,323,268 |
| Public Works, Transportation & Commerce | 68,351 | 79,635 | 89,270 | 138,288 | 176,768 | 165,498 |
| Human Welfare & Neighborhood Development | 670,958 | 745,277 | 828,555 | 892,069 | 970,679 | 1,009,995 |
| Community Health | 635,960 | 703,092 | 703,569 | 751,416 | 786,218 | 824,100 |
| Culture and Recreation | 105,580 | 112,624 | 119,051 | 125,253 | 158,954 | 158,979 |
| General Administration & Finance | 190,151 | 199,709 | 214,958 | 235,647 | 349,308 | 333,291 |
| General City Responsibilities [1] | 86,527 | 86,516 | 116,322 | 113,672 | 154,344 | 164,895 |
| Total Expenditure Appropriations | $2,815,852 | $3,029,520 | $3,230,496 | $3,467,352 | $3,894,456 | $3,980,026 |
| Budgetary reserves and designations, net | $4,191 | $0 | $39,966 | $9,907 | $58,469 | $61,014 |
| Transfers In | $195,388 | $242,958 | $199,175 | $235,416 | $161,995 | $159,211 |
| Transfers Out | (646,018) | (720,806) | (873,592) | (962,511) | (906,856) | (1,050,454) |
| Net Transfers In/Out | ($450,630) | ($477,848) | ($674,417) | ($727,095) | ($744,861) | ($891,243) |
| Budgeted Excess (Deficiency) of Sources Over (Under) Uses | $516,375 | $756,825 | $862,394 | $1,230,182 | $0 | $1 |
| Variance of Actual vs. Budget | 146,901 | 184,184 | 373,696 | $296,673 | | |
| Total Actual Budgetary Fund Balance[3] | $663,276 | $941,009 | $1,236,090 | $1,526,855 | $0 | $1 |

1 Over the past five years, the City has consolidated various departments to achieve operational efficiencies. This has resulted in changes in how departments were summarized in the service area groupings above for the time periods shown.
2 Fiscal year 2016-17 Final Revised Budget will be available upon release of the FY 2016-17 CAFR.
3 Fiscal year 2017-18 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

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

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

*TABLE A-3*

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

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Restricted for rainy day (Economic Stabilization account) | $31,099 | $23,329 | $60,289 | $71,904 | $74,986 |
| Restricted for rainy day (One-time Spending account) | 3,010 | 3,010 | 22,905 | 43,065 | 45,120 |
| Committed for budget stabilization (citywide) | 74,330 | 121,580 | 132,264 | 132,264 | 178,434 |
| Committed for Recreation & Parks expenditure savings reserv | 4,946 | 15,907 | 12,862 | 10,551 | 8,736 |
| Assigned, not available for appropriation | | | | | |
| Assigned for encumbrances | 62,699 | 74,815 | 92,269 | 137,641 | 190,965 |
| Assigned for appropriation carryforward | 85,283 | 112,327 | 159,345 | 201,192 | 293,921 |
| Assigned for budget savings incentive program (citywide | 22,410 | 24,819 | 32,088 | 33,939 | 58,907 |
| Assigned for salaries and benefits (MOU) | 7,100 | 6,338 | 10,040 | 20,155 | 18,203 |
| Total Fund Balance Not Available for Appropriation | $290,877 | $382,125 | $522,062 | $650,711 | $869,272 |
| Assigned and unassigned, available for appropriation | | | | | |
| Assigned for litigation & contingencies | $23,637 | $30,254 | 79,223 | 131,970 | $145,443 |
| Assigned for General reserve | $22,306 | $21,818 | - | - | - |
| Assigned for subsequent year's budget | 104,284 | 122,689 | 135,938 | 180,179 | 172,128 |
| Unassigned for General Reserve | - | - | 45,748 | 62,579 | 76,913 |
| Unassigned - Budgeted for use second budget year | 103,575 | 111,604 | 137,075 | 194,082 | 191,202 |
| Unassigned - Contingency for second budget year | | | | | 60,000 |
| Unassigned - Available for future appropriation | 12,418 | 6,147 | 21,656 | 16,569 | 11,872 |
| Total Fund Balance Available for Appropriation | $266,220 | $292,512 | $419,640 | $585,379 | $657,558 |
| Total Fund Balance, Budget Basis | $557,097 | $674,637 | $941,702 | $1,236,090 | $1,526,830 |
| Budget Basis to GAAP Basis Reconciliation | | | | | |
| Total Fund Balance - Budget Basis | $557,097 | $674,637 | $941,702 | $1,236,090 | $1,526,830 |
| Unrealized gain or loss on investments | 6,838 | (1,140) | 935 | 1,141 | 343 |
| Nonspendable fund balance | 19,598 | 23,854 | 24,022 | 24,786 | 522 |
| Cumulative Excess Property Tax Revenues Recognized on Budget Basis | (46,140) | (38,210) | (37,303) | (37,303) | (36,008) |
| Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis | (62,241) | (93,910) | (66,415) | (50,406) | (56,709) |
| Deferred Amounts on Loan Receivables | (16,551) | (20,067) | (21,670) | (23,212) | - |
| Pre-paid lease revenue | (2,876) | (4,293) | (5,709) | (5,900) | (5,816) |
| Total Fund Balance, GAAP Basis | $455,725 | $540,871 | $835,562 | $1,145,196 | $1,429,162 |

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

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

*TABLE A-4*

**CITY AND COUNTY OF SAN FRANCISCO**
**Audited Statement of Revenues, Expenditures and Changes in General Fund Balances**
**Fiscal Years 2011-12 through 2015-16[1]**
**(000s)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Property Taxes | $1,056,143 | $1,122,008 | $1,178,277 | $1,272,623 | $1,393,574 |
| Business Taxes[2] | 435,316 | 479,627 | 562,896 | 609,614 | 659,086 |
| Other Local Taxes | 751,301 | 756,346 | 922,205 | 1,085,381 | 1,054,109 |
| Licenses, Permits and Franchises | 25,022 | 26,273 | 26,975 | 27,789 | 27,909 |
| Fines, Forfeitures and Penalties | 8,444 | 6,226 | 5,281 | 6,369 | 8,985 |
| Interest and Investment Income | 10,262 | 2,125 | 7,866 | 7,867 | 9,613 |
| Rents and Concessions | 24,932 | 35,273 | 25,501 | 24,339 | 46,553 |
| Intergovernmental | 678,808 | 720,625 | 827,750 | 854,464 | 900,820 |
| Charges for Services | 145,797 | 164,391 | 180,850 | 215,036 | 233,976 |
| Other | 17,090 | 14,142 | 9,760 | 9,162 | 22,291 |
| Total Revenues | $3,153,115 | $3,327,036 | $3,747,361 | $4,112,644 | $4,356,916 |
| **Expenditures:** | | | | | |
| Public Protection | $991,275 | $1,057,451 | $1,096,839 | $1,148,405 | $1,204,666 |
| Public Works, Transportation & Commerce | 52,815 | 68,014 | 78,249 | 87,452 | 136,762 |
| Human Welfare and Neighborhood Development | 626,194 | 660,657 | 720,787 | 786,362 | 853,924 |
| Community Health | 545,962 | 634,701 | 668,701 | 650,741 | 666,138 |
| Culture and Recreation | 100,246 | 105,870 | 113,019 | 119,278 | 124,515 |
| General Administration & Finance | 182,898 | 186,342 | 190,335 | 208,695 | 223,844 |
| General City Responsibilities | 96,132 | 81,657 | 86,968 | 98,620 | 114,663 |
| Total Expenditures | $2,595,522 | $2,794,692 | $2,954,898 | $3,099,553 | $3,324,512 |
| Excess of Revenues over Expenditures | $557,593 | $532,344 | $792,463 | $1,013,091 | $1,032,404 |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | $120,449 | $195,272 | $216,449 | $164,712 | $209,494 |
| Transfers Out | (553,190) | (646,912) | (720,806) | (873,741) | (962,343) |
| Other Financing Sources | 3,682 | 4,442 | 6,585 | 5,572 | 4,411 |
| Other Financing Uses | - | - | - | - | - |
| Total Other Financing Sources (Uses) | ($429,059) | ($447,198) | ($497,772) | ($703,457) | ($748,438) |
| Extraordinary gain/(loss) from dissolution of the Redevelopment Agency | (815) | - | - | - | - |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | $127,719 | $85,146 | $294,691 | $309,634 | $283,966 |
| Total Fund Balance at Beginning of Year | $328,006 | $455,725 | $540,871 | $835,562 | $1,145,196 |
| Total Fund Balance at End of Year -- GAAP Basis[3] | $455,725 | $540,871 | $835,562 | $1,145,196 | $1,429,162 |
| Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End | | | | | |
| -- GAAP Basis | $133,794 | $135,795 | $178,066 | $234,273 | $249,238 |
| -- Budget Basis | $220,277 | $240,410 | $294,669 | $390,830 | $435,202 |

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

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

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

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

**Five-Year Financial Plan**

The Five-Year Financial Plan ("Plan") is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the Plan to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Plan be adopted every two years. The City updates the Plan annually. The most recently adopted Plan, for fiscal years 2015-16 through 2019-20, was adopted by the Board of Supervisors and signed by the Mayor on April 30, 2015.

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

The updated Plan projects continued growth in General Fund revenues of 11%, primarily composed of growth in local tax sources, offset by projected expenditure increases of 30%, primiarly composed of growth in employee salaries and benefits, citywide operating expenses, and Charter mandated baselines and reserves. The Plan presents an array of fiscal strategies to constrain this increase in expenditures and bring revenues and expenditures into balance. To the extent budgets are balanced with ongoing savings or revenues, future shortfalls are would decrease.
The City currently projects growth in General Fund sources of $541 million over the Plan period, and expenditure growth of $1.4 billion. Growth in salaries and benefits account for 51% or $732 million of the cumulative five year shortfall. Growth in citywide operating costs account for 31% or $451 million of the cumulative five year shortfall. Growth in Charter mandated baselines and reserves account for 15% or $214 million of the cumulative five year shortfall. Growth in individual department costs account for 4% or $52.4 million of the cumulative five year shortfall. These figures incorporate the key assumptions from the December 2016 plan, including:

- **Continued Increases in Employer Contribution Rates to City Retirement System**: Consistent with the December 2016 proposed Plan, the March 2017 update anticipates increased retirement costs. This is in contrast to the pension relief anticipated at the time of the proposed Plan from December 2014, when decreased pension contributions were expected after the amortization of investment losses during the financial crisis. The increase in employer contribution rates is due to three main factors: lower than expected actual fiscal year 2015-16 investment earnings; updated demographic assumptions, which show that retirees are living longer and collecting pensions longer than previously expected, and an appellate court ruling against the City which found that voter-adopted changes to the conditions under which retirees could receive a supplemental COLA violated retirees' vested rights. Current projections are marginally improved since the December 2016 Plan, as they incorporate the SFERS Retirement Board approved results of their July 1, 2016 actuarial funding valuation, resulting in slightly lower than previously assumed SFERS contribution rates paid by the City for miscellaneous employees. In addition, on December 21, 2016, the CalPERS Board of Administration approved lowering their discount rate assumption, the long-term rate of return , from 7.5% to 7% over three years. The March 2017 Plan update incorporates increased contribution rates by the City for CalPERS employees, as a result of the discount rate changes beginning in FY 2018-19.

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

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

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

- **Updates to the City's Ten-Year Capital Plan**: On February 28, 2017, the City's Proposed Ten-Year Capital Plan for fiscal years 2018-2027 was introduced to the Board of Supervisors. The assumptions in the Capital Plan are reflected in the March update to the Five Year Financial Plan.

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

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

The December 2016 proposed Plan and the March update do not assume an economic downturn due to the difficulty of predicting recessiosns; however, the City has historically not experienced more than six consecutive years of expansion and the current economic expansion began over seven years ago. For this reason, the December 16 proposed Plan includes a recession scenario, which reflects a revenue shortfall of $960 million during the forecast period, based on the average rates of revenue declines experienced in major tax revenue sources during the previous two recessions.

**City Budget Adopted for Fiscal Years 2016-17 and 2017-18**

On August 1, 2016, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for the fiscal years ending June 30, 2017 and June 30, 2018. This is the fifth two-year budget for the entire City. The adopted budget closed the $100 million and $240 million General Fund shortfalls for fiscal year 2016-17 and fiscal year 2017-18 identified in the City's December 2015 Plan update through a combination of increased revenues and expenditures savings.

The Original Budget for fiscal year 2016-17 and fiscal year 2017-18 totals $9.59 billion and $9.72 billion respectively, representing year over year increases of $360 million and $50 million. The General Fund portion of each year's budget is $4.86 billion in fiscal year 2016-17 and $5.09 billion in fiscal year 2017-18 representing increases of $272 million and $232 million. There are 30,626 funded full time positions in the fiscal year 2016-17 Original Budget and 30,903 in the fiscal year 2017-18 Original Budget representing year-over-year increases of 1,074 and 277 positions, respectively.

The Original Budget for fiscal years 2016-17 and 2017-18 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses proposed by the Controller's Office and approved unanimously by the Board of Supervisors on November 22, 2011. The policy was approved by the Mayor on December 1, 2011 and can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

Based on the revenue and expenditure projections contained in the December 2016 proposed plan, on December 8, 2016, the Mayor's Office issued budget instructions to departments requiring expenditure reductions of 3.0% in fiscal year 2017-18 and an additional reduction of 3.0% in fiscal year 2018-19.

**Other Budget Updates**

On May 10, 2017, the Controller's Office issued a Nine-Month Budget Status report (Nine-Month Report) which projected the General Fund would end fiscal year 2016-17 with a balance of $396.5 million. This represents a $96.7 million improvement from the projections contained in the Six-Month Report. The fund balance projection includes $203.1 million in starting fund balance, a projected $141.6 million revenue surplus, $158.1 million savings from departmental operations, offset by $104.4 million in reserve deposits and $1.8 million in increased contributions to baselines. The citywide revenue improvements are driven primarily by continued increases in property and property transfer tax revenues, offset in shortfalls in hotel, parking, and sales tax. The improvement in departmental operations is driven primarily by revenue surplus in the Zuckerberg San Francisco General Hospital (ZSFG).

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

Revenues from the State represent approximately 14% of the General Fund revenues appropriated in the budget for fiscal years 2016-17 and 2017-18, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 27, 2016, the Governor signed the 2016-17 State Budget, spending $170.9 billion from the General Fund and other State funds. General Fund appropriations total $122.5 billion, $6.9 billion or 6% more than the final 2015-16 spending level. An increase in State revenues boosted 2015-16 spending above the levels approved by the State Legislature in June 2015. The budget agreement balances new spending with targeted one-time expenditures and preparations for the next recession. The budget makes significant investments in education, including $2.6 billion through the Local Control Funding Formula, as well as $1.4 billion in one-time funding for K-14 schools. Additionally, the state budget includes new commitments to expand health care and social safety net programs. The budget also allocates funding for one-time infrastructure projects for state, university, and community college facilities. Finally, the budget prepares for the next recession by increasing deposits to the Rainy Day Fund to a balance $6.7 billion (including a one-time payment of $2 billion), setting an additional $1.8 billion to protect the budget from unexpected revenue shortfalls, and continuing to pay down Proposition 2 debt and liabilities.

On May 11, 2017, the Governor released the fiscal year 2017-18 Revised State Budget, which re-bases the In-Home Supportive Services Maintenance-of-Effort (IHSS MOE) agreement negotiated in 2012. If implemented as proposed, this would shift $592 million in State General Fund costs to counties in fiscal year 2017-18, which would increase by five percent in fiscal year 2018-19 and seven percent in fiscal year 2019-20 and beyond. The increases are partially offset by $1.1 billion in state General Fund subsidies to counties over the next four years, as well as repayment forgiveness for any sales tax amounts counties may owe the state due to Board of Equalization misallocation of revenues. The estimated cost to San Francisco in fiscal year 2017-18 is $11.1 million, and is expected to increase in future years. In addition, the May revision includes a reductions to CalWORKs block grants, which are estimated to cost the City $4.5 million annually.

**Impact of Federal Government on Local Finances**

The City is continuing to assess the potential material adverse changes in current and anticipated federal funding under the new presidential administration and Congress. These changes include, for example, potential increased costs associated with changes to or termination or replacement of the Affordable Care Act, potential withholding of federal grants or other federal funds flowing to "sanctuary jurisdictions" and suspension or termination of other federal grants for capital projects. The scope and timing of such changes will not be known until the administration concretely proposes specific changes or Congress acts on such proposals, as applicable. As to potential withholding of funds for "sanctuary cities" the City has challenged in federal court the Presidential Executive Order that would cut funding from "sanctuary jurisdictions," and the federal court has entered a preliminary injunction enjoining the executive order. Litigation is proceeding and final disposition of the case may come by end of 2018. The fiscal year 2016-17 Original

Budget includes about $1.2 billion in federal payments, of which about $1 billion is for entitlement programs mostly administered by the City's Human Services Agency and Department of Public Health. The City also receives about $800 million in multi-year federal grants. The City will continue to monitor federal budget and policy changes, but cannot at this time determine the financial impacts of any proposed federal budget changes whether the budget will include a reserve against anticipated loss of federal funding.

**Budgetary Reserves**

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

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

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget for fiscal years 2016-17 and 2017-18 includes $16.6 million in fiscal year 2016-17 and $19.3 million in fiscal year 2017-18), and the Litigation Reserve (Original Budget for fiscal years 2016-17 and 2017-18 includes $11 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

**Rainy Day Reserve**

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

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

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

Monies in the City Reserve are available to provide a budgetary cushion in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. The fiscal year 2015-16 combined ending balance of the One-Time and Economic Stabilization portions of the Reserve was $120.1 million. There are no projected deposits or withdrawals assumed in the fiscal year 2016-17 and 2017-18 budgets.

**Budget Stabilization Reserve**

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

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

Fiscal year 2015-16 RPTT receipts exceeded the five-year annual average by $22.3 million and ending general fund unassigned fund balance was $47.5 million, triggering a $52.3 million deposit. However, $6.2 million of this deposit requirement was offset by the Rainy Day Reserve deposit, resulting in a $46.2 million deposit to the Budget Stabilization Reserve and leaving an ending balance to $178.4 million. The fiscal years 2016-17 and 2017-18 budgets assume no reserve deposits given projected RPTT receipts. The Controller's Office determines deposits in October of each year based on actual receipts during the prior fiscal year.

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

## THE SUCCESSOR AGENCY

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

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

**Authority and Personnel**

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

The Successor Agency currently employs approximately 46 full-time equivalent positions. The Executive Director, Tiffany Bohee, was appointed in February 2012. The other principal full-time staff positions are the Deputy Executive Director, Community and Economic Development; the Deputy Executive Director, Finance and Administration; the Deputy Executive Director, Housing; and the Successor Agency General Counsel. Each project area in which the Successor Agency continues to implement redevelopment plans, is managed by a Project Manager. There are separate staff support divisions with real estate and housing development specialists, architects, engineers and planners, and the Successor Agency has its own fiscal, legal, administrative and property management staffs.

**Effect of the Dissolution Act**

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

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

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

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

**Oversight Board**

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

**Department of Finance Finding of Completion**

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

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

**State Controller Asset Transfer Review**

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

**Continuing Activities**

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

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

**PROPERTY TAXATION**

**Property Taxation System – General**

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

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

**Assessed Valuations, Tax Rates and Tax Delinquencies**

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

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency (also known as the Office of Community Investment and Infrastructure or OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as "tax increment") within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations, causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor Agency received $122 million of property tax increment in fiscal year 2015-16, diverting about $69 million that would have otherwise been apportioned to the City's discretionary general fund.

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

*TABLE A-5*

**CITY AND COUNTY OF SAN FRANCISCO**
**Assessed Valuation of Taxable Property**
**Fiscal Years 2012-13 through 2016-17**
**(000s)**

| Fiscal Year | Net Assessed Valuation (NAV) | % Change from Prior Year | Total Tax Rate per $100 [2] | Total Tax Levy [3] | Total Tax Collected [3] | % Collected June 30 |
|---|---|---|---|---|---|---|
| 2012-13 | $165,043,120 | 4.0% | 1.169 | $1,997,645 | $1,970,662 | 98.65% |
| 2013-14 | 172,489,208 | 4.5% | 1.188 | 2,138,245 | 2,113,284 | 98.83% |
| 2014-15 | 181,809,981 | 5.4% | 1.174 | 2,139,050 | 2,113,968 | 98.83% |
| 2015-16 | 194,392,572 | 6.9% | 1.183 | 2,290,280 | 2,268,876 | 99.07% |
| 2016-17 | 211,532,524 [1] | 8.8% | 1.179 | 2,494,392 | Not available | Not available |

1 Based on initial assessed valuations for fiscal year 2016-17. Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

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

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

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

At the start of fiscal year 2016-17, the total net assessed valuation of taxable property within the City was $211.5 billion. Of this total, $197.8 billion (93.5%) represents secured valuations and $13.8 billion (6.5%) represents unsecured valuations. See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in the rest of any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2011-12 through 2015-16 are listed in Table A-6 below.

*TABLE A-6*

**CITY AND COUNTY OF SAN FRANCISCO**
**Refunds of Prior Years' Property Taxes**
**General Fund Assessment Appeals Reserve**
**Fiscal Years 2011-12 through 2015-16**
**(000s)**

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

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

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

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

**Tax Levy and Collection**

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

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

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

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

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

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

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

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

*TABLE A-7*

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

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

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

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

*TABLE A-8*

**CITY AND COUNTY OF SAN FRANCISCO**
**Top 10 Parcels Total Assessed Value**
**July 1, 2016**
**(000s)**

| Assessee | Location | Parcel Number | Type | Total Assessed Value[1] | % of Basis of Levy[2] |
|---|---|---|---|---|---|
| Elm Property Venture LLC | 101 California St | 0263 011 | Commercial Office | $995,506 | 0.51% |
| HWA 555 Owners LLC | 555 California St | 0259 026 | Commercial Office | 978,872 | 0.50% |
| PPF Paramount One Market Plaza Owner LP | 1 Market St | 3713 007 | Commercial Office | 801,910 | 0.41% |
| Union Investment Real Estate GMBH | 555 Mission St | 3721 120 | Commercial Office | 473,755 | 0.24% |
| Emporium Mall LLC | 845 Market St | 3705 056 | Commercial Retail | 447,990 | 0.23% |
| SPF China Basin Holdings LLC | 185 Berry St | 3803 005 | Commercial Office | 440,275 | 0.23% |
| SHC Embarcadero LLC | 4 The Embarcadero | 0233 044 | Commercial Office | 413,190 | 0.21% |
| Wells Reit II-333 Market St LLC | 333 Market St | 3710 020 | Commercial Office | 411,153 | 0.21% |
| Post Montgomery Associates | 165 Sutter St | 0292 015 | Commercial Retail | 402,849 | 0.21% |
| PPF OFF One Maritime Plaza LP | 300 Clay St | 0204 021 | Commercial Office | 382,166 | 0.20% |
| | | | | | 2.95% |

[1] Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year. TAV includes land & improvements, personal property, and fixtures.
[2] The Basis of Levy is total assessed value less exemptions for which the state does not reimburse counties (e.g. those that apply to nonprofit organizations).

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

### Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2016-17 valuation of property assessed by the State Board of Equalization is $3.1 billion.

## OTHER CITY TAX REVENUES

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

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

### Business Taxes

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

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

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

*TABLE A-9*

**CITY AND COUNTY OF SAN FRANCISCO**
**Business Tax Revenues**
**Fiscal Years 2011-12 through 2017-18**
**All Funds**
**(000s)**

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

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and beginning in fiscal year 2013-14, Gross Receipts Tax revenues. Figures for fiscal years 2011-12 through 2015-16 are audited actuals. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

**Transient Occupancy Tax (Hotel Tax)**

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates ("ADR") and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, increased by more than 7% annually for each of the last six years, driving an 87% increase in hotel tax revenue between fiscal years 2010-11 and 20115-16. Increases in RevPAR are budgeted to continue at a slower pace through fiscal year 2017-18. Fiscal year 2015-16 transient occupancy tax was $392 million, representing a $6.6 million decrease from fiscal year 2014-16 revenue. Fiscal year 2016-17 is budgeted to be $414 million, an increase of $21.5 million (5.5%) from fiscal year 2015-16. Fiscal year 2017-18 is budgeted to be $440 million, an increase of $26 million (6%) from fiscal year 2015-16 budget.

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

*TABLE A -10*

**CITY AND COUNTY OF SAN FRANCISCO**
**Transient Occupancy Tax Revenues**
**Fiscal Years 2011-12 through 2017-18**
**(000s)**

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

[1]Figures for fiscal year 2011-12 through fiscal year 2015-16 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

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

**Real Property Transfer Tax**

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

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

*TABLE A-11*

**CITY AND COUNTY OF SAN FRANCISCO**
**Real Property Transfer Tax Receipts**
**Fiscal Years 2011-12 through 2017-18**
**(000s)**

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

[1]Figures for fiscal year 2011-12 through 2015-16 are audited actuals. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

**Sales and Use Tax**

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

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

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

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

*TABLE A-12*

**CITY AND COUNTY OF SAN FRANCISCO**
**Sales and Use Tax Revenues**
**Fiscal Years 2011-12 through 2017-18**
**(000s)**

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

*Figures for fiscal year 2011-12 through fiscal year 2015-16 are audited actuals. Figures for fiscal years 2016-17 and 2017-18 are Original Budget amounts.

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

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

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

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

**Utility Users Tax**

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

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

**Emergency Response Fee; Access Line Tax**

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone line in the

City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenue for fiscal year 2015-16 was $44 million, a $5 million (-11%) decrease over the previous fiscal year due to a large one-time payment in fiscal year 2014-15 related to a prior year audit finding. In fiscal year 2016-17, the Access Line Tax revenue is budgeted at $47 million, a $3 million (-8%) decrease from fiscal year 2015-16 revenue. Fiscal year 2017-18 revenue is budgeted at $48 million a $1 million (3%) increase from fiscal year 2016-17 budget. Budgeted amounts in fiscal year 2016-17 and fiscal year 2017-18 assume annual inflationary increases to the access line tax rate as required under Business and Tax Regulation Code Section 784.

**Sugar Sweetened Beverage Tax**

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

**Parking Tax**

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

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

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

**INTERGOVERNMENTAL REVENUES**

**State – Realignment**

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

> **1991 Health & Welfare Realignment.** In fiscal year 2015-16, the General Fund share of 1991 realignment revenue was $176 million. In fiscal year 2016-17, it is budgeted at $180 million, or $3 million (2%) more than the fiscal year 2015-16 actual. This growth is attributed to a $6 million (5%) increase in sales tax distribution and a $3 million (8%) decrease in the VLF distribution due to the base allocation changes and projected fiscal year 2015-16 growth payments. The fiscal year 2017-18 General Fund share of revenue is budgeted at $176 million, a net annual decrease of $3 million (-2%) in sales tax and VLF distributions based on the projected growth payments.
>
> Increases in both years are net of State allocation reductions due to implementation of the Affordable Care Act (ACA) equal to assumed savings for counties as a result of treating fewer uninsured patients. The State's fiscal year 2015-16 Budget included assumed Statewide county savings of $742 million and the fiscal year 2016-17 Budget included assumed savings of $565 million as a result of ACA implementation, and redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund. Reductions to the City's allocation are assumed equal to $11.9 million in both years. Future budget adjustments could be necessary depending on final State determinations of ACA savings amounts, which are expected in January 2017 and January 2018 for fiscal year 2014-15 and fiscal year 2015-16, respectively.
>
> **Public Safety Realignment.** Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. In fiscal year 2015-16, this revenue source totaled

$40 million. Based on the State's budget, this revenue is budgeted at $41 million in fiscal year 2016-17, a $1 million (2%) increase over the fiscal year 2015-16 actual. This increase reflects increased State funding to support implementation of AB109. The fiscal year 2017-18 budget assumes a $2 million (6%) increase from fiscal year 2016-17 budget.

**Public Safety Sales Tax**

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

**Other Intergovernmental Grants and Subventions**

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

**Charges for Services**

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

## CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for approximately 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children's services and public education, and libraries. Budgeted baseline and mandated funding is $968 million in fiscal year 2016-17 and $1 billion in fiscal year 2017-18. As noted above, voters approved additional spending requirements on the November 2016 ballot, which are incorporated into five-year projections and will be included in the fiscal year 2017-18 budget.

**General Fund Expenditures by Major Service Area**

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

*TABLE A-13*

**CITY AND COUNTY OF SAN FRANCISCO**
**Expenditures by Major Service Area**
**Fiscal Years 2011-12 through 2017-18**
**(000s)**

| Major Service Areas | FY2011-12 Original Budget | FY2012-13 Original Budget | FY2013-14 Original Budget | FY2014-15 Original Budget | FY2015-16 Original Budget | FY2016-17 Original Budget | FY2017-18 Original Budget |
|---|---|---|---|---|---|---|---|
| Public Protection | $998,237 | $1,058,689 | $1,130,932 | $1,173,977 | $1,223,981 | $1,298,185 | $1,323,268 |
| Human Welfare & Neighborhood Development | 672,834 | 670,375 | 700,254 | 799,355 | 857,055 | 176,768 | 165,498 |
| Community Health | 575,446 | 609,892 | 701,978 | 736,916 | 787,554 | 970,679 | 1,009,995 |
| General Administration & Finance | 199,011 | 197,994 | 244,591 | 293,107 | 286,871 | 786,218 | 824,100 |
| Culture & Recreation | 100,740 | 111,066 | 119,579 | 126,932 | 137,062 | 158,954 | 158,979 |
| General City Responsibilities | 110,725 | 145,560 | 137,025 | 158,180 | 186,068 | 349,308 | 333,291 |
| Public Works, Transportation & Commerce | 51,588 | 67,529 | 80,797 | 127,973 | 161,545 | 154,344 | 164,895 |
| Total* | $2,708,581 | $2,861,106 | $3,115,155 | $3,416,440 | $3,640,137 | $3,894,456 | $3,980,026 |

*Total may not add due to rounding

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

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

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

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

**Baselines**

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

*TABLE A-14*

**CITY AND COUNTY OF SAN FRANCISCO**

**Baselines & Set-Asides**
**Fiscal Year 2016-17**
**(in Millions)**

| Baselines & Set-Asides | FY 2016-17 Required Baseline | FY 2016-17 Original Budget |
|---|---|---|
| Municipal Transportation Agency (MTA) | $212.0 | $212.0 |
| MTA Baseline - Population Adjustment | $38.0 | $38.0 |
| Parking and Traffic Commission | $79.5 | $79.5 |
| Children's Services | $153.1 | $157.5 |
| Transitional Aged Youth | $18.4 | $23.2 |
| Library Preservation | $72.5 | $72.5 |
| Public Education Baseline Services | $9.2 | $9.2 |
| Recreation and Park Maintenance of Effort | $67.4 | $67.4 |
| | | |
| Public Education Enrichment Funding | | |
| Unified School District | $64.6 | $64.6 |
| Office of Early Care and Education | $32.3 | $32.3 |
| City Services Auditor | $16.3 | $16.3 |
| Human Services Homeless Care Fund | $16.7 | $16.7 |
| <u>**Property Tax Related Set-Asides**</u> | | |
| Municipal Symphony | $2.6 | $2.6 |
| Children's Fund Set-Aside | $72.6 | $72.6 |
| Library Preservation Set-Aside | $51.8 | $51.8 |
| Open Space Set-Aside | $51.8 | $51.8 |
| <u>**Staffing and Service-Driven**</u> | | |
| Police Minimum Staffing | Requirement likely met | |
| Fire Neighborhood Firehouse Funding | Requirement met | |
| Treatment on Demand | Requirement met | |
| **Total Baseline Spending** | **$958.90** | **$968.08** |

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

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

## EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents approximately 50% of the City's expenditures, totaling $4.7 billion in the fiscal year 2016-17 Original Budget (all-funds), and $4.9 billion in the fiscal year 2017-18 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was $2.2 billion in the fiscal year 2016-17 Original Budget and $2.3 billion in the fiscal year 2017-18 Original Budget. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

### Labor Relations

The City's budget for fiscal years 2016-17 and 2017-18 includes 30,626 and 30,903 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 ("SEIU"); the International Federation of Professional and Technical Engineers, Local 21 ("IFPTE"); and the unions representing police, fire, deputy sheriffs and transit workers.

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

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

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

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

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

In February 2017, the City negotiated two-year contract extensions (for fiscal years 2017-18 and 2018-19) with most of its labor unions. The parties agreed to a wage increase schedule of 3% on July 1, 2017 and 3% on July 1, 2018, with a provision to delay the fiscal year 2018-19 adjustment by six months if the City's deficit for fiscal year 2018-2019, as projected in the March, 2018 update to the Five Year Financial Plan, exceeds $200 million. Existing agreements with police officers, firefighters, and physicians expire in June 2018; the agreement with supervising nurses expires in June, 2019.

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

*TABLE A-15*

**CITY AND COUNTY OF SAN FRANCISCO (All Funds)**

**Employee Organizations as of July 1, 2016**

| Organization | Budgeted Positions | Expiration Date of MOU |
|---|---|---|
| Automotive Machinists, Local 1414 | 466 | 30-Jun-19 |
| Bricklayers, Local 3/Hod Carriers, Local 36 | 18 | 30-Jun-19 |
| Building Inspectors Association | 96 | 30-Jun-19 |
| Carpenters, Local 22 | 115 | 30-Jun-19 |
| Carpet, Linoleum & Soft Tile | 3 | 30-Jun-19 |
| CIR (Interns & Residents) | - | 30-Jun-19 |
| Cement Masons, Local 580 | 38 | 30-Jun-19 |
| Deputy Sheriffs Association | 801 | 30-Jun-19 |
| District Attorney Investigators Association | 45 | 30-Jun-19 |
| Electrical Workers, Local 6 | 914 | 30-Jun-19 |
| Glaziers, Local 718 | 9 | 30-Jun-19 |
| International Alliance of Theatrical Stage Employees, Local 16 | 27 | 30-Jun-19 |
| Ironworkers, Local 377 | 15 | 30-Jun-19 |
| Laborers International Union, Local 261 | 1,114 | 30-Jun-19 |
| Municipal Attorneys' Association | 453 | 30-Jun-19 |
| Municipal Executives Association | 1,287 | 30-Jun-19 |
| MEA - Police Management | 6 | 30-Jun-18 |
| MEA - Fire Management | 9 | 30-Jun-18 |
| Operating Engineers, Local 3 | 63 | 30-Jun-19 |
| City Workers United | 132 | 30-Jun-19 |
| Pile Drivers, Local 34 | 37 | 30-Jun-19 |
| Plumbers, Local 38 | 347 | 30-Jun-19 |
| Probation Officers Association | 154 | 30-Jun-19 |
| Professional & Technical Engineers, Local 21 | 6,131 | 30-Jun-19 |
| Roofers, Local 40 | 13 | 30-Jun-19 |
| S.F. Institutional Police Officers Association | 2 | 30-Jun-19 |
| S.F. Firefighters, Local 798 | 1,837 | 30-Jun-18 |
| S.F. Police Officers Association | 2,506 | 30-Jun-18 |
| SEIU, Local 1021 | 12,471 | 30-Jun-19 |
| SEIU, Local 1021 Staff & Per Diem Nurses | 1,723 | 30-Jun-19 |
| SEIU, Local 1021 H-1 Rescue Paramedics | 4 | 30-Jun-18 |
| Sheet Metal Workers, Local 104 | 45 | 30-Jun-19 |
| Sheriff's Managers and Supervisors Association | 99 | 30-Jun-19 |
| Stationary Engineers, Local 39 | 692 | 30-Jun-19 |
| Supervising Probation Officers, Operating Engineers, Local 3 | 31 | 30-Jun-19 |
| Teamsters, Local 853 | 171 | 30-Jun-19 |
| Teamsters, Local 856 (Multi-Unit) | 115 | 30-Jun-19 |
| Teamsters, Local 856 (Supervising Nurses) | 126 | 30-Jun-19 |
| TWU, Local 200 (SEAM multi-unit & claims) | 364 | 30-Jun-19 |
| TWU, Local 250-A Auto Service Workers | 180 | 30-Jun-19 |
| TWU, Local 250-A Transit Fare Inspectors | 54 | 30-Jun-19 |
| TWU-250-A Miscellaneous | 107 | 30-Jun-19 |
| TWU-250-A Transit Operators | 2,658 | 30-Jun-19 |
| Union of American Physicians & Dentists | 205 | 30-Jun-18 |
| Unrepresented Employees | 134 | 30-Jun-18 |
| | 35,817 [1] | |

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

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

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

*History and Administration*

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

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

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

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

*Membership*

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

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

Beginning July 1, 2008, the Retirement System had a Deferred Retirement Option Program ("DROP") program for Police Plan members who were eligible and elected participation. The program "sunset" on June 30, 2011. A total of 354 eligible Police Plan members elected to participate in DROP during the three-year enrollment window. As of July 2016, there are no members active in DROP.

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

*TABLE A-16*

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

| As of 1-Jul | Active Members | Vested Members | Reciprocal Members | Total Non-retired | Retirees/ Continuants | Active to Retiree Ratio |
|---|---|---|---|---|---|---|
| 2012 | 28,097 | 4,543 | 1,015 | 33,655 | 25,190 | 1.115 |
| 2013 | 28,717 | 4,933 | 1,040 | 34,690 | 26,034 | 1.103 |
| 2014 | 29,516 | 5,409 | 1,032 | 35,957 | 26,852 | 1.099 |
| 2015 | 30,837 | 5,960 | 1,024 | 37,821 | 27,485 | 1.122 |
| 2016 | 32,406 | 6,617 | 1,028 | 40,051 | 28,286 | 1.146 |

Sources: SFERS annual July 1 actuarial valuation reports
See http://mysfers.org/resources/publications/sfers-actuarial-valuations/

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

*Funding Practices*

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

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

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

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

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

*Employer Contribution History and Annual Valuations*

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

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

*TABLE A-17*

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

| As of 1-Jul | Actuarial Liability | Market Value of Assets | Actuarial Value of Assets | Market Percent Funded | Actuarial Percent Funded | Employee & Employer Contributions in prior FY | Employer Contribution Rates[1] in prior FY |
|---|---|---|---|---|---|---|---|
| 2012 | 19,393,854 | 15,293,724 | 16,027,683 | 78.9% | 82.6% | 608,957 | 18.09% |
| 2013 | 20,224,777 | 17,011,545 | 16,303,397 | 84.1% | 80.6% | 701,596 | 20.71% |
| 2014 | 21,122,567 | 19,920,607 | 18,012,088 | 94.3% | 85.3% | 821,902 | 24.82% |
| 2015 | 22,970,892 | 20,428,069 | 19,653,339 | 88.9% | 85.6% | 894,325 | 26.76% |
| 2016 | 24,403,882 | 20,154,503 | 20,654,703 | 88.6% | 84.6% | 849,569 | 20.80% |

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

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

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

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

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

*GASB Disclosures*

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement was first implemented by the Retirement System in fiscal year

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

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

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

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

*TABLE A-17A*

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

| As of 30-Jun | 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 |
|---|---|---|---|---|---|---|
| 2013 | $20,785,417 | 7.52% | $17,011,545 | 81.8% | $3,773,872 | $3,552,075 |
| 2014 | 21,691,042 | 7.58% | 19,920,607 | 91.8% | 1,770,435 | 1,660,365 |
| 2015 | 22,724,102 | 7.46% | 20,428,069 | 89.9% | 2,296,033 | 2,156,049 |
| 2016 | 25,967,281 | 7.50% | 20,154,503 | 77.6% | 5,812,778 | 5,476,653 |

Sources: SFERS fiscal year-end GASB 67/68 Reports as of June 30, 2014, 2015, and 2016.
Notes: Collective amounts include all employees (City and County, SFUSD, SFCCD, Superior Courts)

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

*Asset Management*

The assets of the Retirement System, (the "Fund") are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. For a breakdown of the asset allocation as of June 30, 2016, see Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY

OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Page 72. Although, the Fund did not hold hedge funds as of June 30, 2016, the Board approved a 5% allocation to absolute return/hedge funds at its February 2015 meeting. Implementation of this new allocation began during fiscal year 2016-17.

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

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

*Recent Voter Approved Changes to the Retirement Plan*

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

Voters passed Proposition D in June 2010 which enacted new SFERS retirement plans for Miscellaneous and Safety employees commencing on or after July 1, 2010. Under these new plans, average final compensation used in the benefit formula changed from highest one-year average compensation to highest two-year average compensation and the employee contribution rate increased for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%. Proposition D also provides that, in years when the City's required contribution to SFERS is less than the employer normal cost, the amount saved would be deposited into the Retiree Health Care Trust Fund.

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

1. New SFERS benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%;

2. Employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;

3. Cost-sharing provisions which increase or decrease employee contributions to SFERS on and after July 1, 2012 for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. For example, Miscellaneous employees who earn between $50,000 and $100,000 per year pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate, while Miscellaneous employees who earn $100,000 or more per year pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are also required from Safety employees; and

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

A retiree organization has brought a legal action against the requirement in Proposition C that SFERS be fully funded in order to pay the Supplemental COLA. In that case, *Protect our Benefits (POB) v. City of San Francisco* (1st DCA

Case No. A140095), the Court of Appeals held that changes to the Supplemental COLA adopted by the voters in November 2011 under Proposition C could not be applied to current City and County employees and those who retired after November 1996 when the Supplemental COLA provisions were originally adopted, but could be applied to SFERS members who retired before November 1996. This decision is now final and its implementation increased the July 1, 2016 unfunded actuarial liability by $429.3 million for Supplemental COLAs granted retroactive to July 1, 2013 and July 1, 2014.

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

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

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

As of June 30, 2016, the audited market value of Retirement System assets was $20.2 billion. As of February 28, 2017, the unaudited market value of SFERS' portfolio was $21.5 billion. These values represent, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System's financial statements.

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

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

*Other Employee Retirement Benefits*

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

**Medical Benefits**

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

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

The San Francisco Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the HSS Beneficiaries are funded. The San Francisco Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained on the HSS website or by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (415) 554-1727. Audited annual financial statements for several years are also posted on the HSS website. The information available on such website is not incorporated in this Official Statement by reference.

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

*Determination of Employer and Employee Contributions for Medical Benefits*

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

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

Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*– Post-Employment Health Care Benefits and GASB 45*."

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

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

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

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

*Health Care Reform*

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

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

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

Provisions of Health Care Reform already implemented by HSS include discontinued eligibility for non-prescription drugs reimbursement through flexible spending accounts ("FSAs") in 2011, eliminated copayments for wellness visits, eliminated life-time caps on coverage, expanded eligibility to cover member dependent children up to age 26 in 2011, eliminated copayments for women's preventative health including contraception in 2012, W-2 reporting on total healthcare premium costs, implementation of a medical loss ratio rebate on self-insured plans, issuance of a separate summary of benefits to every member and provided to every new member and providing information on State Exchanges to both employees currently on COBRA and future COBRA recipients and as of 2015 and 2016, and beyond, healthcare FSAs are limited to $2,550 annually.

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

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

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

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

Beginning in 2016, employers are required to report coverage for employees to the IRS each January on complex electronic interface systems using 1095 forms. The San Francisco Health Service System spent over 2080 hours on system configuration and is compliant with this requirement for 2016 and 2017.

As part of overall "HealthCare Reform 2.0" under President Trump, it is likely that the age for eligibility will be increased. If this occurs, there will be an estimated 1,500 additional "early retirees" not subsidized by Medicare requiring coverage by HSS. The Republicans have also proposed a "voucher" system for Medicare. If this occurs it will require major changes to retiree health coverage. At this time it is too early to predict what changes will be made and it is very possible that changes will be passed but not implemented until January 2019, after the mid-term Congressional elections.

*Local Elections:*

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

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

*Proposition C (2011) City Pension and Health Care Benefit*

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

*Employer Contributions for San Francisco Health Service System Benefits*

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

The 2016 aggregate plan costs for the City increased by 3.80%. This is due to a number of factors including aggressive contracting by HSS that maintains competition among the City's vendors, implementing Accountable Care Organizations that reduced utilization and increased use of generic prescription rates and changing the City's Blue Shield plan from a fully-funded to a flex-funded product. Flex-funding allows lower premiums to be set by the City's actuarial consultant, AON-Hewitt, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. The flatten trend is anticipated to continue.

*Post-Employment Health Care Benefits and GASB 45*

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

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

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

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

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

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

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

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

*TABLE A-18*

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

| Fiscal Year Ended | Annual OPEB | Percentage of Annual OPEB Cost Funded | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2012 | $405,850 | 38.5% | $1,348,883 |
| 6/30/2013 | 418,539 | 38.3% | 1,607,130 |
| 6/30/2014 | 353,251 | 47.2% | 1,793,753 |
| 6/30/2015 | 363,643 | 46.0% | 1,990,155 |
| 6/30/2016 | 326,133 | 51.8% | 2,147,434 |

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

**Total City Employee Benefits Costs**

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

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

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

*TABLE A-19*

**CITY AND COUNTY OF SAN FRANCISCO**
**Employee Benefit Costs, All Funds**
**Fiscal Years 2012-13 through 2016-17***
**(000s)**

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

*Fiscal year 2011-12 through fiscal year 2015-16 figures are audited actuals. Fiscal year 2016-17 figures are original budget.

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

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

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

## INVESTMENT OF CITY FUNDS

*Investment Pool*

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

*Investment Policy*

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

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. See "APPENDIX C – City and County of San Francisco Office of the Treasurer – Investment Policy" for a complete copy of the Treasurer's Investment Policy, dated May 2016. The Investment Policy is also posted at the Treasurer's website. The information available on such website is not incorporated herein by reference.

*Investment Portfolio*

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

*TABLE A-20*

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

| Type of Investment | Par Value | Book Value | Market Value |
|---|---|---|---|
| U.S. Treasuries | $1,725,000,000 | $1,719,369,388 | $1,722,116,000 |
| Federal Agencies | 3,952,698,000 | 3,953,600,531 | 3,948,032,323 |
| State and Local Obligations | 290,934,000 | 295,096,161 | 292,790,433 |
| Public Time Deposits | 1,200,000 | 1,200,000 | 1,200,000 |
| Negotiable Certificates of Deposit | 815,000,000 | 815,000,000 | 815,392,583 |
| Banker's Acceptances | | | |
| Commercial Paper | 695,000,000 | 690,793,243 | 693,578,118 |
| Medium Term Notes | 101,604,000 | 101,782,575 | 101,749,678 |
| Money Market Funds | 461,139,949 | 461,139,949 | 461,139,949 |
| Supranationals | 80,000,000 | 79,925,100 | 79,870,750 |
| Total | $8,122,575,949 | $ 8,117,906,948 | $ 8,115,869,835 |

January 2017 Earned Income Yield: 0.899%

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

*TABLE A-21*

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

| Maturity in Months | | | Par Value | Percentage |
|---|---|---|---|---|
| 0 | to | 1 | $1,025,148,949 | 12.62% |
| 1 | to | 2 | 1,298,425,000 | 15.99% |
| 2 | to | 3 | 671,298,000 | 8.26% |
| 3 | to | 4 | 166,085,000 | 2.04% |
| 4 | to | 5 | 520,240,000 | 6.40% |
| 5 | to | 6 | 143,520,000 | 1.77% |
| 6 | to | 12 | 1,027,010,000 | 12.64% |
| 12 | to | 24 | 1,425,830,000 | 17.55% |
| 24 | to | 36 | 1,138,950,000 | 14.02% |
| 36 | to | 48 | 432,500,000 | 5.32% |
| 48 | to | 60 | 273,569,000 | 3.37% |
| | | | $8,122,575,949 | 100.00% |

Weighted Average Maturity: 412 Days

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

*Further Information*

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

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

## CAPITAL FINANCING AND BONDS

### Capital Plan

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

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

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2016-2025 Capital Plan was approved by the CPC on March 2, 2015 and was adopted by the Board of Supervisors in April 2015. The Capital Plan contains $32 billion in capital investments over the coming decade for all City departments, including $5.1 billion in projects for General Fund-supported departments. The Capital Plan proposes $1.66 billion for General Fund pay-as-you-go capital projects over the next ten years. The amount for General Fund pay-as-you-go capital projects is assumed to grow to over $200 million per year by fiscal year 2025-26. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, fire and park facilities; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the replacement of the Hall of Justice; and seismic upgrades to the Veteran's Memorial Building, among other capital projects. Approximately $1.8 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, the General Fund, and other sources.

In addition to the City General Fund-supported capital spending, the Capital Plan recommends $18.2 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, and the Sewer System Improvement Program, among others. Approximately $12.2 billion of enterprise fund department capital projects is financed with voter-approved revenue bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund and other sources.

While significant investments are proposed in the City's adopted Capital Plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over $8.5 billion in capital needs are deferred from the plan's horizon. Over two-thirds of these unfunded needs are for the City's transportation and waterfront infrastructure, where core maintenance investments have lagged for decades. Mayor Edwin Lee has convened a taskforce to recommend funding mechanisms to bridge a portion of the gaps in the City's transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding sources for these needs.

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

**Tax-Supported Debt Service**

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of May 22, 2017, the City had approximately $2.25 billion aggregate principal amount of general obligation bonds outstanding.

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

*[Remainder of Page Intentionally Left Blank.]*

*TABLE A-22*

**CITY AND COUNTY OF SAN FRANCISCO**
**General Obligation Bonds Debt Service**
**As of May 22, 2017** [1] [2]

| Fiscal Year | Principal | Interest | Annual Debt Service |
|---|---|---|---|
| 2017 | $189,434,110 | $48,373,909 | $237,808,019 |
| 2018 | 123,873,225 | 88,868,612 | 212,741,837 |
| 2019 | 124,230,545 | 84,676,748 | 208,907,293 |
| 2020 | 123,541,232 | 78,649,111 | 202,190,343 |
| 2021 | 122,085,457 | 72,700,986 | 194,786,443 |
| 2022 | 128,083,401 | 67,121,223 | 195,204,624 |
| 2023 | 131,760,251 | 61,192,905 | 192,953,156 |
| 2024 | 134,366,206 | 54,907,030 | 189,273,236 |
| 2025 | 135,221,476 | 48,463,484 | 183,684,960 |
| 2026 | 130,491,279 | 42,140,369 | 172,631,648 |
| 2027 | 135,690,840 | 36,402,040 | 172,092,880 |
| 2028 | 140,604,035 | 30,447,874 | 171,051,909 |
| 2029 | 141,041,751 | 24,668,943 | 165,710,694 |
| 2030 | 137,285,095 | 18,856,513 | 156,141,608 |
| 2031 | 99,261,950 | 13,238,784 | 112,500,734 |
| 2032 | 102,620,000 | 9,573,281 | 112,193,281 |
| 2033 | 68,105,000 | 5,848,349 | 73,953,349 |
| 2034 | 43,770,000 | 3,291,929 | 47,061,929 |
| 2035 | 35,160,000 | 1,711,971 | 36,871,971 |
| 2036 | 12,680,000 | 475,476 | 13,155,476 |
| TOTAL [3] | $2,259,305,853 | $791,609,537 | $3,050,915,390 |

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

[2] Totals reflect rounding to nearest dollar.

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

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

**General Obligation Bonds**

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

In November 1992, voters approved Proposition A, which authorized the issuance of up to $350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued $35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007, the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed $35.0 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans to the City from time to time as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007, the City initiated an initial borrowing of $2.0 million, and in October 2007, the City borrowed approximately $3.8 million from the Credit Bank. In January 2008, the City borrowed approximately $3.9 million and in November 2008, the City borrowed $1.3 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the $35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved. On November 8, 2016, voters approved Proposition C, authorizing the use of Seismic Safety Bond Program to fund the purchase and improvement of buildings in need of safety upgrades in order to convert them into affordable housing.

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

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

In November 2012, voters approved Proposition B, which authorized the issuance of up to $195.0 million in general obligation bonds to provide funds for the construction, reconstruction, renovation, demolition, environmental remediation and/or improvement of park, open space, and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately $71.9 million in June 2013. The City issued the second series of bonds in the amount of $43 million in January 2016.

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

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

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

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

**Refunding General Obligation Bonds**

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

*TABLE A-23*

**CITY AND COUNTY OF SAN FRANCISCO**
**General Obligation Refunding Bonds**
**As of May 22, 2017**

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

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

[2] Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015. Series 2008-R3 Bonds were partially refunded.

Table A-24 below lists for each of the City's voter-authorized general obligation bond programs the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of May 22, 2017, the City had authorized and unissued general obligation bond authority of approximately $1.37 billion.

*TABLE A-24*

**CITY AND COUNTY OF SAN FRANCISCO**
**General Obligation Bonds**
**As of May 22, 2017**

| Description of Issue (Date of Authorization) | Series | Issued | Outstanding [1] | Authorized & Unissued |
|---|---|---|---|---|
| Seismic Safety Loan Program (11/3/92) | 2007A | $30,315,450 | $22,765,853 | |
| | 2015A | 24,000,000 | 24,000,000 | 260,684,550 |
| Clean & Safe Neighborhood Parks (2/5/08) | 2010B | 24,785,000 | 7,510,000 | |
| | 2010D | 35,645,000 | 35,645,000 | |
| | 2012B | 73,355,000 | 53,215,000 | |
| | 2016A | 8,695,000 | 8,120,000 | |
| San Francisco General Hospital and Trauma Center (11/4/08) | 2009A | 131,650,000 | 15,800,000 | |
| | 2010A | 120,890,000 | 36,645,000 | |
| | 2010C | 173,805,000 | 173,805,000 | |
| | 2012D | 251,100,000 | 170,800,000 | |
| | 2014A | 209,955,000 | 176,035,000 | |
| Earthquake Safety and Emergency Response Bond (6/8/10) | 2010E | 79,520,000 | 45,425,000 | |
| | 2012A | 183,330,000 | 133,965,000 | |
| | 2012E | 38,265,000 | 32,805,000 | |
| | 2013B | 31,020,000 | 19,065,000 | |
| | 2014C | 54,950,000 | 46,910,000 | |
| | 2016C | 25,215,000 | 24,110,000 | |
| Road Repaving & Street Safety (11/8/11) | 2012C | 74,295,000 | 54,480,000 | |
| | 2013C | 129,560,000 | 79,570,000 | |
| | 2016E | 44,145,000 | 42,200,000 | |
| Clean & Safe Neighborhood Parks (11/6/12) | 2013A | 71,970,000 | 44,215,000 | |
| | 2016B | 43,220,000 | 26,345,000 | 79,810,000 |
| Earthquake Safety and Emergency Response Bond (6/3/14) | 2014D | 100,670,000 | 85,920,000 | |
| | 2016D | 109,595,000 | 81,340,000 | 189,735,000 |
| Transportation and Road Improvement (11/4/15) | 2015B | 67,005,000 | 47,005,000 | 432,995,000 |
| Affordable Housing Bond (11/4/15) | 2016F | 75,130,000 | 75,130,000 | 234,870,000 |
| Public Health and Safety Bond (6/7/16) | 2017A | 173,120,000 | 173,120,000 | 176,880,000 |
| **SUB TOTALS** | | **$2,385,205,450** | **$1,735,945,853** | **$1,374,974,550** |
| **General Obligation Refunding Bonds:** | | | | |
| Series 2008-R1 issued 5/29/08 | | 232,075,000 | 8,170,000 | |
| Series 2008-R2 issued 5/29/08 | | 39,320,000 | 11,105,000 | |
| Series 2011-R1 issued 11/9/12 | | 339,475,000 | 226,920,000 | |
| Series 2015-R1 issued 2/25/15 | | 293,910,000 | 277,165,000 | |
| **SUB TOTALS** | | **904,780,000** | **523,360,000** | |
| **TOTALS** | | **$3,289,985,450** | **$2,259,305,853** | **$1,374,974,550** |

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

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

## Lease Payments and Other Long-Term Obligations

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

Table A-25 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of May 22, 2017. Note that the annual payment obligations reflected in Table A-25 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

*TABLE A-25*

**CITY AND COUNTY OF SAN FRANCISCO**
**Lease Revenue Bonds and Certificates of Participation**
**As of May 22, 2017**

| Fiscal Year | Principal | Interest | Annual Payment Obligation |
|---|---|---|---|
| 2017 | $7,675,000 | $3,436,398 | $11,111,398 |
| 2018 | 60,915,000 | 46,486,454 | 107,401,454 |
| 2019 | 52,940,000 | 44,001,712 | 96,941,712 |
| 2020 | 38,245,000 | 41,873,368 | 80,118,368 |
| 2021 | 46,395,000 | 39,930,935 | 86,325,935 |
| 2022 | 46,240,000 | 37,923,874 | 84,163,874 |
| 2023 | 48,235,000 | 35,889,820 | 84,124,820 |
| 2024 | 49,820,000 | 33,763,816 | 83,583,816 |
| 2025 | 49,500,000 | 31,543,009 | 81,043,009 |
| 2026 | 49,305,000 | 29,364,494 | 78,669,494 |
| 2027 | 51,600,000 | 27,061,556 | 78,661,556 |
| 2028 | 52,205,000 | 24,657,600 | 76,862,600 |
| 2029 | 54,605,000 | 22,187,126 | 76,792,126 |
| 2030 | 54,285,000 | 19,619,771 | 73,904,771 |
| 2031 | 45,740,000 | 17,081,965 | 62,821,965 |
| 2032 | 34,950,000 | 14,784,720 | 49,734,720 |
| 2033 | 35,350,000 | 13,064,724 | 48,414,724 |
| 2034 | 36,950,000 | 11,309,843 | 48,259,843 |
| 2035 | 24,780,000 | 9,702,313 | 34,482,313 |
| 2036 | 23,195,000 | 8,481,869 | 31,676,869 |
| 2037 | 21,380,000 | 7,336,145 | 28,716,145 |
| 2038 | 22,270,000 | 6,258,900 | 28,528,900 |
| 2039 | 23,190,000 | 5,136,511 | 28,326,511 |
| 2040 | 24,160,000 | 3,963,507 | 28,123,507 |
| 2041 | 25,160,000 | 2,741,138 | 27,901,138 |
| 2042 | 18,140,000 | 1,629,071 | 19,769,071 |
| 2043 | 8,815,000 | 958,600 | 9,773,600 |
| 2044 | 7,195,000 | 587,000 | 7,782,000 |
| 2045 | 7,480,000 | 299,200 | 7,779,200 |
| TOTAL [1] | $1,020,720,000 | $541,075,439 [2] | $1,561,795,439 |

[1] Totals reflect rounding to nearest dollar.

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

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

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

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

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of May 22, 2017 the total authorized amount for such financings was \$67.7 million. The total principal amount outstanding as of May 22, 2017 was \$2.00 million.

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

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

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

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

**Commercial Paper Program**

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "CP Program"). Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project. The former Series 1 and 1-T and Series 2 and 2-T letters of credit issued in 2010 by J.P. Morgan Chase Bank, N.A. and U.S. Bank National Associatoin expired in June 2016. In May 2016, the City obtained renewal credit facilities securing the CP Notes issued by State Street Bank and Trust Company with a maximum principal amount of \$75 million and by U.S. Bank National Association with a maximum principal amount of \$75 million. The renewal credit facilities will expire in May 2021.

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

As of April 1, 2017, the outstanding principal amount of CP Notes is \$218.8 million. The weighted average interest rate for CP Notes is approximately 0.77%.

**Board Authorized and Unissued Long-Term Obligations**

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

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

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

**Overlapping Debt**

Table A-26 shows bonded debt and long-term obligations as of May 22, 2017 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

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*TABLE A-26*

**CITY AND COUNTY OF SAN FRANCISCO**

**Statement of Direct and Overlapping Debt and Long-Term Obligations**

| | | | |
|---|---|---|---|
| **2016-2017 Assessed Valuation** (net of non-reimbursable & homeowner exemptions): | | $211,532,524,208 | |
| | | **Outstanding 5/22/2017** | |
| **DIRECT GENERAL OBLIGATION BOND DEBT** | | | |
| General City Purposes Carried on the Tax Roll | | $2,259,305,853 | |
| **GROSS DIRECT DEBT** | | $2,259,305,853 | |
| **DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS** | | | |
| San Francisco Finance Corporation, Equipment LRBs Series 2011A, 2012A, and 2013A | | $2,005,000.00 | |
| San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1 | | 9,975,000 | |
| San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2 | | 99,620,000 | |
| San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007 | | 47,000,000 | |
| San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A | | 28,045,000 | |
| San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital) | | 125,570,000 | |
| San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project) | | 31,190,000 | |
| San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt | | 23,240,000 | |
| San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs | | 129,550,000 | |
| San Francisco Refunding Certificates of Participation, Series 2010A | | 105,045,000 | |
| San Francisco COPs, Refunding Series 2011AB (Moscone) | | 40,390,000 | |
| San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project) | | 36,815,000 | |
| San Francisco COPs, Series 2013A Moscone Center Improvement | | 7,750,000 | |
| San Francisco COPs, Series 2013BC Port Facilities | | 32,275,000 | |
| San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project) | | 38,350,000 | |
| San Francisco COPs, Series 2015AB War Memorial Veterans Building Seismic Upgrade and Improvements | | 127,810,000 | |
| San Francisco Refunding COPs, Series 2015-R1 (City Office Buildings-Multiple Properties Project) | | 120,920,000 | |
| San Francisco COPs, Series 2016A War Memorial Veterans Building Seismic Upgrade and Improvements | | 15,170,000 | |
| **LONG-TERM OBLIGATIONS** | | $1,020,720,000 | |
| **GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS** | | $3,280,025,853 | |
| **OVERLAPPING DEBT & LONG-TERM OBLIGATIONS** | | | |
| Bayshore Hester Assessment District | | $550,000 | |
| San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds | | 77,490,000 | |
| San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B | | 102,494,000 | |
| San Francisco Community College District General Obligation Bonds - Election of 2001, 2005 | | 262,945,000 | |
| San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011 | | 34,260,000 | |
| San Francisco Redevelopment Agency Obligations (Property Tax Increment) | | 760,367,853 | |
| San Francisco Redevelopment Agency Obligations (Special Tax Bonds) | | 151,301,115 | |
| Association of Bay Area Governments Obligations (Special Tax Bonds) | | 18,140,000 | |
| Special Tax District No. 2009-1 Improvement Area 1, 2 SF Sustainable Financing | | 2,999,392 | |
| San Francisco Unified School District General Obligation Bonds,Election of 2003, 2006, 2011, 2015R, 2016, and 2017 | | 1,063,975,000 | |
| **TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS** | | $2,474,522,360 | |
| **GROSS COMBINED TOTAL OBLIGATIONS** | | $5,754,548,213 | 1 |
| **Ratios to Assessed Valuation:** | **Actual Ratio** | **Charter Req.** | |
| Gross Direct Debt (General Obligation Bonds) | 1.07% | < 3.00% | 2 |
| Gross Direct Debt & Long-Term Obligations | 1.55% | n/a | |
| Gross Combined Total Obligations | 2.72% | n/a | |

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

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

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

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

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

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

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

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

## MAJOR ECONOMIC DEVELOPMENT PROJECTS

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

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

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

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

**Treasure Island**

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

The first major land transfer from the Navy to the Treasure Island Development Authority ("TIDA") will occur in early 2015 and will include the northern half of Yerba Buena Island and more than half of the area of Treasure Island. The developer, Treasure Island Community Development ("TICD"), is performing the preliminary engineering and pursuing the permits required to begin construction before the end of 2015. The first phase of development will include extensive horizontal infrastructure improvements (utilities, roadway improvements, site preparation, etc.) as well as the initial vertical developments. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

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

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

**Transbay**

The Transbay Project Redevelopment Project Area was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State in order to generate funding for the new Transbay Transit Center. In 2012 the Transit Center District Plan, the guiding document for the area surrounding the Transit Center, was approved by the Planning

Commission and by the Board of Supervisors. The Transit Center District Plan includes additional funding sources for the Transbay Transit Center. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub and extend the Caltrain commuter rail line underground 1.3 miles into the Financial District. The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open by the end of 2017. Demolition of existing structures on the site was completed in August 2011.

The 10 acres of property formerly owned by the State surrounding the Transbay Transit Center is being redeveloped with plans for 3,300 new homes, 1,400 to be affordable below-market rate homes, over 2 million square feet of new office space, over 9 acres of new parks and open space, and a new retail boulevard on Folsom Street. Recently completed in the neighborhood is Rene Cazenave Apartments which is 120 units of permanent affordable housing for formerly homeless individuals, and Solaire, which consists of 479 residential units of which 70 units are affordable. There are over 1,200 units currently under construction on Folsom Street, 767,000 square feet of office space under construction at Howard and Beale Streets, and 1.4 million square feet of office space under construction at Mission and First Streets. In addition, a new construction projects along Folsom Street totaling 391 units is expected to break ground in early 2017.

The Pelli Clarke Pelli Architects-designed Transit Center will serve more than 100,000 people per day through nine transportation systems, including future California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The Center is designed to embrace the goals of green architecture and sustainability. The heart of the Transbay Transit Center, "City Park," a 5.4-acre public park that will sit atop the facility, and there will be a living green roof for the transit facility. The Center will have a LEED rating of Silver. The project is estimated to create more than 48,000 jobs in its first phase of construction, which will last seven years. The $4.5 billion Transbay Transit Center Project is funded by various public and private funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others.

**Mission Bay**

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

Over 4,067 units have been completed with an additional 900 units under construction, along with several new parks. Another 550 housing units, a 250-room hotel and several new commercial buildings will break ground in 2015. As discussed above, the design development process has also begun for that Golden State Warriors project.

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

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

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

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

**Pier 70**

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site to achieve a number of goals, including preservation and adaptive reuse of historic structures; retention of the ship repair operations; provision of new open space; reactivation and economic development on the site; and needed infrastructure and site remediation. The Port, which controls Pier 70, and OEWD, in its capacity as lead negotiator, have initiated preliminary negotiations with Forest City, the developer selected to build a new mixed-use neighborhood on a 28-acre portion of Pier 70 known as the Waterfront Site. The parties have agreed on a development concept and corresponding financial terms for the Waterfront Site, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following community and environmental review. In November 2014, Proposition F was approved by the voters, authorizing an increase of height limits on Pier 70 from 40 feet to 90 feet.

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

**Moscone Convention Center**

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

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

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

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

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

### Article XIIIA of the California Constitution

Article XIIIA 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 XIIIA 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 XIIIA) 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 XIIIA 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 XIIIA 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 XIIIB of the California Constitution

Article XIIIB was enacted by California voters as an initiative constitutional amendment in November 1979. Article XIIIB 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 XIIIB includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

**Articles XIIIC and XIIID of the California Constitution**

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XII C and XIIID 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 XIIIC 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 XIIIC addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIIIC, 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 XIIIC. 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 XIIID contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIIID) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement purposes and community benefit purposes, and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

**Statutory Limitations**

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

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

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

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

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure under Proposition 62 may not be significant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. See "OTHER CITY TAX REVENUES" herein. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to the requirements of Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city.

**Proposition 1A**

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

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

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

**Proposition 22**

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

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

**Proposition 26**

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

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

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

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

**Future Initiatives and Changes in Law**

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

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

## LITIGATION AND RISK MANAGEMENT

### Pending Litigation

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

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

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

### Risk Retention Program

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

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

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

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

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

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# APPENDIX B

## COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2016

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# CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

## Comprehensive Annual Financial Report
## Year ended June 30, 2016

**Prepared by:**
**Office of the Controller**

**Ben Rosenfield**
**Controller**

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**CITY AND COUNTY OF SAN FRANCISCO**

**Comprehensive Annual Financial Report**
**Year Ended June 30, 2016**

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CITY AND COUNTY OF SAN FRANCISCO
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November 18, 2016

The Honorable Mayor Edwin Lee
The Honorable Members of the Board of Supervisors
Residents of the City and County of San Francisco
San Francisco, California

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the year ended June 30, 2016, with the independent auditor's report. The report is submitted in compliance with City Charter sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The Office of the Controller prepared the CAFR in conformance with the principles and standards for accounting and financial reporting set forth by the Governmental Accounting Standards Board (GASB).

The City is responsible for the accuracy of the data and for the completeness and fairness of its presentation. The existing comprehensive structure of internal accounting controls in the City provides reasonable assurance that the financial statements are free of any material misstatements. Because the cost of internal control should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements. I believe that the reported data is accurate in all material respects and that its presentation fairly depicts the City's financial position and changes in its financial position as measured by the financial activity of its various funds. I am confident that the included disclosures provide the reader with an understanding of the City's financial affairs.

The City's Charter requires an annual audit of the Controller's records. The records have been audited by Macias Gini & O'Connell LLP and are presented in the Basic Financial Statements in this CAFR. The CAFR also incorporates financial statements of various City enterprise funds and component units, including the San Francisco International Airport, the San Francisco Water Enterprise, Hetch Hetchy Water and Power, the Municipal Transportation Agency, the San Francisco Wastewater Enterprise, the Port of San Francisco, San Francisco General Hospital, Laguna Honda Hospital, the City and County of San Francisco Finance Corporation, the San Francisco County Transportation Authority, the City and County of San Francisco Health Service System, the San Francisco City and County Employees' Retirement System, and the Successor Agency to the San Francisco Redevelopment Agency.

This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) section of the CAFR. The MD&A provides a narrative overview and analysis of the Basic Financial Statements and is presented after the independent auditor's report.

## KEY FINANCIAL REPORT SECTIONS:

The **Introductory Section** includes information about the organizational structure of the City, the City's economy, major initiatives, status of City services, and cash management.

The **Financial Section** includes the MD&A, Basic Financial Statements, notes to the Basic Financial Statements, and required supplementary information. The Basic Financial Statements include the government-wide financial and other statements that report on all City financial operations, and also include fund financial statements that present information for all City funds. The independent auditor's report on the Basic Financial Statements is also included.

The financial statements of several enterprise activities and of all component units of government are included in this CAFR. Some component units' financial statements are blended with the City's, such as the San Francisco County Transportation Authority and the San Francisco Finance Corporation. The reason for this is that the primary government is financially accountable for the operations of these agencies. In other instances, namely, for the Treasure Island Development Authority, financial reporting is shown separately. Supplemental combining statements and schedules for non-major governmental funds, internal service funds and fiduciary funds are also presented in the financial section.

The **Statistical Section** includes up to ten years of historical financial data and miscellaneous social and economic information that conforms to GASB standards for reporting statistical information. This section may be of special interest to citizens and prospective investors in our bonds.

## SAN FRANCISCO'S ECONOMY:

### Overview of Recent Trends

An educated workforce and easy access to transit and financial capital continue to drive business investment in the City. San Francisco's economy has fully recovered losses from the most recent recession, and growth continues to outpace that of the state and national economies. The City's unemployment rate in fiscal year 2015-16 declined to a rate of 3.4%, a drop of 0.6% from the prior fiscal year's rate of 4.0%. In comparison, average unemployment rates for California and the nation for fiscal year 2015-16 stood at 5.7% and 5.0%, respectively. Most importantly, this fall in unemployment rate is due to a strengthening labor market as opposed to people dropping out of the labor force. In fiscal year 2015-16, private nonfarm employment in the San Francisco Metropolitan Division grew 4.4% over the prior fiscal year, compared to 3.0% growth for the state overall.

The resident population also continued to grow, reaching a new historical high of 864,816 in 2015 according to the U.S. Census Bureau. This represents a 1.4% increase versus the prior year, and cumulative growth of 101,900 or 13% over the last decade.

Several local economic indicators have shown marked improvement over the past fiscal year. Housing prices, residential and commercial rents, and hotel room and occupancy rates, have all shown significant growth. Commercial and residential rents and median home prices all increased to new historical highs. The average asking monthly rent for apartments in San Francisco rose to $3,614 in fiscal year 2015-16, an increase of 4.9%. Monthly per square foot rental rates for commercial space grew to $70.16 in fiscal year 2015-16, a 6.6% increase versus the prior fiscal year. The average median home price in the fiscal year grew to a new annual high of approximately $1,133,813 up 10.4% from the previous fiscal year. Average annual hotel occupancy grew to 87.7%, a new historical high, while average room rates grew by 5.7% between FY2014-15 and FY2015-16.

San Francisco's economic recovery has stimulated the demand for new residential and commercial space. A large amount of private construction was completed or underway during the last fiscal year, with 4,703 housing units completed and 8,996 additional units under construction at the end of the fiscal year. Building permits for nearly 4.9 million square feet of construction were issued during the year. Much of this development is shaped by major area planning efforts that the City has completed in recent years, including in the Eastern Neighborhoods, Market-Octavia, and the Transit Center District. The City has also adopted or approved large-scale development projects in Candlestick Point/Hunters Point Shipyard, Treasure Island, and Park Merced.

## SAN FRANCISCO GOVERNMENT:

### Profile of San Francisco Government

The City and County of San Francisco was established by Charter in 1850, and is the only legal subdivision of the State of California with the governmental powers of both a city and a county. The City's legislative power is exercised through a Board of Supervisors, while its executive power is vested upon a Mayor and other appointed and elected officials. Key public services provided by the City include public safety and





protection, public transportation, water and sewer, parks and recreation, public health, social services and land-use and planning regulation. The heads of most of these departments are appointed by the Mayor and advised by commissions and boards appointed by City elected officials.

Elected officials include the Mayor, Members of the Board of Supervisors, Assessor-Recorder, City Attorney, District Attorney, Public Defender, Sheriff, Superior Court Judges, and Treasurer. Since November 2000, the eleven-member Board of Supervisors has been elected through district elections. The eleven district elections are staggered for five and six seats at a time, and held in even-numbered years. Board members serve four-year terms and vacancies are filled by Mayoral appointment.

### San Francisco's Budgetary Process

The budget is adopted at the character level of expenditure within each department, and the department level and fund is the legal level of budgetary control. Note 2(c) to the Basic Financial Statements summarizes the budgetary roles of City officials and the timetable for their various budgetary actions according to the City Charter.

The City has historically adopted annual budgets for all governmental funds and typically adopts project-length budgets for capital projects and certain debt service funds. The voters adopted amendments to the Charter in November 2009 designed to further strengthen the City's long-range financial planning. As a result of these changes, the City for the first time adopted a two-year budget for all funds for the two upcoming fiscal years in July 2012. The Charter requires that the City adopt a "rolling" two-year budget each year unless the Board of Supervisors authorizes a "fixed" two-year budget appropriation for a given fund, in which case authorization occurs every two years. As of fiscal year 2015-16 there were seven departments on a two-year fixed budget.

As further required by these amendments, the Board of Supervisors and Mayor adopt a five-year financial plan every two years. The most recent plan was adopted in March 2015. Additionally, these Charter changes provided a mechanism for the Controller to propose, and the Board to adopt, various binding financial policies, which can only be suspended by a supermajority of the Board. Financial policies have now been adopted under these provisions governing the City's budget reserve practices, the use of non-recurring revenues, and limits on the use of debt paid from the General Fund.

### Internal and Budgetary Controls

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City maintains budgetary controls to ensure that legal provisions of the annual budget are in compliance and expenditures do not exceed budgeted amounts. Controls are exercised by integrating the budgetary accounts in fund ledgers for all budgeted funds. An encumbrance system is also used to account for purchase orders and other contractual commitments. Encumbered balances of appropriations at year-end are carried forward and are not reappropriated in the following year's budget.

### Pension and Retiree Health Trust Fund Operations

In FY 2014-15 the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68 related to financial reporting of pension plans. It requires additional disclosures in the notes and recognition of a net pension liability. While the City has six defined benefit retirement plans, a substantial majority of full-time employees participates in the San Francisco Employees' Retirement System (SFERS), With this new standard the City uses two different actuarial valuation studies – one for financial reporting purposes as required by Standard No. 68 and the other for funding purposes to determine the City's annual required contributions to the plan. The new method, for financial reporting purposes, is used to calculate the net pension liability that appears on the City's financial statements.

*Funding Purposes* – The most recent actuarial valuation report for the SFERS pension plan, dated July 1, 2015, estimates the unfunded actuarial accrued liability at $3.32 billion, an increase of $207 million from the previous actuarial valuation dated July 1, 2014. For funding purposes, the pension plan's funding ratio increased from 85.3% to 85.6%.

*Financial Reporting* – As of June 30, 2016, for financial reporting purposes, the City's net pension liability for SFERS is $2.16 billion, an increase of $496 million from the previous year. SFERS's fiduciary net position as a percentage of total pension liability, which is comparable to the funding ratio mentioned above decreased from 91.8% to 89.9%.

The City's unfunded retiree health benefit liability has been calculated at $4.21 billion as of July 1, 2014. In 2009, the City and employees began to pre-fund prospective obligations through contributions of 3% of salary for employees hired on or after January 10, 2009. These contributions are held in an irrevocable trust, the Retiree Health Care Trust Fund. Beginning in fiscal year 2016-17, employees hired before January 10, 2009 will also start contributing to the Trust Fund with an employer match, starting at a combined 0.5% of salary and rising to 2.0% of salary by fiscal year 2019-20. As of June 30, 2016, the Trust Fund had assets of $114.8 million, an increase of 57% versus the prior year.

**General Fund Financial Position Highlights**

The City's General Fund financial position continued to post significant improvement during this most recent fiscal year, continuing trends from recent years.

Total GAAP-basis General Fund balance, which includes funds reserved for continuing appropriations and reserves, ended fiscal year 2015-16 at $1,429 million, up $284 million from the prior year.

The General Fund's cash position also reflects a strong improvement in fiscal year 2015-16, rising to a new year-end peak of $1.7 billion, up $0.43 billion from June 30, 2015.

The General Fund rainy day and budget stabilization reserves grew to $298.5 million at the end of fiscal years 2015-16, an increase of $51.3 million compared to prior year.

The majority of fund balance available for appropriation on a budgetary basis totaled $435.2 million or $11.9 million more than had been previously projected and appropriated by the Mayor and Board as a source in the adopted two-year budget for fiscal years 2016-17 and 2017-18.

**Key Government Initiatives**

San Francisco's economy depends on investments in infrastructure and services that benefit City residents, workers, visitors, and businesses. These economic foundations range from housing and commercial development, to transportation infrastructure, investments in health and human services, and the City's quality of life. The City is taking steps to strengthen this infrastructure, to support San Francisco's economic recovery and long-term prosperity. Some important initiatives are described below.

**Improving the City's Public Transportation Systems**

San Francisco is ideally situated to serve the Bay Area's need to rapidly bring a large numbers of workers into a transit-accessible employment center, and efficiently navigate the dense City on foot, mass transit, taxi or bicycle.





Plans for a multi-modal transit hub located in the City's core – the Transbay Transit Center – are targeted to meet a portion of this regional need. The center is designed to provide expanded bus, commuter train, and ultimately high-speed rail connections into the City from within the region and state, and to provide pedestrian connections to nearby subway, surface rail, and bus services within the City. The former terminal at the site has been demolished with completion of the new center targeted for fiscal year 2017-18. The $2.3 billion transit center, managed by a financially independent authority, is funded through a host of revenue sources, including federal stimulus funding, land sale proceeds, tax increment, local sales tax, and other revenues generated from planned dense, mixed-use development adjacent to the site. In order to meet cash flow needs of the project, an interim financing in an amount not to exceed $260 million was approved by both the City and the authority in fiscal year 2015-16. This interim financing will be provided by the City and repaid from future tax revenues generated by development from the district plan area and state-owned parcels within the redevelopment area.

The City is currently constructing the Central Subway project, the second phase of a program designed to create a light-rail line running from Chinatown, under the heart of downtown, and connecting to the most-recent extension of the light-rail system to the Southeast portion of the City. The subway will connect to Bay Area Rapid Transit (BART) and Caltrain, the region's two largest regional commuter rail services. The Central Subway project, with an estimated budget of $1.6 billion and a targeted completion date of 2018, is estimated to provide approximately 35,000 daily boardings at four stations along the new 1.7-mile line. Once in active service in 2019, the project will reduce travel times and congestion along some of the most congested vehicular and public transit routes in California.

The City is also implementing a street repair and improvement program, funded with a $248 million general obligation bond, as well as state and local revenue sources. Under this program, over 2,500 blocks are expected to be repaved or preserved, 1,900 curb ramps for disabled access will be constructed, and over 125,000 square feet of public sidewalk will be repaired. In commercial corridors, and along busy routes, the program is enabling the City to build complete streets that enhance pedestrian and bicycle safety and enhance the vibrancy of urban neighborhoods. The program also provides funds to rehabilitate existing traffic signal infrastructure and allow transit signal priority along key transit routes, improving transit efficiency and relieving traffic congestion. During the last two years, the City has repaved or maintained more than 1,700 blocks, built 1,400 curb ramps, repaired 21 street structures, inspected and repaired more than 300,000 square feet of sidewalk.

These improvements to the City's transportation infrastructure will be accelerated given voter approval of a $500 million general obligation bond in November 2014, the first of four funding measures recommended by a Mayoral taskforce convened during fiscal year 2013-14 to prioritize critical transportation infrastructure projects and recommend funding strategies to meet these needs. Projects planned for the bond include investments designed to improve reliability and travel time on mass transit, improve pedestrian safety, improve accessibility, and address priority deferred maintenance needs.

The City continued to invest in improvements at San Francisco International Airport (SFO) in fiscal year 2015-16 as part of an approved capital plan of $2.6 billion over the next five years. Completed projects during the fiscal year include runway safety area improvements and a new cargo facility, with work to construct a new air traffic control tower and renovations to Terminal 3 in construction. The plan also includes funds for programming, planning, and construction of the initial phases of the Terminal 1 Renovation Program, which has a projected cost of $2.2 billion and anticipated phased completion dates through 2023. These projects are necessitated by the continued growth in passenger volumes at SFO, which accounts for 93% of international air travel and 70% of all air travel into the Bay Area.

**Completing Critical Infrastructure Upgrades for Water, Power, and Sewer Services**

Service reliability and disaster preparedness are also priorities of the City's Public Utilities Commission (PUC), as evidenced in the historic levels of infrastructure investment being deployed and planned in all three enterprises the PUC operates.

As of the end of fiscal year 2015-16, the City was over 91% complete on a $4.8 billion multi-year capital program to upgrade local and regional water systems, known as the Water System Improvement Program

(WSIP). The WSIP program consists of both local and regional projects spread over seven counties from the Sierra foothills to San Francisco. The WSIP delivers capital improvements that enhance the system's ability to provide reliable, affordable, high-quality drinking water in an environmentally sustainable manner to its 27 wholesale and regional retail customers in Alameda, Santa Clara, San Mateo, and San Francisco counties, collectively serving some 2.6 million people. The program is structured to cost effectively meet water quality requirements, improve seismic and delivery reliability, and meet long-term water supply objectives.

The PUC is also underway with a $6.9 billion, three-phased 20-year program to upgrade of the City's wastewater infrastructure, the Sewer System Improvement Program (SSIP). The first phase, totaling $2.7 billion, includes $1.7 billion in improvements to the Southeast Treatment Plant and funding for sustainable, green infrastructure and urban watershed assessment projects to minimize stormwater impact on the sewer system. The SSIP will upgrade the City's combined sewer system, which was predominantly built out over the past century. Although significant investment occurred in the mid-1970s through the mid-1990s to comply with the Clean Water Act, today many of the existing facilities are in need of upgrade and major improvement to prepare San Francisco for the future.

Hetch Hetchy Water and Power, which includes upcountry water operations and the City's power enterprise, is in the midst of an upcountry rehabilitation program for its aging reservoirs, powerhouses, switchyards, pipelines, tunnels and in-city power assets. Upcountry water and power facilities are being assessed and rehabilitated where needed, including investments in reservoirs, powerhouses, switchyards, and substations, 170 miles of pipelines and tunnels, 160 miles of transmission lines, watershed land, and right-of-way property. Improvements in San Francisco include piloted replacement of old, outdated streetlight fixtures and poles with modern, energy-efficient ones. These new fixtures will have wireless controls, enabling the City to achieve cost-efficiency and higher performance through the ability to monitor and control them remotely. Over the next ten years, $1.2 billion of critical infrastructure investment is planned.

Expanding Access to Healthcare

Public health and human services are important to the long-term health and well-being of City residents, and to the overall productivity of the City's workforce. The City offers a host of health and safety net services, including operation of two public hospitals, the administration of federal, state, and local entitlement programs, and a vast array of community-based health and human services.

January 2014 marked the beginning of full-scale implementation of the Affordable Care Act (ACA), including the launch of Covered California and the Medi-Cal expansion. In preparation, the City conducted extensive outreach through various agencies, and the Department of Public Health (DPH) created the San Francisco Health Network, consolidating the department's full continuum of direct health care services. The San Francisco Health Network is an integrated health care delivery system that improves the department's ability to provide and manage care for insured patients that select our network, organize the elements of the delivery system, improve system efficiency, and improve the patient experience.

Approximately 140,000 San Franciscans have enrolled in new health insurance options since the launch of the ACA in 2014, including more than 92,000 in Medi-Cal and over 52,000 in Covered California. Paralleling the increased insurance enrollment is a continued reduction in enrollment in Healthy San Francisco, the City's health access program for the uninsured, which declined from nearly 58,000 participants prior to ACA implementation to 14,500 as of June 2016. However, Healthy San Francisco does not account for all uninsured San Franciscans, and the City estimates that 25,000 to 30,000 residents continue to remain without insurance. The residually uninsured include those ineligible for the insurance expansions offered under the ACA and those who are eligible but who, for a variety of reasons, do not enroll. The City will continue to be a key provider of safety net services for these individuals.

Amidst these changes, the City has replaced and modernized the City's two public hospitals. The voters approved an $887 million general obligation bond measure to fund the replacement of San Francisco General Hospital in November 2008. This replacement project is required given changes to state law governing seismic requirements for hospitals. It replaced the current facility with a new seven-story building, emergency rooms three times the size of the old hospital and more operating rooms on the existing hospital





campus. The hospital is the only trauma center in San Francisco, and also acts as the safety net hospital for our residents. The project was completed in November 2015 and patient move-in and official opening occurred in May. This project follows substantial completion of the reconstruction of the City's skilled nursing facility, Laguna Honda Hospital, in fiscal year 2011-12. On June 7, 2016, a two-thirds majority of voters of the City approved $350 million in general obligation bonds to fund capital projects to renovate, expand, and seismically enhance fire safety and healthcare facilities, construct a larger and more modern City ambulance center, to repair and modernize neighborhood fire stations, and to build, acquire, and improve facilities to better serve homeless individuals and families.

Modernizing the City's Parks and Libraries

San Francisco voters have approved a number of bond measures to fund capital improvements to the City's parks and libraries during the past decade, including the most recent approval in November 2012 of a $195 million general obligation bond for improvements to neighborhood parks. Once implemented, the City will have completed substantial renovations of 13 recreation centers, 52 playgrounds, and 9 swimming pools during a ten-year period.

The City substantially completed a comprehensive branch library improvement program in fiscal year 2013-14 that renovated 16 branch libraries, replaced seven branches with new buildings, and constructed a new branch library in Mission Bay. The $195 million program, funded with a mix of general obligation and lease-revenue bonds, state funds, and other local sources, focused on seismic safety, accessibility, and modernization for current uses.

Delivering Public and Private Waterfront Improvements

The Port of San Francisco, a department of the City, is custodian to seven and one-half miles of maritime industrial and urban waterfront property. The City utilizes public-private partnerships to marshal private sector creativity and financial resources to rehabilitate historic Port assets or develop new facilities for maximum public benefit. Public-private partnerships complement the City's public works project-delivery mechanism, which has been used to deliver many waterfront projects. Development opportunity areas are identified and guided by the Port of San Francisco Waterfront Land Use Plan, which was initially adopted in 1997 and is in a public planning update process expected to conclude with policy recommendations for key waterfront subareas in 2017. Current public-private partnership projects include the rehabilitation of the Pier 70 area which contemplates continued ship repair, historic preservation, new waterfront parks, housing, and up to two million square feet of new commercial and office space and a new mixed-use neighborhood with waterfront parks and a rehabilitated Pier 48 adjacent to AT&T Park.

Improving Public Safety and Earthquake Preparedness

In June 2014, San Francisco voters approved a $400 million Earthquake Safety and Emergency Response Bond (ESER 2014) to continue vital work done in the ESER program and to pay for repairs and improvements that will allow San Francisco to quickly respond to a major earthquake or disaster. The first phase of the ESER program was approved by voters in June 2010 and since the program began, the City has completed the new Public Safety Building, made improvements to a number of neighborhood firehouses, and upgrades to the emergency firefighting water system.

Other Long-Term Financial Challenges Remain

Notwithstanding the City's strong economic and financial performance during the recent recovery and despite significant initiatives outlined above, several long-term financial challenges and risks remain unresolved.

While significant investments are proposed in the City's adopted ten-year capital plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over $10 billion in capital needs are deferred from the plan's horizon. Over two-thirds of these unfunded needs are for the City's transportation and waterfront infrastructure, where core maintenance investments have lagged for decades. The City will update this plan in fiscal year 2016-17.

The City has taken significant steps to address long-term unfunded liabilities for employee pension and other postemployment benefits, including retiree health obligations, yet significant liabilities remain. The most recent actuarial analyses estimate unfunded actuarial accrued liabilities of $7.53 billion for these benefits, comprised of $4.21 billion for retiree health obligations and $3.32 billion for employee pension benefits. In recent years, the City and voters have adopted significant changes that should mitigate these unfunded liabilities over time, including adoption of lower-cost benefit tiers, increases to employee and employer contribution requirements, and establishment of a trust fund to set-aside funding for future retiree health costs. The financial benefit from these changes will phase in over time, however, leaving ongoing financial challenges for the City in the shorter term.

Lastly, while the City has adopted a number of measures to better position the City's operating budget for future economic downturns, further progress is still needed. Economic stabilization reserves have grown significantly during the last four fiscal years, exceeding pre-recession peaks in the prior year. By the end of the fiscal year, these reserves were funded up to 6.4% of discretionary General Fund revenues, which is below the adopted target of 10%. Further progress towards the targeted level in future fiscal years will allow the City to better weather inevitable negative variances that will be driven by future economic volatility.

**OTHER INFORMATION:**

**Independent Audit**

The City's Charter requires an annual audit of the Controller's records. These records, represented in the basic financial statements included in the CAFR have been audited by the nationally recognized certified public accounting firm, Macias Gini & O'Connell LLP. The various enterprise funds, the Health Service System, the Employees' Retirement System, the San Francisco County Transportation Authority, the San Francisco Finance Corporation, and the Successor Agency to the San Francisco Redevelopment Agency have been separately audited. The Independent Auditor's Report on our current year's financial statements is presented in the Financial Section.

**Award for Financial Reporting**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the 34th consecutive year, beginning with the fiscal year ended June 30, 1982, that the City has achieved this prestigious award. A Certificate of Achievement is valid for a period of one year only. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

**Acknowledgements**

I would like to express my appreciation to the entire staff of the Controller's Office whose professionalism, dedication, and efficiency are responsible for the preparation of this report. I would also like to thank Macias Gini & O'Connell LLP for their invaluable professional support in the preparation of the CAFR. Finally, I want to thank the Mayor and the Board of Supervisors for their interest and support in planning and conducting the City's financial operations.

Respectfully submitted,

Ben Rosenfield
Controller



Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City and County of San Francisco**
**California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

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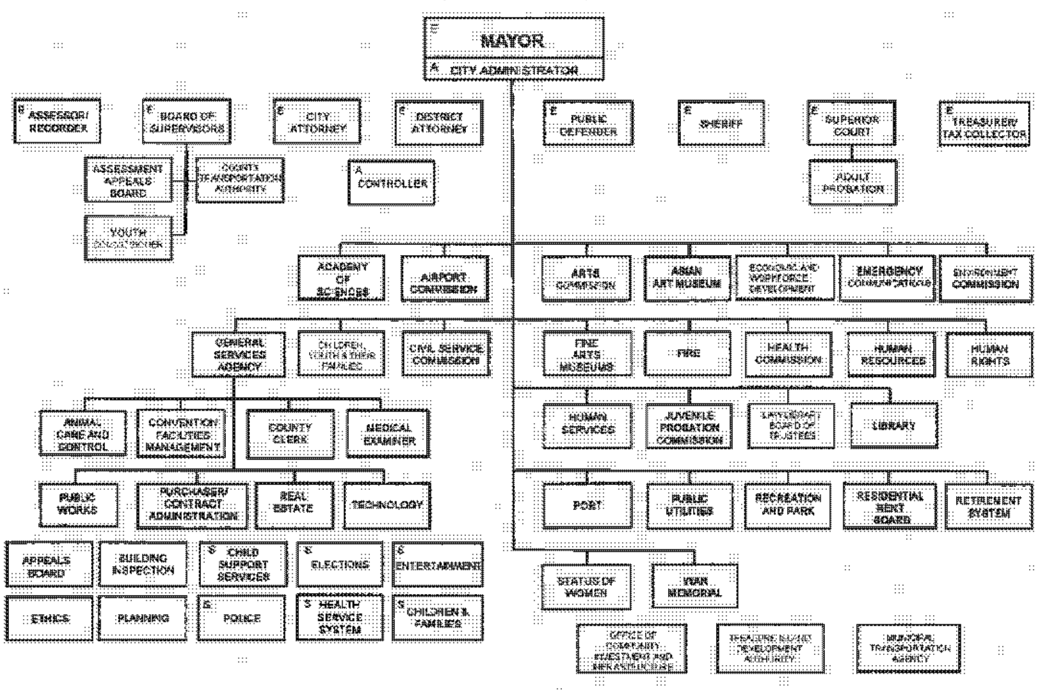
# City and County of San Francisco Organization Chart

(As of June 30, 2016)




A = Appointed / E = Elected / S = Shared – appointed by various elected officials.

## CITY AND COUNTY OF SAN FRANCISCO

**List of Principal Officials**
As of June 30, 2016

### ELECTED OFFICIALS

| | |
|---|---|
| Mayor | Edwin M. Lee |
| Board of Supervisors: | |
| President | London Breed |
| Supervisor | Eric L. Mar |
| Supervisor | Mark Farrell |
| Supervisor | Aaron Peskin |
| Supervisor | Katy Tang |
| Supervisor | Jane Kim |
| Supervisor | Norman Yee |
| Supervisor | Scott Wiener |
| Supervisor | David Campos |
| Supervisor | Malia Cohen |
| Supervisor | John Avalos |
| Assessor/Recorder | Carmen Chu |
| City Attorney | Dennis J. Herrera |
| District Attorney | George Gascón |
| Public Defender | Jeff Adachi |
| Sheriff | Vicki Hennessy |
| Superior Courts | |
| Presiding Judge | Judge John K. Stewart |
| Treasurer/Tax Collector | José Cisneros |

### APPOINTED OFFICIALS

| | |
|---|---|
| City Administrator | Naomi Kelly |
| Controller | Benjamin Rosenfield |

### DEPARTMENT DIRECTORS/ADMINISTRATORS

| | |
|---|---|
| Airport | John L. Martin |
| Appeals Board | Cynthia Goldstein |
| Arts Commission | Tom DeCaigny |
| Asian Art Museum | Jay Xu |
| Board of Supervisors | Angela Calvillo |
| Assessment Appeals Board | Dawn Duran |
| County Transportation Authority | Tilly Chang |
| Building Inspection | Tom Hui |
| California Academy of Sciences | Jonathan Foley, Ph.D. |
| Child Support Services | Karen M. Roye |
| Children, Youth and Their Families | Maria Su |
| Civil Service | Michael L. Brown |
| Economic and Workforce Development | Todd Rufo |
| Elections | John Arntz |
| Emergency Management | Anne Kronenberg |
| Entertainment | Jocelyn Kane |
| Environment | Deborah Raphael |
| Ethics | LeeAnn Pelham |
| Fine Arts Museums | Max Hollein |
| Fire | Joanna Hayes-White |



## CITY AND COUNTY OF SAN FRANCISCO

**List of Principal Officials**
As of June 30, 2016

### DEPARTMENT DIRECTORS/ADMINISTRATORS (Continued)

| | |
|---|---|
| General Services Agency | |
| Animal Care and Control | Virginia Donohue |
| Convention Facilities Management | John Noguchi |
| County Clerk | Catherine Stefani |
| Medical Examiner | Michael Hunter |
| Public Works | Mohammed Nuru |
| Purchaser/Contract Administration | Jaci Fong |
| Real Estate | John Updike |
| Department of Technology | Miguel A. Gamino, Jr. |
| Health Service System | Catherine Dodd |
| Human Resources | Micki Callahan |
| Human Rights | Theresa Sparks |
| Human Services | Trent Rhorer |
| Aging and Adult Services | Shireen McSpadden |
| Juvenile Probation | Allen A. Nance |
| Law Library Board of Trustees | Marcia Bell |
| Library | Luis Herrera |
| Municipal Transportation Agency | Ed Reiskin |
| Planning | John Rahaim |
| Police | Toney Chaplin (Acting) |
| Office of Citizen Complaints | Joyce M. Hicks |
| Port | Elaine Forbes (Acting) |
| Public Health | Barbara A. Garcia |
| Public Utilities | Harlan Kelly |
| Recreation and Park | Phil Ginsburg |
| Residential Rent Board | Robert Collins |
| Retirement System | Jay Huish |
| Small Business | Regina Dick-Endrizzi |
| Status of Women | Emily M. Murase |
| Successor Agency to the Redevelopment Agency | Tiffany Bohee |
| Superior Court | T. Michael Yuen |
| Adult Probation | Karen L. Fletcher |
| War Memorial | Elizabeth Murray |

### DISCRETELY PRESENTED COMPONENT UNIT

| | |
|---|---|
| Treasure Island Development Authority | Robert P. Beck |

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MGO Certified Public Accountants

Century City
Los Angeles
Newport Beach
Oakland
Sacramento
San Diego
San Francisco
Walnut Creek
Woodland Hills

# Independent Auditor's Report

The Honorable Mayor Edwin Lee
The Honorable Members of the Board of Supervisors
City and County of San Francisco, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the discretely presented component unit, of the City and County of San Francisco (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco County Transportation Authority, San Francisco International Airport (major fund), San Francisco Water Enterprise (major fund), Hetch Hetchy Water and Power (major fund), San Francisco Municipal Transportation Agency (major fund), San Francisco Wastewater Enterprise (major fund), and the Health Service System, which collectively represent the following percentages of the assets, net position/fund balances, and revenues/additions of the following opinion units.

| Opinion Unit | Assets | Net Position/ Fund Balances | Revenues/ Additions |
|---|---|---|---|
| Governmental activities | 1.0% | 3.1% | 3.5% |
| Business-type activities | 88.8% | 91.4% | 73.0% |
| Aggregate remaining fund information | 5.8% | 0.5% | 14.0% |

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the discretely presented component unit, of the City as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in Note 2(s) to the basic financial statements, effective July 1, 2015, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. Our opinion is not modified with respect to these matters.

***Other Matters***

*Prior-Year Comparative Information*

The financial statements include partial and summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2015, from which such partial and summarized information was derived.

We have previously audited the City's 2015 financial statements, and we expressed, based on our audit and the reports of other auditors, unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information in our report dated November 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the City's proportionate share of the net pension liability, the schedule of changes in the net pension liability and related ratios, the schedule of employer contributions – pension plans, and the schedules of funding progress and employer contributions – other postemployment healthcare benefits, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Macias Gini & O'Connell LLP

San Francisco, California
November 18, 2016





This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as fiscal year 2014-15 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the fiscal year 2015-16 basic financial statements.

## FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the end of the fiscal year by approximately $8.00 billion (net position). Of this balance, $8.15 billion represents the City's net investment in capital assets, $1.75 billion represents restricted net position, and unrestricted net position has a deficit of $1.90 billion. The City's total net position increased by $1.44 billion, or 22.0 percent, from the previous fiscal year. Of this amount, total net investment in capital assets, restricted net position and unrestricted net position increased by $630.7 million or 8.4 percent, $353.0 million or 25.2 percent and $457.7 million or 19.4 percent, respectively.

The City's governmental funds reported total revenues of $5.79 billion, which is a $444.2 million or 8.3 percent increase over the prior year. Within this, revenues from property taxes, business taxes, sales and use tax, intergovernmental grants, and other revenues grew by approximately $156.6 million, $49.0 million, $27.0 million, $47.0 million, and $141.1 million, respectively. At the same time, there was a decline in revenues from real property transfer tax of $45.5 million and hotel room tax of $6.6 million. Governmental funds expenditures totaled $5.07 billion for this period, a $281.2 million or 5.9 percent increase, reflecting increases in demand for governmental services of $415.3 million, an increase in debt service of $54.7 million and a decrease in capital outlay of $188.8 million.

At the end of the fiscal year, total fund balances for the governmental funds amounted to $2.84 billion, an increase of $546.5 million or 23.8 percent from prior year, primarily due to a strong growth in most revenues over a moderate increase of expenditures and other financing uses this year over last year.

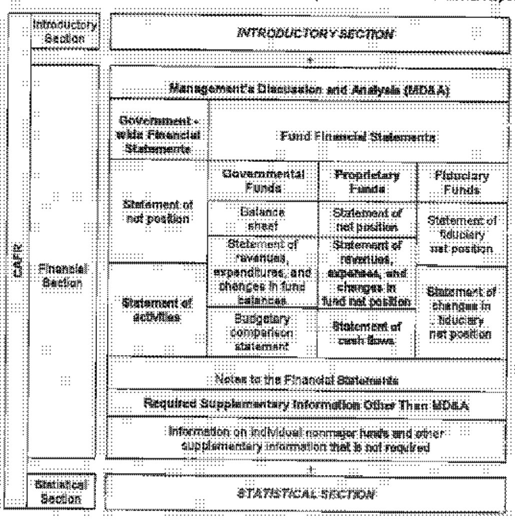
The City's total long-term debt, including all bonds, loans, commercial paper and capital leases increased by $516.7 million during this fiscal year. The City issued a total of $1.14 billion in bonds, certificates of participation and loans this year. Of this amount, a total of $321.9 million in general obligation bonds were issued for transportation and road improvement projects, seismic safety loan program, clean and safe neighborhood parks projects, earthquake safety and response projects and road repaving and street safety projects. The City also issued $123.6 million in refunding certifications of participation and $150.5 million in certificates of participation for War Memorial Veteran Building Seismic Upgrade and Improvements projects. The San Francisco International Airport issued $232.1 million in refunding revenue bonds for debt service savings. The Hetch Hetchy Power Enterprise issued $4.1 million new clean renewable energy bonds to fund certain qualified clean, renewable energy solar generation facilities in the City. The San Francisco Wastewater Enterprise issued $308.4 million in revenue refunding bonds to fund capital projects and pay off outstanding commercial paper notes. The balance of commercial paper issued to finance and refinance capital projects increased by $283.9 million in this fiscal year. Of this increase, $338.9 million represented business-type activities while net decreases of $55.0 million represented governmental activities.

The City early implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73 Accounting and Financial Reporting for Pensions*. Statement No 82, treats Employer-Paid Member contributions as employee contributions rather than employer contributions. This resulted in a restatement due to change in accounting principle decreasing net position as of July 1, 2015 by $8.6 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund financial statements**, and (3) **Notes to the financial statements**. This report also contains other **supplementary information** in addition to the **basic financial statements** themselves. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.

**Organization of City and County of San Francisco Comprehensive Annual Financial Report**








The following table summarizes the major features of the financial statements. The overview section below also describes the structure and contents of each of the statements in more detail.

| | Government - wide Statements | Fund Financial Statements | | |
|---|---|---|---|---|
| | | **Governmental** | **Proprietary** | **Fiduciary** |
| **Scope** | Entire entity (except fiduciary funds) | The day-to-day operating activities of the City for basic governmental services | The day-to-day operating activities of the City for business-type enterprises | Instances in which the City administers resources on behalf of others, such as employee benefits |
| **Accounting basis and measurement focus** | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus; except agency funds do not have measurement focus |
| **Type of balance information** | All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term | Balances of spendable resources | All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term | All resources held in a trustee or agency capacity for others |
| **Type of inflow and outflow information** | All inflows and outflows during year, regardless of when cash is received or paid | Near-term inflows and outflows of spendable resources | All inflows and outflows during year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net position** presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public protection, public works, transportation and commerce, human welfare and neighborhood development, community health, culture and recreation, general administration and finance, and general City responsibilities. The business-type activities of the City include an airport, port, transportation system (including parking), water and power operations, an acute care hospital, a long-term care hospital, and sewer operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate development authority, the Treasure Island Development Authority (TIDA), for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government. Included within the governmental activities of the government-wide financial statements are the San Francisco County Transportation Authority (Transportation Authority) and San Francisco Finance Corporation. Included within the business-type activities of the government-wide financial statements is the operation of the San Francisco Parking Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City. The City also considers the Successor Agency to the Redevelopment Agency (Successor Agency) as a fiduciary component unit of the City.

## Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements – i.e. most of the City's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available and the constraints for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.





The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.
The City adopts a rolling two-year budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (SFO or Airport), San Francisco Water Enterprise (Water), Hetch Hetchy Water and Power (Hetch Hetchy), San Francisco Municipal Transportation Agency (SFMTA), San Francisco General Hospital (SFGH), San Francisco Wastewater Enterprise (Wastewater), Port of San Francisco (Port), and the Laguna Honda Hospital (LHH), all of which are considered to be major funds of the City.

- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, management information and telecommunication services, printing and mail services, and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employees' pension and health plans, retirees' health care, the Successor Agency, the external portion of the Treasurer's Office investment pool, and the agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

## Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's net pension liability, pension contributions and progress in funding its obligation to provide other postemployment benefits to its employees and the City's schedule of contributions for its employees' other postemployment benefits.

## Combining Statements and Schedules

The combining statements and schedules referred to earlier in connection with nonmajor governmental funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions and other postemployment benefits.

**Net Position**
**(in thousands)**

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Assets:** | | | | | | |
| Current and other assets | $4,328,756 | $3,636,476 | $ 4,063,905 | $ 4,774,418 | $ 9,209,785 | $ 8,410,892 |
| Capital assets | 5,126,952 | 4,874,123 | 15,695,617 | 14,795,288 | 20,821,169 | 19,624,815 |
| Total assets | 9,435,146 | 8,510,399 | 20,599,812 | 19,509,632 | 30,024,954 | 28,025,096 |
| Deferred outflows of resources | 434,550 | 346,483 | 400,027 | 414,280 | 834,587 | 760,761 |
| **Liabilities:** | | | | | | |
| Current liabilities | 1,482,420 | 1,345,252 | 2,244,233 | 1,892,224 | 3,727,991 | 3,237,576 |
| Noncurrent liabilities | 5,938,325 | 5,340,775 | 12,452,885 | 12,109,935 | 18,431,512 | 17,450,680 |
| Total liabilities | 7,420,774 | 6,686,127 | 14,758,119 | 14,002,129 | 22,159,493 | 20,688,256 |
| Deferred inflows of resources | 429,865 | 863,539 | 323,284 | 695,451 | 753,149 | 1,571,989 |
| **Net position:** | | | | | | |
| Net investment in capital assets* | 2,786,762 | 2,604,606 | 5,360,745 | 5,117,678 | 8,151,422 | 7,520,096 |
| Restricted* | 1,231,515 | 951,387 | 538,474 | 495,864 | 1,753,204 | 1,400,246 |
| Unrestricted (deficit)* | (2,073,235) | (2,358,981) | (221,379) | (334,038) | (1,897,797) | (2,255,480) |
| Total net position | $2,009,063 | $1,287,214 | $ 5,997,936 | $ 5,279,250 | $ 8,006,999 | $ 6,565,464 |

* See Note 10(d) to the basic financial statements.

## Analysis of Net Position

The City's total net position, which may serve as a useful indicator of the government's financial position, was $8.00 billion at the end of fiscal year 2015-16, a 22.0 percent increase over the prior year. The City's governmental activities account for $2.00 billion of this total and $6.00 billion stem from its business-type activities.

The largest portion of the City's net position is the $8.15 billion in net investment in capital assets (e.g. land, buildings, and equipment). This reflects a $630.7 million or 8.4 percent increase over the prior year, and is due to the growth seen in the governmental activities and increases in all business-type activities. Since the City uses capital assets to provide services, these assets are not available for future spending. Further, the resources required to pay the outstanding debt must come from other sources since the capital assets themselves cannot be liquidated to pay that liability.

Another portion of the City's net position is the $1.75 billion that represents restricted resources that are subject to external limitations regarding their use. The remaining portion of total net position is a deficit of $1.90 billion, which consists of a $2.07 billion deficit in governmental activities and $221.4 million deficit in business-type activities. The governmental activities and business-type activities deficit is largely due to recording net pension liability (see note 9). The governmental activities deficit also included $406.6 million in long-term bonds liabilities that fund the LHH rebuild project, certain park facilities projects at the Port, improvement projects for reliable emergency water supply for the Water Enterprise, and road paving and street safety in SFMTA (see Note 10(d)).



CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)
Year Ended June 30, 2016

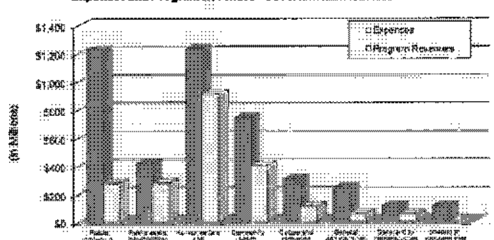
| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Revenues:** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 777,162 | $ 612,962 | $ 3,290,387 | $ 3,134,814 | $ 4,067,549 | $ 3,747,787 |
| Operating grants and contributions | 1,289,908 | 1,165,340 | 159,623 | 191,101 | 1,449,525 | 1,356,441 |
| Capital grants and contributions | 24,795 | 48,223 | 374,924 | 382,819 | 399,719 | 430,052 |
| General revenues: | | | | | | |
| Property taxes | 1,806,917 | 1,640,363 | - | - | 1,806,917 | 1,640,363 |
| Business taxes | 660,926 | 611,932 | - | - | 660,926 | 611,932 |
| Sales and use tax | 270,059 | 240,424 | - | - | 270,059 | 240,424 |
| Hotel room tax | 387,641 | 394,282 | - | - | 387,641 | 394,282 |
| Utility users tax | 96,451 | 96,876 | - | - | 96,451 | 96,876 |
| Other local taxes | 399,692 | 451,864 | - | - | 399,692 | 451,864 |
| Interest and investment income | 34,148 | 30,787 | 28,366 | 35,960 | 62,514 | 66,736 |
| Other | 56,288 | 46,938 | 245,656 | 203,148 | 299,902 | 247,084 |
| Total revenues | 5,801,281 | 5,990,173 | 4,074,118 | 3,902,881 | 9,875,397 | 9,242,054 |
| **Expenses:** | | | | | | |
| Public protection | 1,222,848 | 1,198,209 | - | - | 1,222,848 | 1,198,209 |
| Public works, transportation | | | | | | |
| and commerce | 419,678 | 279,454 | - | - | 419,678 | 279,454 |
| Human welfare and | | | | | | |
| neighborhood development | 1,233,403 | 1,079,652 | - | - | 1,233,403 | 1,079,652 |
| Community health | 747,671 | 735,640 | - | - | 747,671 | 735,640 |
| Culture and recreation | 311,528 | 355,678 | - | - | 311,528 | 355,678 |
| General administration and finance | 246,393 | 249,623 | - | - | 246,393 | 249,623 |
| General City responsibilities | 113,492 | 94,577 | - | - | 113,492 | 94,577 |
| Unallocated interest on long-term debt | 115,357 | 115,690 | - | - | 115,357 | 115,690 |
| Airport | - | - | 903,821 | 853,339 | 903,821 | 853,339 |
| Transportation | - | - | 1,106,426 | 1,018,251 | 1,106,426 | 1,018,251 |
| Port | - | - | 91,449 | 88,436 | 91,449 | 88,436 |
| Water | - | - | 475,254 | 438,695 | 475,254 | 438,695 |
| Power | - | - | 153,472 | 149,439 | 153,472 | 149,439 |
| Hospitals | - | - | 1,050,618 | 995,395 | 1,050,618 | 995,395 |
| Sewer | - | - | 244,369 | 239,556 | 244,369 | 239,556 |
| Total expenses | 4,408,259 | 4,002,452 | 4,017,123 | 3,784,259 | 8,425,382 | 7,786,751 |
| Increase/(decrease) in net position | | | | | | |
| before transfers | 1,393,022 | 1,329,729 | 56,993 | 125,562 | 1,450,015 | 1,455,303 |
| Transfers | (671,173) | (504,781) | 671,173 | 504,781 | - | - |
| Change in net position | 721,849 | 824,950 | 728,166 | 630,373 | 1,450,015 | 1,455,303 |
| Net position at beginning of year, | | | | | | |
| as previously reported | 1,287,214 | 462,264 | 5,279,250 | 4,647,877 | 6,566,464 | 5,110,141 |
| Cumulative effect of accounting change | - | - | (9,580) | - | (9,580) | - |
| Net position at beginning of year, as restated | 1,287,214 | 462,264 | 5,269,670 | 4,647,877 | 6,556,884 | 5,110,141 |
| Net position at end of year | $ 2,009,063 | $ 1,287,214 | $ 5,997,836 | $ 5,278,250 | $ 8,006,899 | $ 6,565,464 |

## Analysis of Changes in Net Position

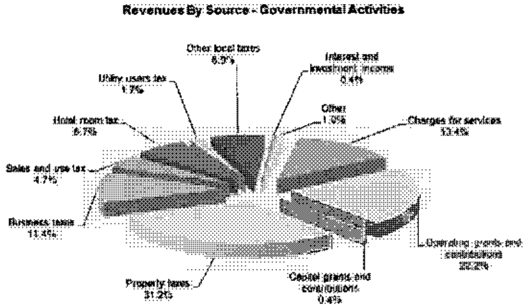
The City's Change in Net Position decreased by $5.3 million in fiscal year 2015-16, a 0.4 percent decrease from the prior fiscal year, as noted above. The decrease in the change in net position was due to a $97.8 million increase from business-type activities offset by a $103.1 million decrease from governmental activities.

The City's governmental activities experienced a $468.1 million or 8.8 percent growth in total revenues. This included noticeable increases in the following revenues: $164.2 charges for services, $124.6 million in operating grants and contributions, $166.5 million in property taxes, $49.0 million in business taxes and $29.6 million in sales and use tax. These were offset by decreases of $23.4 million in capital grants and contribution revenue and $52.1 million in other local tax revenue. The City's governmental activities expenses reported an increase of $405.8 million or 10.1 percent this fiscal year. The net transfer to business-type activities increased by $166.4 million. A discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.

**Expenses and Program Revenues - Governmental Activities**




**Revenues By Source - Governmental Activities**






CITY AND COUNTY OF SAN FRANCISCO
Management's Discussion and Analysis (Unaudited) (Continued)
Year Ended June 30, 2016

**Governmental activities.** Governmental activities increased the City's total net position by approximately $721.8 million. Key factors contributing to this change are discussed below.

Overall, total revenues from governmental activities were $5.60 billion, a $469.1 million or 8.8 percent increase over the prior year. For the same period, expenses totaled $4.41 billion before transfers of $671.2 million, resulting in a total net position increase of $721.8 million by June 30, 2016.

Property tax revenues increased by $168.5 million or 10.3 percent. This growth was due in large part to regular annual tax and escape tax collections associated with higher assessed values of secured real property and unsecured property in San Francisco and also due to increase in supplemental property tax collections for both current year and prior year supplemental assessments. A decrease in real property transfer tax by $46.5 million made up the majority of the decline in other local taxes of $52.1 million.

Revenues from business and sales and use taxes totaled approximately $931.0 million, a growth of $78.6 million over the prior year. Business taxes grew by $49.0 million due to an increase in payroll tax revenue resulting from a 5.7 percent increase in employment and a 6.1 percent increase in average weekly wages in San Francisco. Increased business registration fee levels and gross receipts tax collection, due to Proposition E passed in November 2012, also significantly contributed to the growth in business taxes. Sales and use tax increased by $29.6 million is primarily due to the "triple flip" unwinding, in which 0.25 percent of the 1 percent Bradley Burns allocation was directed to property tax to pay for economic recovery bonds, with the remaining 0.75 percent being allocated to local sales tax. Beginning in January 2015, the entire 1 percent of Bradley Burns revenue has been allocated as sales tax. In addition, there was approximately 1 percent of underlying growth, which was restrained by unexpectedly flat auto sales, a decline in general consumer goods-related revenue, and declines in fuel tax due to both continued low gas prices and changes in jet fuel purchasing to lower-cost states.

Hotel room tax revenues declined by $6.6 million, or 1.7 percent, due to in prior fiscal year, the City received $34.0 million in previously unpaid short-term rental tax obligations. Excluding this payment, hotel room tax revenue would have seen growth over the prior year of 7.6 percent. Hotel room tax revenue growth is a function of changes in occupancy, Average Daily Room Rate (ADR), and room supply. Strong demand from all segments of the market (tourist, convention, and business), combined with no additions to inventory, have exerted upward pressure on both occupancy and ADR.

Operating grants and contributions increased $124.6 million. This was largely due to the increases from state sources, including $24.8 million for human welfare programs, $36.8 million for community health program grants, $49.5 million for public works programs, $8.9 million for public protection, $4.9 million for culture and recreation programs and $1.3 million for general administration and finance programs. These were offset by a slight decrease of $1.6 million in general city responsibilities programs.

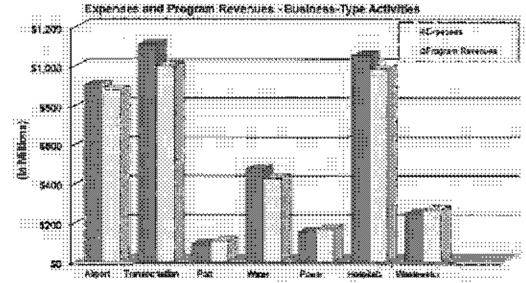
Total charges for services increased $164.2 million, or 26.8 percent, and other revenues increased $12.4 million. The increase in total charges for services is driven by increased fee revenues across various departments, partially due to improved economic conditions. The more significant increases are discussed as follows. The City is addressing the need for affordable housing by increasing supply resulting in a $90 million increase in housing inclusionary fees. An increase in large housing projects in the South of Market District increased SOMA Stabilization impact fees by $12.5 million. The Department of Building Inspection's permit revenue increased $12.7 million due to an increase in construction permits and project completion. Fire Department charges for services increased by $8.2 million due to ambulance billing recoveries, as well as plan check and inspection fees for developers. The Department of Public Works charges for services increased by $4.3 million largely due to curb reconstruction and assessments, as well as encroachment assessments. The Planning Department's revenues grew by more than $4.6 million from increased building permits and planning case volume, as well as CPI adjustments to fees. In addition, an increase of $3.8 million in the citywide unallocated revenue was due to increased cost reimbursement of General Fund, consistent with the budgeted Full Cost Allocation Plan. The increase in other revenues is related to revenue received from the San Francisco Housing Authority much earlier than expected, as the Housing Authority's permanent financing plan was enacted.

Interest and investment income revenue increased by $3.3 million, or 16.0 percent, due to increased balances in the City's investment pool, primarily due to an increase in property tax revenues, business and sales tax revenues, and other revenues.

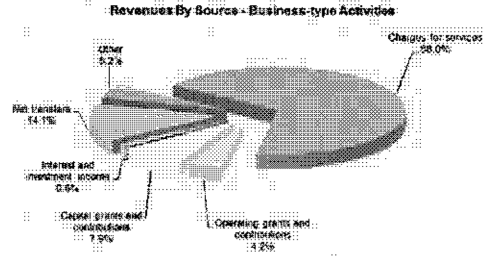
Net transfers from the governmental activities to business-type activities were $571.2 million, a 33.0 percent or $155.4 million increase from the prior year. This was mainly due to increased operating subsidies of $36.7 million from the General Fund to SFMTA and $95.1 million to SFGH, offset by a decrease of $18.5 million in General Fund subsidies to LHH. In addition, the Water Enterprise received $34.2 million in general obligation bond proceeds for the improvement of the Auxiliary Water Supply System, the Port received $21.7 million for parks and open spaces projects, and SFMTA received $61.0 million for road improvement and street safety projects.

The increase of total governmental expenses of $406.8 million, or 10.1 percent, was primarily due to increase in demand for the government's services in almost all functional service by $455.9 million, which was partly offset by the decrease of expenses in culture and recreation and general administrative and finance functions by $48.1 million.

Expenses and Program Revenues - Business-Type Activities




Revenues By Source - Business-type Activities








**Business-type activities** increased the City's net position by $719.8 million and key factors contributing to this increase are:

- The San Francisco International Airport had an increase in net position at fiscal year-end of $49.9 million, compared to a $56.1 million increase in the prior year, a $6.2 million difference. Operating revenues totaled $857.0 million for fiscal year 2015-16, an increase of $51.6 million or 6.3 percent over the prior year and included increases of $30.8 million, $2.1 million, $11.7 million, and $7.0 million in aviation, concession, parking and transportation, and net sales and services revenues, respectively, reflecting traffic growth at the Airport. For the same period, the Airport's operating expenses increased by $31.4 million, or 5.2 percent, for a net operating income of $226.5 million for the period. Net non-operating activities saw a deficit of $144.6 million versus $141.8 million deficit in the prior year, a $2.8 million increase. The increase in both operating and non-operating expenses is due to increases in personnel, depreciation, and other non-operating expenses. Personnel costs increased $14.4 million due to cost of living adjustments and additional positions. Also, capital contributions decreased by $21.7 million due to a reduction in federal grants received.
- The City's Water Enterprise, the third largest such entity in California, reported an increase in net position of $26.2 million at the end of fiscal year 2015-16, compared to an increase of $97.4 million at the end of the previous year, a $71.2 million difference. Revenues totaled $463.2 million, expenses totaled $470.3 million, and the net increase from capital contributions and transfers was $35.2 million. Compared to the prior year, total revenues decreased $24.8 million, which included $16.1 million in non-operating revenues. The primary reason for the decrease in water service revenues was due to a $19.3 million wholesale revenue adjustment and a 10.2% decrease in consumption, offset by adopted rate increases of 26.0% for wholesale customers and 12.0% for retail customers. Within expenses, the enterprise reported a total increase of $28.6 million in fiscal year 2015-16. This included an $11.3 million increase in depreciation expense from increased capitalized assets, a $1.9 million increase in general and administrative and other expenses, a $3.8 million increase in personnel services, $0.7 million increase in construction and engineering contractual services, $0.5 million increase in services provided by other departments, and $0.2 million for building and construction supplies.
- Hetch Hetchy Water and Power ended fiscal year 2015-16 with a net position increase of $25.7 million, compared to a $11.1 million increase the prior year, a difference of $14.6 million. This change consisted of increases in operating income of $12.4 million, non-operating income of $3.6 million, and a decrease of transfers from (to) the City of $1.4 million. This enterprise consists of two segments: Hetchy Water upcountry operations and water system, which reported a $2.3 million increase in change in net position, and Hetchy Power (also known as the Power Enterprise), which reported a $23.4 million increase in change in net position. Hetchy Water operating revenues decreased by $0.1 million while operating expenses decreased by $2.2 million. In addition, there was a $0.2 million decrease in water assessment fee revenue from the Water Enterprise in nonoperating revenue. Hetchy Power's total revenues increased by $17.0 million mostly due to increases in sales of excess power of $9.3 million, $4.4 million from City Departments, and an increase of $3.3 million electricity sales from CleanPowerSF. On the operating expenses side, Hetchy Power reported an increase of $6.7 million due to increases of $3.5 million in purchased electricity, $3.0 million in transmission and distribution power costs, $2.6 million in project spending, $1.4 million in services provided by other departments, $0.8 million in materials and electrical supplies, $0.4 million in personnel services mainly due to cost of living adjustments and pension costs and $0.4 million in personnel services mainly due to cost of living adjustments and pension costs and $0.4 million higher taxes, licenses and permits related to national park service. These increases were offset by decreases of $2.4 million in contractual services, $1.5 million in judgments and claims mainly due to prior year one-time settlement of franchise tax fees, and $1.1 million in depreciation.
- The City's Wastewater Enterprise's net position increased by $13.9 million, compared to a $29.3 million increase the prior year, a $15.4 million change. Operating revenues increased by $5.6 million due to a $4.8 million increase in charges for services as a result of an average 9% adopted rate increase, a $0.4 million increase from other City departments, as well as increased capacity fees and an increase in permit applications. Operating expenses increased by $5.1 million due to increases of $3.1 million in Sewer System Improvement Program (SSIP) and repair and replacement project expenses, $2.7

million in personnel services mainly due to cost of living adjustments, health and pension costs, $2.1 million in pollution remediation obligations, $1.2 million in higher building and equipment maintenance services, $0.5 in depreciation expense, and $0.4 million in materials and supplies, which were offset by decreases of $4.9 million in general and administrative expenses mainly due to lower judgment and claims liability based on actuarial estimate. Transfers out increased by $16.3 million due to a transfer to the General Fund in order to secure jurisdiction of the City owned property adjacent to the Southeast Water Pollution Control Plant. This was offset by a transfer in of $0.5 million and a net nonoperating expense of $0.3 million.

* The Port ended fiscal year 2015-16 with a net position increase of $35.1 million, compared to a $11.8 million increase in the previous year, a $23.3 million difference. The Port is responsible for seven and one-half miles of waterfront property and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. In fiscal year 2015-16, operating revenues increased $4.4 million and included a net increase in property rentals of $1.6 million and an increase in cruise revenues of $2.7 million. Operating expenses increased $3.1 million over the prior year. This was due in part to a $2.0 million increase in the cost of services from other departments and a net increase of $1.5 million in personnel and other expenses. The above changes were offset by an increase of $0.4 million in interest expense.

* The SFMTA had an increase in net position of $478.3 million for fiscal year 2015-16 before cumulative effect of accounting change, compared to an increase of $294.7 million in the prior year, a $183.6 million change. SFMTA's total operating revenues were $495.3 million, while total operating expenses reached $1.10 billion. Operating revenues decreased by $4.3 million compared to the prior year and is mainly due to lower passenger fare revenue of $8.0 million, a slight decrease in rental income of $0.8 million, and $3.6 million in other revenues which consists primarily of taxi medallion revenue. These decreases were offset by an increase of $7.8 million in parking permit, fines, and penalties, and an increase in charges for services of $0.3 million. Operating expenses increased by $86.8 million primarily due to personnel costs. Net nonoperating revenue increased by $39.8 million mainly due to transit impact developer fees. An increase of capital contributions of $91.1 million is due to an increase in capital expenditures incurred and billable to grantors mostly related to Central Subway, revenue vehicles procurement, and other large projects. Net transfers in increased by $145.8 million due to a $36.7 million increase in transfers from the City's General Fund mainly for operating subsidies and an increase of $99.7 million in transfers from nonmajor governmental funds and a decrease in transfers out of $9.4 million. Transfers from nonmajor governmental funds included $123.8 million for capital activities and street improvement projects. In fiscal year 2015-16, the City elected early implementation of GASB Statement No. 82, resulting in a restatement of SFMTA's 2014-15 results, reducing the beginning net position in the amount of $8.6 million.

* LHH, the City's skilled nursing care hospital, had an increase in net position of $21.6 million at the end of fiscal year 2015-16, compared to an increase of $6.6 million at the end of the previous year, a $15.0 million difference. The LHH's loss before capital contributions and transfers for the year was $22.7 million versus a loss of $61.5 million for the prior year. This change of $38.8 million was mostly due to a $48.8 million increase in operating revenues, a $8.5 million increase in operating expenses, and a $1.3 million decrease in other non-operating revenues. This was offset by a $23.9 million decrease in net transfers from the City this fiscal year.

* SFGH, the City's acute care hospital, ended fiscal year 2015-16 with a net position increase of $77.6 million, compared to a $123.4 million increase the prior year, a $45.8 million change. This was due to decreased capital contributions of $5.0 million compared to prior year's capital contributions of $57.4 million. However, SFGH incurred an operating loss of $89.5 million, which was a $66.0 million increase from the prior year. This was due to a $21.2 million decrease in operating revenues, largely related to net patient services revenues; and increases in operating expenses mostly due to $26.2 million in personal services, $7.2 million in contractual services, and $10.9 million in depreciation and amortization.





## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the City's governmental funds statements is to provide information on near-term inflows, outflows, and balances of resources available for future spending. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and the Permanent Fund.

At the end of fiscal year 2015-16, the City governmental funds reported combined fund balances of $2.84 billion, an increase of $546.5 million or 23.9 percent over the prior year. Of the total fund balances, $945.7 million is assigned and $138.0 million is unassigned. The total of $1.08 million or 38.2 percent of the total fund balances constitutes the fund balances that are accessible to meet the City's needs. Within these fund balance classifications, the General Fund had an assigned fund balance of $879.6 million. The remainder of the governmental fund balances includes $0.1 million nonspendable for items that are not expected to be converted to cash such as inventories and long-term loans, $1.56 billion restricted for programs at various levels and $187.2 million committed for other reserves.

The General Fund is the chief operating fund of the City. As a measure of liquidity, both the sum of assigned and unassigned fund balances and total fund balance can be compared to total fund expenditures. As of the end of the fiscal year, assigned and unassigned fund balances totaled $1.12 billion while total fund balance reached $1.43 billion. Combined assigned and unassigned fund balances represent 33.7 percent of total expenditures, while total fund balance represents 43.0 percent of total expenditures. For the year, the General Fund's total revenues exceeded expenditures by $1.03 billion, before transfers and other items of $746.4 million, resulting in total fund balance increasing by $284.0 million. Overall, the significant growth in revenues, particularly in property taxes, business taxes, sales and uses tax and charges for services were offset by an increased rate of expenditure growth due to growing demand for services and personnel costs across City functions and resulted in an increased fund balance this fiscal year.

### Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the business-type activities section of the government-wide financial statements but with some additional detail.

At the end of fiscal year 2015-16, the unrestricted net position for the proprietary funds was as follows: Airport: $36.0 million, Water Enterprise: $26.5 million, Hetch Hetchy Water and Power: $141.1 million, Wastewater Enterprise: $38.0 million, and the Port: $57.1 million. In addition, SFMTA, San Francisco General Hospital, and Laguna Honda Hospital had deficits in unrestricted net position of $9.4 million, $341.4 million, and $185.6 million, respectively.

The following table shows actual revenues, expenses and the results of operations for the current fiscal year in the City's proprietary funds (in thousands). This shows that the total net position for these funds increased by approximately $726.2 million due to the current year financial activities. Reasons for this change are discussed in the previous section on the City's business-type activities.

| | Operating Revenues | Operating Expenses | Operating Income (Loss) | Non-Operating Revenues (Expenses) | Capital Contributions and Others | Interfund Transfers, Net | Change in Net Position |
|---|---|---|---|---|---|---|---|
| Airport | $ 865,851 | $ 640,473 | $ 225,378 | $ (144,483) | $ 10,424 | $ (42,542) | $ 48,907 |
| Water | 419,515 | 314,765 | 104,750 | (111,771) | - | 33,244 | 26,223 |
| Hetch Hetchy | 164,786 | 148,445 | 16,341 | 8,769 | - | 880 | 25,990 |
| Municipal Transportation Agency | 495,296 | 1,100,234 | (604,938) | 206,639 | 357,471 | 516,796 | 476,007 |
| General Hospital | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 106,851 | 77,880 |
| Wastewater Enterprise | 261,775 | 221,553 | 40,222 | (10,000) | - | (19,026) | 13,886 |
| Port | [illegible] | [illegible] | [illegible] | [illegible] | 1,[illegible] | 34,102 | [illegible] |
| Laguna Honda Hospital | [illegible] | [illegible] | [illegible] | 7,005 | - | 44,140 | 21,000 |
| Total | $ [illegible] | $ [illegible] | $ (334,[illegible]) | $ 8,631 | $ 374,[illegible] | $ 671,475 | $ 726,186 |

## Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System, Health Service System and Retiree Health Care Trust, and manages the investment of monies held in trust to benefit public service employees. At the end of fiscal year 2015-16, the net position of the Retirement System, Health Service System and Retiree Health Care Trust combined totaled $20.34 billion, representing a $244.7 million decrease from the prior year, and 1.2 percent change. The decrease is a result of benefit payments greater than contributions offset by net investment income. The Private-Purpose Trust Fund accounts for the Successor Agency, which had a net deficit of $377.0 million at year's end. This 11.4 percent, or $48.4 million, decrease in the net deficit is due to increases in developer payments and the sale of the Jessie Square parking garage. The Investment Trust Fund's net position was $743.9 million at year's end, and the 37.8 percent increase represents the excess of contributions over distribution to external participants.

### *General Fund Budgetary Highlights*

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year.

During the year, actual revenues and other resources were $135.2 million higher than the final budget. The City realized $101.3 million, $24.6 million, $17.4 million, $15.4 million, $13.6 million, and $5.1 million more revenue than budgeted in property taxes, business taxes, other resources, charges for services, other grants and subventions, and utility users tax, respectively. These increases were partly offset by reductions of $28.9 million, $7.2 million, $5.4 million, and $5.0 million, in transfers from other funds, real property transfer tax, health and welfare realignment, and sales and use tax, respectively.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $158.5 million in expenditure savings. Major factors include:

- $85.3 million in savings from the Department of Public Health due to delays in contracting and hiring for vacant positions creating additional salary and fringe benefit savings, and prior year encumbrance closeouts.
- $36.5 million in savings from the Human Services Agency, due largely to operating savings in salaries and benefits from delays in hiring, contract savings, reductions in aid assistance and aid payments resulting from a mid-year change in budgeting, and lower than expected caseload levels.





- $11.6 million savings in contracts and salary and benefits mainly in General Services Administration, Treasurer/Tax Collector, Assessor/Recorder, City Planning, City Attorney, Board of Supervisors, Elections, and other departments in general administration and finance.
- $10.1 million in salary and benefit savings mainly in Juvenile Probation, Adult Probation, Sheriff, Emergency Communications and other departments in public protection.
- The remaining lower than budgeted expenditures are savings from public works, transportation and commerce, and culture and recreation.

The net effect of substantial revenue increases, savings in expenditures and reduction in reserve deposits was a budgetary fund balance available for subsequent year appropriation of $435.2 million at the end of fiscal year 2015-16. The City's fiscal year 2016-17 and 2017-18 Adopted Original Budget assumed an available balance of $353.3 million fully appropriated in fiscal year 2016-17 and fiscal year 2017-18 leaving $11.9 million available for future appropriations. (See also Note 4 to the Basic Financial Statements for additional budgetary fund balance details).

## Capital Assets and Debt Administration

### Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2016, increased by $1.20 billion, 6.1 percent, to $20.82 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges, and intangible assets. Governmental activities contributed $250.6 million or 21.0 percent to this total increase while $945.6 million or 79.0 percent was from business-type activities. Details are shown in the table below.

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land | $ 334,261 | $ 298,911 | $ 217,441 | $ 217,441 | $ 551,702 | $ 517,352 |
| Construction in progress | 456,093 | 1,245,094 | 3,120,461 | 3,104,166 | 3,576,554 | 4,349,260 |
| Facilities and improvements | 3,572,183 | 2,544,116 | 10,484,335 | 9,716,578 | 13,956,518 | 12,260,694 |
| Machinery and equipment | 201,333 | 76,202 | 1,112,860 | 926,979 | 1,314,193 | 1,003,181 |
| Infrastructure | 686,365 | 656,582 | 701,029 | 719,240 | 1,387,394 | 1,375,742 |
| Intangible asset | 75,117 | 46,615 | 59,691 | 65,602 | 134,808 | 112,717 |
| Total | $ 5,125,352 | $ 4,874,710 | $ 15,695,817 | $ 14,750,206 | $ 20,821,169 | $ 19,624,916 |

Major capital asset events during the current fiscal year included the following:

- Under governmental activities, net capital assets increased by $250.6 million or 5.1 percent. The City issued $713.4 million in Commercial Paper to provide financing for various capital projects, including the purchase of capital equipment for San Francisco General Hospital, the Veterans Building seismic upgrades, and the Moscone Center expansion. Approximately $1.1 billion in construction in progress work was substantially completed and capitalized as facilities and improvement and infrastructure. The completed projects include capitalization of approximately $648.0 million for the new San Francisco General Hospital Rebuild Project and approximately $135.8 million for the seismic upgrade of the Veterans building. The remaining completed projects include public works, intangible assets, and traffic signal projects.

- The Water Enterprise's net capital assets increased by $245.2 million or 6.3 percent, reflecting an increase in construction and capital improvement activities. Major additions to construction work in progress included Calaveras Dam Replacement, Regional Groundwater Storage and Recovery, the Harry Tracy Water Treatment Plan Long-Term Improvements, Auxiliary Water Supply System, San Francisco Groundwater Supply, Peninsula Pipeline Seismic Upgrade, Irvington Tunnel Alternatives, and other upgrade and improvement programs. As of June 30, 2016, the Water Enterprise is 90% through construction of its multi-billion dollar, multi-year program to upgrade the Hetch Hetchy Regional and Local Water Systems. The program consists of 35 local projects within San Francisco and 52 regional projects spread over seven different counties from the Sierra foothills to San Francisco. As of June 30, 2016, 34 local projects are completed and the target completion date is December 2016. For regional projects, 36 are completed and the expected completion date is December 2019. The Water System Improvement Program (WSIP) delivers capital improvements that enhance the Water Enterprise's ability to provide reliable, affordable, high quality drinking water to its customers.

- SFMTA's net capital assets increased by $400.7 million or 14.6% mainly from construction in progress of $212.7 million for the new Central Subway Project, Central Control, rail replacement, transit lane and street improvement projects. Equipment costs of $283.1 million was incurred during the fiscal year for the procurement of new light rail vehicles, trolley and motor buses to replace the old fleet, upgrade of communications system, traffic signals, radio replacement, and various information systems development. Building cost totaling $36.2 million was incurred in fiscal year 2016 for Islais Creek facility improvement, transit operator convenience stations, elevator and escalator modernization, and upgrade of garage facilities in various locations.

- Laguna Honda Hospital's net capital assets decreased by $15.0 million or 2.8 percent due primarily to depreciation expense being greater than asset additions. Laguna Honda Hospital provides 780 resident beds in three state of the art buildings on Laguna Honda's 62-acre campus. The 500,000 square foot facility received silver certification by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program, becoming the first green-certified hospital in California.

- SFGH's net capital assets increased by $61.0 million or 49.1 percent primarily due to the increases in the acquisition of capital assets for the hospital. As of June 30, 2016, General Obligation Bonds in the amount of $887.4 million have been sold to fund the hospital rebuild. During the period of July 2015 - June 2016, construction of the new hospital was completed and reached substantial completion on August 18, 2015. Patients were moved into the new hospital on May 21, 2016. The General Obligation Bonds are accounted for as governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds. Upon completion of the new facility, it was capitalized and recorded under governmental activities.

- The Wastewater Enterprise net capital assets reported an increase of $126.9 million or 6.6 percent mainly in completed construction activities. These include the Northshore to Channel Force Main, Ocean Side Treatment Plant Improvements, Southeast Treatment Plant Oxygen Generate Plant Replacement, and other capital projects throughout the system. The San Francisco Public Utilities Commission is underway with the initial phase of the Sewer System Improvement Program, a multi-year and multi-billion dollar investment to upgrade the aging sewer system to provide a reliable, sustainable, and seismically safe sewer system. The $7.0 billion program includes three phases over the span of next 20 years.

- Hetch Hetchy's net of accumulated depreciation and amortization, increased by $30.9 million or 8.3% to $404.2 million primarily due to additions of facilities, improvements, machinery, and equipment for Moccasin Facilities Upgrade, Transmission and Distribution System, Lower Cherry Aqueduct, Streetlight Replacement, Server Building projects, and San Joaquin Pipeline Rehabilitation. The Hetchy System Improvement Program is a long-term capital program from 2012 to 2025 and includes projects, varying in scope and complexity, to address necessary work on water transmission, hydroelectric generation and power transmission facilities in Tuolumne, Mariposa, Stanislaus, San Joaquin and Alameda counties, essential to continued delivery of both water and power.





- The Airport's net capital assets increased $109.2 million or 2.8 percent primarily due to the capitalization of capital improvement project costs. The Airport has five- and ten-year Capital Plans to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance. Significant projects in design or under construction in fiscal year 2017 include the Terminal 1 (T1) Redevelopment Program which includes the redevelopment of Boarding Area B, the expansion of the T1 Central Area, and a new baggage handling system, in addition to the Terminal 3 (T3) Redevelopment Program which creates a unified T3 checkpoint and constructs a new secure connector and office block. Other notable ongoing projects include the on-airport hotel, a new consolidated administration campus building, a second long-term parking garage, and a new industrial waste treatment plant.

- The Port's net capital assets decreased by $13.3 million or 3.0 percent due to capitalization and depreciation of capital improvements in 2015, including the James R. Herman Cruise Terminal at Pier 27. Pier 35 Building and Roof project provided for the upgrade of two elevators and essential water intrusion work (roofing, flashing, window and door weather stripping repairs) in several areas in the Pier 35 bulkhead and the shed building. Pier 49, Wharf J1 Under-Pier Sewer Replacement project's scope included the replacement of all existing under-pier gravity main and branch sewer lines serving six Port tenant restaurants at Pier 49 Wharf J1. The security improvements through the installation and deployment of closed-circuit television (CCTV) and integrated access control/intrusion detection systems at key Port facilities continue in phases, largely based on priority and available funding. The opening of the Bayview Gateway was celebrated with a ribbon-cutting ceremony on September 18, 2015. It is a one-acre passive green open space at the intersection of Cargo Way and Third Street near Pier 80.

At the end of the year, the City's business-type activities had approximately $1.20 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated $283.3 million, SFMTA had $567.2 million, Wastewater had $190.7 million, Airport had $75.8 million, Hetch Hetchy had $63.6 million, Port had $15.1 million, Laguna Honda Hospital had $0.7 million and the General Hospital had $4.2 million. In addition, there was approximately $38.0 million reserved for encumbrances in capital project funds for the general government projects.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures.

Additional information about the City's capital assets can be found in Note 7 to the Basic Financial Statements.

**Debt Administration**

At the end of the June 30, 2016, the City had total long-term and commercial paper debt outstanding of $14.39 billion. Of this amount, $2.22 billion is general obligation bonds secured by ad valorem property taxes without limitation as to rate or amount upon all property subject to taxation by the City and $12.17 billion is revenue bonds, commercial papers, certificates of participation and other debts of the City secured solely by specified revenue sources. As noted previously, the City's total long-term debt including all bonds, loans, commercial paper notes and capital leases increased by $518.7 million or 3.7 percent during the fiscal year.

The net increase in debt obligations in the governmental activities was $152.1 million primarily due to the issuance of $321.2 million of general obligation bonds to finance 1) the improvements to the City's transportation system, streets and roads; 2) improvements to park, open space and recreational facilities; 3) repairs and seismic improvements to better prepare San Francisco for a major earthquake or natural disaster. The City likewise issued $150.5 million certificates of participation to refinance commercial paper notes used to finance the renovation and seismic retrofit of the War Memorial Veterans Building. The City refunded $123.6 million certificates of participation which financed the acquisition of certain office buildings occupied by various City departments for debt service savings.

The business-type activities net debt increase was $364.6 million primarily due to issuance of $338.9 million commercial paper notes by the Airport, Water Enterprise, Wastewater Enterprise and the San Francisco General Hospital for interim financing of various projects. The Wastewater Enterprise issued $308.4 million revenue bonds to finance wastewater capital projects and the Hetch Hetchy Power Enterprise issued $4.1 million energy bonds to fund certain solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The Airport issued $232.1 million in revenue refunding bonds for economic gain.

The City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is three percent of the assessed value of taxable property in the City – estimated at $194.30 billion in value as of the close of the fiscal year. As of June 30, 2016, the City had $2.22 billion in authorized, outstanding general obligation bonds, which is equal to approximately 1.10 percent of gross (1.15 percent of net) taxable assessed value of property. As of June 30, 2016, there were an additional $1.62 billion in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.90 percent of gross (1.98 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2016 were:

| | |
|---|---|
| Moody's Investors Service, Inc. | Aa1 |
| Standard & Poor's | AA+ |
| Fitch Ratings | AA+ |

During the fiscal year, Moody's Investors Service (Moody's) and Standard & Poor's affirmed the City's ratings of "Aa1" and "AA+", respectively, with Stable Outlook. Fitch Ratings upgraded it's rating of "AA" to "AA+", and revised the rating outlook to Stable from Positive on all the City's outstanding general obligation bonds.

The City's enterprise activities carried upgraded underlying debt ratings for the SFMTA of "Aa2" and "AA" from Moody's and Standard & Poor's, respectively. Moody's, Standard and Poor's and Fitch Ratings affirmed their underlying credit ratings of the Airport of "A1", "A+" and "A+" with Stable Rating Outlooks, respectively. The Water Enterprise carried underlying ratings of "Aa3" and "AA-" and the Wastewater Enterprise carried underlying ratings of "Aa3" and "AA" from Moody's and Standard and Poor's respectively of June 30, 2016.

In October 2015, Moody's Investors Service upgraded the City's Lease Revenue Bonds and Certificates of Participation from Aa3 to Aa2 for those secured by "more essential assets", and also upgraded the City's Lease Revenue Refunding bonds from Aa3 to Aa2, including Series 2008-1 and 2008-2, despite the "less essential" nature of the leased assets securing the bonds, because they are a demonstrated, stable non-pledged revenue source that provides strong coverage of debt service payments. Moody's also upgraded the rating on the City's Equipment Leases from A1 to Aa2, because of the strong lease structure where the lease term matches the useful life of the leased assets.

Additional information in the City's long-term debt can be found in Note 8 to the Basic Financial Statements.





<u>Economic factors and future budgets and rates</u>

San Francisco has continued to experience improvement in the economy during the fiscal year. The following economic factors were considered in the preparation of the City's budget for fiscal years 2016-17 and 2017-18. This two-year budget was adopted by the Mayor and the Board of Supervisors. It is a rolling budget for all departments, except for the Airport, PUC enterprises, SFMTA, the Port of San Francisco and Child Support Services, which each have a fixed two-year budget.

- The City's average unemployment for fiscal year 2015-16 was 3.4 percent, a decrease of 0.6 percent from the average unemployment rate in fiscal year 2014-15.
- Housing prices, residential and commercial rent, hotel revenues, and retail sales all continued to show strong growth. The average median home price in fiscal year 2015-16 was $1.1 million up 10.4 percent from the previous fiscal year. Residential and commercial rents also grew by 4.9 percent and 6.5 percent, respectively, from the prior fiscal year.
- The hotel sector saw continued growth in fiscal year 2015-16 over the prior year. Annual average hotel room occupancy grew to 87.7 percent in fiscal year 2015-16 while average daily room rates grew by 5.7 percent over the prior year.
- The City's taxable sales have also continued to grow, with fiscal year 2015-16 sales tax revenue up 11.2 percent over fiscal year 2014-15.

The Board of Supervisors approved a final two-year budget for fiscal years 2016-17 and 2017-18 in July 2016, which assumes use of prior year fund balance from General Fund of $172.1 million and $181.2 million, respectively.

## REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Below are the contacts for questions about this report or requests for additional financial information.

*City and County of San Francisco*
Office of the Controller
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102-4694

### Individual Department Financial Statements

*San Francisco International Airport*
Office of the Airport Deputy Director
Business and Finance Division
PO Box 8097
San Francisco, CA 94128

*Port of San Francisco*
Public Information Officer
Pier 1, The Embarcadero
San Francisco, CA 94111

*San Francisco Water Enterprise*
*Hetch Hetchy Water and Power*
*San Francisco Wastewater Enterprise*
Chief Financial Officer
525 Golden Gate Avenue
San Francisco, CA 94102

*Laguna Honda Hospital*
Chief Financial Officer
375 Laguna Honda Blvd.
San Francisco, CA 94116

*Municipal Transportation Agency*
SFMTA Finance and Information Technology Services
1 South Van Ness Avenue, 8th Floor
San Francisco, CA 94103

*Health Service System*
Chief Financial Officer
1145 Market Street, Suite 300
San Francisco, CA 94103

*Zuckerberg San Francisco*
*General Hospital and Trauma Center*
Chief Financial Officer
1001 Potrero Avenue, Suite 2A7
San Francisco, CA 94110

*San Francisco*
*Employees' Retirement System*
Executive Director
1145 Market Street, 5th Floor
San Francisco, CA 94103

*Successor Agency to the*
*San Francisco Redevelopment Agency*
1 South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

### Blended Component Units Financial Statements

*San Francisco County Transportation Authority*
Deputy Director for Administration and Finance
1455 Market Street, 22nd Floor
San Francisco, CA 94103

*San Francisco Finance Corporation*
Office of Public Finance
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

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# Basic Financial Statements

## CITY AND COUNTY OF SAN FRANCISCO

**Statement of Net Position**
June 30, 2016
(In Thousands)

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Treasure Island Development Authority |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Deposits and investments with City Treasury | $ 3,314,996 | $ 2,570,168 | $ 5,885,164 | $ 11,190 |
| Deposits and investments outside City Treasury | 84,845 | 16,494 | 101,339 | - |
| Receivables (net of allowance for uncollectible amounts of $220,515 for the primary government): | | | | |
| Property taxes and penalties | 77,241 | - | 77,241 | - |
| Other local taxes | 278,783 | - | 278,783 | - |
| Federal and state grants and subventions | 303,316 | 225,984 | 529,300 | - |
| Charges for services | 99,978 | 232,251 | 332,229 | 1,190 |
| Interest and other | 16,455 | 199,453 | 215,908 | 12 |
| Due from component units | 2,497 | 584 | 3,081 | - |
| Inventories | - | 169,000 | 169,000 | - |
| Other assets | 7,121 | 3,263 | 10,384 | - |
| Restricted assets: | | | | |
| Deposits and investments with City Treasury | - | 250,115 | 250,115 | - |
| Deposits and investments outside City Treasury | 25,349 | 312,380 | 337,729 | - |
| Grants and other receivables | - | 21,199 | 21,199 | - |
| Total current assets | 4,210,497 | 5,733,728 | 9,944,225 | 12,392 |
| Noncurrent assets: | | | | |
| Loan receivables (net of allowance for uncollectible amounts of $1,121,995) | 81,801 | - | 81,801 | - |
| Advance to component units | 17,496 | 2,827 | 20,323 | - |
| Other assets | 6 | 12,490 | 12,496 | - |
| Restricted assets: | | | | |
| Deposits and investments with City Treasury | - | 667,390 | 667,390 | - |
| Deposits and investments outside City Treasury | - | 423,364 | 423,364 | - |
| Grants and other receivables | - | 34,114 | 34,114 | - |
| Capital assets: | | | | |
| Land and other assets not being depreciated | 831,524 | 3,339,945 | 4,171,469 | 5,529 |
| Facilities, infrastructure and equipment, net of depreciation | 4,303,828 | 12,345,872 | 16,649,700 | 17 |
| Total capital assets | 5,135,352 | 15,685,817 | 20,821,169 | 5,546 |
| Total noncurrent assets | 5,234,655 | 16,859,074 | 22,093,729 | 5,546 |
| Total assets | 9,445,152 | 22,592,802 | 32,037,954 | 17,938 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Unamortized loss on refunding of debt | 18,373 | 105,229 | 123,602 | - |
| Deferred outflows on derivative instruments | - | 83,814 | 83,814 | - |
| Deferred outflows related to pensions | 386,187 | 301,184 | 687,371 | 22 |
| Total deferred outflows of resources | $ 404,560 | $ 490,227 | $ 894,787 | $ 22 |



## CITY AND COUNTY OF SAN FRANCISCO

**Statement of Net Position (Continued)**
June 30, 2016
(In Thousands)

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Treasure Island Development Authority |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 361,180 | $ 270,546 | $ 631,726 | $ 4,125 |
| Accrued payroll | 91,124 | 71,008 | 162,132 | - |
| Accrued vacation and sick leave pay | 86,068 | 64,822 | 150,890 | - |
| Accrued workers' compensation | 39,367 | 31,867 | 71,234 | - |
| Estimated claims payable | 53,627 | 52,808 | 106,435 | - |
| Bonds, loans, capital leases, and other payables | 276,686 | 574,728 | 851,414 | - |
| Accrued interest payable | 13,200 | 52,898 | 66,098 | - |
| Unearned grant and subvention revenues | 24,250 | - | 24,250 | - |
| Due to primary government | - | - | - | 420 |
| Internal balances | 31,965 | (31,965) | - | - |
| Unearned revenues and other liabilities | 494,854 | 621,224 | 1,116,078 | 1,489 |
| Liabilities payable from restricted assets: | | | | |
| Bonds, loans, capital leases, and other payables | - | 373,378 | 373,378 | - |
| Accrued interest payable | - | 31,475 | 31,475 | - |
| Other | - | 173,064 | 173,064 | - |
| Total current liabilities | 1,462,146 | 2,295,835 | 3,757,981 | 6,034 |
| Noncurrent liabilities: | | | | |
| Accrued vacation and sick leave pay | 65,159 | 43,791 | 108,950 | - |
| Accrued workers' compensation | 188,468 | 157,736 | 346,204 | - |
| Other postemployment benefits obligation | 1,202,998 | 878,580 | 2,081,578 | - |
| Estimated claims payable | 106,871 | 64,260 | 171,131 | - |
| Bonds, loans, capital leases, and other payables | 3,017,540 | 10,161,025 | 13,178,565 | - |
| Advance from primary government | - | - | - | 5,721 |
| Unearned revenues and other liabilities | 2,022 | 84,414 | 86,436 | - |
| Derivative instruments liabilities | - | 86,132 | 86,132 | - |
| Net pension liability | 1,355,570 | 976,838 | 2,332,218 | 24 |
| Total noncurrent liabilities | 5,938,628 | 12,462,884 | 18,401,512 | 5,745 |
| Total liabilities | 7,400,774 | 14,758,719 | 22,159,493 | 11,779 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Unamortized gain on refunding of debt | 236 | 337 | 573 | - |
| Unamortized gain on leaseback transaction | - | 4,349 | 4,349 | - |
| Deferred inflows related to pensions | 429,529 | 316,598 | 746,227 | 3 |
| Total deferred inflows of resources | 429,765 | 325,284 | 755,149 | 3 |
| **NET POSITION** | | | | |
| Net investment in capital assets, Note 10(c) | 2,760,682 | 5,390,741 | 8,151,423 | 5,546 |
| Restricted for: | | | | |
| Reserve for rainy day | 120,108 | - | 120,108 | - |
| Debt service | 83,029 | 127,073 | 210,102 | - |
| Capital projects, Note 10(d) | 108,362 | 340,896 | 425,132 | - |
| Community development | 432,806 | - | 432,806 | - |
| Transportation Authority activities | 15,867 | - | 15,867 | - |
| Building inspection programs | 134,663 | - | 134,663 | - |
| Children and families | 105,177 | - | 105,177 | - |
| Culture and recreation | 110,282 | - | 110,282 | - |
| Grants | 84,332 | - | 84,332 | - |
| Other purposes | 45,900 | 70,505 | 116,405 | - |
| Total restricted | 1,331,318 | 538,474 | 1,793,264 | - |
| Unrestricted (deficit), Note 10(d) | (2,073,295) | (231,378) | (1,597,787) | 312 |
| Total net position | $ 2,009,063 | $ 5,697,856 | $ 8,006,669 | $ 8,056 |

## CITY AND COUNTY OF SAN FRANCISCO

### Statement of Activities
Year Ended June 30, 2016
(In Thousands)

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position – Primary Government: Governmental Activities | Primary Government: Business-Type Activities | Primary Government: Total | Component Unit: Treasure Island Development Authority |
|---|---|---|---|---|---|---|---|---|
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Public protection | $1,222,540 | $ 88,164 | $ 191,215 | $ - | $ (943,170) | $ - | $ (943,170) | $ - |
| Public works, transportation and commerce | 415,076 | 130,410 | 125,091 | 22,620 | (140,957) | - | (140,957) | - |
| Human welfare and neighborhood development | 1,233,403 | 373,966 | 498,475 | - | (368,962) | - | (318,962) | - |
| Community health | 747,071 | 90,274 | 310,905 | - | (346,098) | - | (346,098) | - |
| Culture and recreation | 311,020 | 66,205 | 8,738 | 2,276 | (234,342) | - | (234,342) | - |
| General administration and finance | 248,903 | 82,617 | 6,000 | - | (157,288) | - | (157,288) | - |
| General City responsibilities | 118,480 | 45,522 | 10,932 | - | (57,346) | - | (57,346) | - |
| Unallocated interest on long-term debt and cost of issuance | 116,892 | - | - | - | (116,892) | - | (116,892) | - |
| Total governmental activities | 4,408,259 | 777,152 | 1,219,862 | 24,736 | (2,316,383) | - | (2,316,383) | - |
| Business-type activities: | | | | | | | | |
| Airport | 900,421 | 844,981 | - | 10,432 | - | (25,208) | (25,208) | - |
| Transportation | 1,199,420 | 488,256 | 161,412 | 367,871 | - | (100,931) | (100,931) | - |
| Port | 91,449 | 86,723 | 777 | 1,929 | - | 10,080 | 10,080 | - |
| Water | 470,364 | 419,836 | 1,700 | - | - | (48,018) | (48,018) | - |
| Power | 189,472 | 134,736 | - | - | - | 11,264 | 11,264 | - |
| Hospitals | 1,090,418 | 902,302 | 83,924 | 6,880 | - | (88,894) | (88,894) | - |
| Sewer | 344,299 | 261,775 | - | - | - | 17,476 | 17,476 | - |
| Total business-type activities | 4,015,130 | 3,280,047 | 168,822 | 375,024 | - | (212,069) | (212,069) | - |
| Total primary government | $8,423,389 | $4,057,199 | $ 1,468,684 | $ 399,719 | (2,316,383) | (212,069) | (2,428,468) | - |
| Component unit: | | | | | | | | |
| Treasure Island Development Authority | $ 11,159 | $ 11,852 | $ - | $ - | | | | $ 693 |
| General Revenues | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes | | | | | 1,808,917 | - | 1,808,917 | - |
| Business taxes | | | | | 660,926 | - | 660,926 | - |
| Sales and use tax | | | | | 278,061 | - | 278,061 | - |
| Hotel room tax | | | | | 387,681 | - | 387,681 | - |
| Utility users tax | | | | | 98,861 | - | 98,861 | - |
| Parking tax | | | | | 86,012 | - | 86,012 | - |
| Real property transfer tax | | | | | 269,090 | - | 269,090 | - |
| Other local taxes | | | | | 44,790 | - | 44,790 | - |
| Interest and investment income | | | | | 24,148 | 28,666 | 52,814 | 65 |
| Other | | | | | 50,264 | 240,038 | 290,302 | - |
| Transfers – internal activities of primary government | | | | | (571,173) | 571,173 | - | - |
| Total general revenues and transfers | | | | | 3,238,232 | 840,877 | 3,879,854 | 65 |
| Change in net position | | | | | 921,849 | 628,108 | 1,449,955 | 731 |
| Net position at beginning of year, as previously reported | | | | | 1,267,914 | 5,274,390 | 6,542,304 | 8,307 |
| Cumulative effect of accounting change | | | | | - | (8,868) | (8,868) | - |
| Net position at beginning of year, as restated | | | | | 1,267,914 | 5,266,522 | 6,534,436 | 8,307 |
| Net position at end of year | | | | | $ 2,189,763 | $5,894,630 | $ 8,084,393 | $ 9,038 |

The notes to the financial statements are an integral part of this statement.



## CITY AND COUNTY OF SAN FRANCISCO

### Balance Sheet
Governmental Funds
June 30, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

| | General Fund 2016 | General Fund 2015 | Other Governmental Funds 2016 | Other Governmental Funds 2015 | Total Governmental Funds 2016 | Total Governmental Funds 2015 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Deposits and investments with City Treasury | $ 1,723,466 | $ 1,292,682 | $ 1,655,258 | $ 1,308,060 | $ 3,378,724 | $ 2,600,582 |
| Deposits and investments outside City Treasury | 3,183 | 8,660 | 81,662 | 68,889 | 84,845 | 107,559 |
| Receivables (net of allowance for uncollectible amounts of $191,320 in 2016; $155,585 in 2015): | | | | | | |
| Property taxes and penalties | 61,564 | 53,171 | 15,677 | 12,142 | 77,241 | 65,313 |
| Other local taxes | 260,070 | 249,887 | 18,693 | 25,569 | 278,763 | 275,396 |
| Federal and state grants and subventions | 197,321 | 161,373 | 105,825 | 96,195 | 303,146 | 257,568 |
| Charges for services | 81,303 | 65,918 | 18,646 | 21,326 | 99,949 | 88,044 |
| Interest and other | 5,014 | 28,184 | 10,808 | 3,327 | 15,822 | 31,511 |
| Due from other funds | 4,596 | 5,869 | 7,466 | 6,334 | 12,062 | 12,182 |
| Due from component unit | 920 | 946 | 1,517 | 2,918 | 2,437 | 3,864 |
| Advance to component unit | - | 26,212 | 17,496 | 16,753 | 17,496 | 42,965 |
| Loans receivable (net of allowance for uncollectible amounts of $1,121,885 in 2016; $1,064,667 in 2015) | 6,473 | 3,580 | 78,208 | 73,140 | 84,681 | 76,720 |
| Other assets | 15 | 1,193 | 6,640 | 7,570 | 6,655 | 8,763 |
| Total assets | $ 2,344,017 | $ 1,897,136 | $ 1,918,264 | $ 1,677,933 | $ 4,262,281 | $ 3,575,069 |
| Liabilities: | | | | | | |
| Accounts payable | $ 229,248 | $ 171,002 | $ 124,473 | $ 136,739 | $ 353,721 | $ 307,741 |
| Accrued payroll | 74,026 | 57,045 | 13,347 | 12,067 | 88,389 | 69,112 |
| Unearned grant and subvention revenues | 6,002 | 5,902 | 18,351 | 13,402 | 24,353 | 19,304 |
| Due to other funds | 1,689 | 888 | 33,937 | 19,931 | 35,626 | 20,820 |
| Unearned revenues and other liabilities | 439,532 | 347,054 | 55,274 | 53,906 | 494,796 | 400,960 |
| Bonds, loans, capital leases, and other payables | - | - | 102,728 | 157,259 | 102,728 | 157,259 |
| Total liabilities | 750,488 | 581,892 | 348,015 | 393,401 | 1,098,503 | 975,193 |
| Deferred inflows of resources | 164,367 | 170,366 | 161,987 | 140,725 | 326,354 | 311,093 |
| Fund balances: | | | | | | |
| Nonspendable | 327 | 24,798 | 40 | 329 | 604 | 25,113 |
| Restricted | 120,100 | 114,952 | 1,443,958 | 1,110,838 | 1,564,052 | 1,225,805 |
| Committed | 187,170 | 142,815 | - | - | 187,170 | 142,815 |
| Assigned | 878,887 | 708,078 | 66,966 | 63,140 | 945,853 | 771,418 |
| Unassigned | 241,787 | 157,550 | (103,611) | (24,158) | 137,885 | 123,392 |
| Total fund balances | 1,429,162 | 1,145,498 | 1,408,312 | 1,143,747 | 2,835,474 | 2,288,843 |
| Total liabilities, deferred inflows of resources and fund balances | $ 2,344,017 | $ 1,897,136 | $ 1,918,264 | $ 1,677,933 | $ 4,262,281 | $ 3,575,069 |

The notes to the financial statements are an integral part of this statement.

# CITY AND COUNTY OF SAN FRANCISCO

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016
(In Thousands)

| | |
|---|---|
| Fund balances – total governmental funds | $2,835,474 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 5,114,367 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. | (4,710,404) |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows of resources and are recognized as revenues in the period the amounts become available in the governmental funds. | 326,310 |
| Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due. | (11,893) |
| Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | 17,046 |
| Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the governmental funds. | (1,374,202) |
| Internal service funds are used by management to charge the costs of capital lease financing, fleet management, printing and mailing services, and information systems to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. | (187,835) |
| Net position of governmental activities | $2,009,063 |

The notes to the financial statements are an integral part of this statement.



# CITY AND COUNTY OF SAN FRANCISCO

## Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

| | General Fund | | Other Governmental Funds | | Total Governmental Funds | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Revenues:** | | | | | | |
| Property taxes | $ 1,299,574 | $ 1,272,633 | $ 409,202 | $ 369,525 | $ 1,708,776 | $ 1,642,158 |
| Business taxes | 669,088 | 609,914 | 1,940 | 2,916 | 671,028 | 611,932 |
| Sales and use tax | 197,915 | 140,148 | 69,528 | 100,276 | 267,443 | 240,424 |
| Hotel room tax | 387,661 | 394,262 | - | - | 387,661 | 394,262 |
| Utility users tax | 98,651 | 93,976 | - | - | 98,651 | 93,976 |
| Parking tax | 90,012 | 87,209 | - | - | 90,012 | 87,209 |
| Real property transfer tax | 269,090 | 314,603 | - | - | 269,090 | 314,603 |
| Other local taxes | 44,760 | 50,152 | - | - | 44,760 | 50,152 |
| Licenses, permits and franchises | 27,909 | 27,789 | 15,813 | 15,170 | 43,722 | 42,959 |
| Fines, forfeitures, and penalties | 8,995 | 5,388 | 27,164 | 21,766 | 36,159 | 27,154 |
| Interest and investment income | 9,659 | 7,867 | 14,916 | 12,715 | 24,575 | 20,582 |
| Rents and concessions | 46,693 | 24,339 | 58,312 | 74,763 | 105,005 | 99,102 |
| Intergovernmental: | | | | | | |
| Federal | 253,098 | 230,404 | 195,725 | 234,762 | 448,823 | 465,166 |
| State | 657,490 | 635,977 | 113,410 | 120,597 | 770,900 | 756,574 |
| Other | 5,277 | 3,183 | 43,695 | 13,591 | 48,972 | 16,774 |
| Charges for services | 239,076 | 215,039 | 153,590 | 144,005 | 392,666 | 359,044 |
| Other | 22,292 | 9,162 | 242,430 | 114,443 | 264,722 | 123,605 |
| Total revenues | 4,056,616 | 4,112,988 | 1,653,058 | 1,222,687 | 5,709,674 | 5,335,741 |
| **Expenditures:** | | | | | | |
| Current: | | | | | | |
| Public protection | 1,204,666 | 1,149,405 | 64,334 | 61,752 | 1,269,000 | 1,211,157 |
| Public works, transportation and commerce | 136,762 | 87,452 | 279,390 | 206,547 | 416,152 | 293,999 |
| Human welfare and neighborhood development | 953,034 | 796,360 | 305,564 | 259,057 | 1,258,598 | 1,055,416 |
| Community health | 616,138 | 650,741 | 160,474 | 103,091 | 776,612 | 753,832 |
| Culture and recreation | 128,515 | 139,278 | 240,394 | 223,574 | 368,909 | 362,852 |
| General administration and finance | 223,644 | 192,885 | 53,565 | 42,676 | 277,209 | 235,561 |
| General City responsibilities | 114,603 | 95,520 | 51 | 35 | 114,654 | 95,555 |
| Debt service: | | | | | | |
| Principal retirement | - | - | 353,469 | 260,497 | 353,469 | 260,497 |
| Interest and other fiscal charges | - | - | 110,725 | 121,871 | 110,725 | 121,871 |
| Bond issuance costs | - | - | 7,108 | 2,794 | 7,108 | 2,794 |
| Capital outlay | - | - | 433,904 | 410,740 | 433,904 | 410,740 |
| Total expenditures | 3,376,512 | [illegible] | 1,750,398 | 1,889,876 | [illegible] | [illegible] |
| Excess (deficiency) of revenues over (under) expenditures | 680,104 | [illegible] | (97,296) | (460,879) | [illegible] | [illegible] |
| **Other financing sources (uses):** | | | | | | |
| Transfers in | 209,404 | 184,792 | 271,343 | 361,575 | 480,747 | 546,367 |
| Transfers out | (969,543) | (873,791) | (249,457) | (157,345) | (1,219,000) | (1,031,136) |
| Issuance of bonds and loans: | | | | | | |
| Face value of bonds issued | - | - | 608,028 | 440,830 | 608,028 | 440,830 |
| Face value of loans issued | - | - | - | 138,763 | - | 138,763 |
| Premium on issuance of bonds | - | - | 82,848 | 66,833 | 82,848 | 66,833 |
| Payment to refunded bond escrow agent | - | - | (151,009) | (350,225) | (151,009) | (350,225) |
| Other financing sources-capital leases | 4,411 | 5,572 | 1,239 | 2,178 | 5,650 | 7,750 |
| Total other financing sources (uses) | (755,728) | (683,427) | 562,992 | 502,579 | (192,736) | [illegible] |
| Net changes in fund balances | [illegible] | [illegible] | 262,565 | 42,330 | [illegible] | [illegible] |
| Fund balances at beginning of year | 1,149,106 | 939,692 | 1,143,747 | 1,101,417 | 2,292,853 | [illegible] |
| Fund balances at end of year | $ 1,429,162 | $ 1,149,106 | $ 1,406,312 | $ 1,143,747 | $ 2,835,474 | $ 2,292,853 |

The notes to the financial statements are an integral part of this statement.

## CITY AND COUNTY OF SAN FRANCISCO

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2016

(In Thousands)

| | |
|---|---|
| Net changes in fund balances - total governmental funds | $546,531 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation and loss on disposal of capital assets in the current period. | 249,229 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net position of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources. | (156,660) |
| Property taxes are recognized as revenues in the period the amounts become available. This is the current period amount by which the deferred inflows of resources decreased in the governmental funds. | 10,141 |
| Other revenues that were unavailable are reported as deferred inflows of resources in the governmental funds. This is the current period amount by which deferred inflows of resources decreased in the governmental funds. | 175 |
| Governmental funds report revenues and expenditures primarily pertaining to long-term loan activities, which are not reported in the statement of activities. These activities are reported at the government-wide level in the statement of net position. This is the net expenditures reported in the governmental funds. | 5,068 |
| Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | 282,088 |
| The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net position. This is the amount by which bond and other debt proceeds exceeded principal retirement in the current period. | (211,534) |
| Bond premiums are reported in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net position. This is the amount of bond premiums capitalized during the current period. | (32,845) |
| Interest expense in the statement of activities differs from the amount reported in the governmental funds because of additional accrued and accreted interest; amortization of bond discounts, premiums and refunding losses and gains. | 16,063 |
| The activities of internal service funds are reported with governmental activities. | 12,593 |
| Change in net position of governmental activities | $ 721,849 |



## CITY AND COUNTY OF SAN FRANCISCO

### Budgetary Comparison Statement - General Fund

Year Ended June 30, 2016

(In Thousands)

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Budgetary Fund Balance, July 1** | $ 183,249 | $ 1,236,090 | $ 1,236,090 | $ - |
| **Resources (Inflows):** | | | | |
| Property taxes | 1,291,000 | 1,291,000 | 1,392,278 | 101,278 |
| Business taxes | 634,460 | 634,460 | 659,086 | 24,626 |
| Other local taxes: | | | | |
| Sales and use tax | 172,937 | 172,937 | 167,915 | (5,022) |
| Hotel room tax | 364,090 | 364,090 | 367,661 | 3,571 |
| Utility users tax | 93,550 | 93,550 | 98,651 | 5,101 |
| Parking tax | 86,727 | 86,727 | 88,012 | (3,715) |
| Real property transfer tax | 276,260 | 276,260 | 269,060 | (7,196) |
| Other local taxes | 45,951 | 45,951 | 44,780 | (1,171) |
| Licenses, permits and franchises: | | | | |
| Licenses and permits | 19,361 | 19,361 | 19,956 | 595 |
| Franchise tax | 15,902 | 15,902 | 16,053 | 151 |
| Fines, forfeitures, and penalties | 4,577 | 4,550 | 8,985 | 4,435 |
| Interest and investment income | 10,680 | 10,680 | 15,073 | 4,393 |
| Rents and concessions: | | | | |
| Garages - Recreation and Park | 5,963 | 5,963 | 6,986 | 1,023 |
| Rents and concessions - Recreation and Park | 6,009 | 6,009 | 6,525 | 516 |
| Other rents and concessions | 460 | 460 | 1,727 | 1,267 |
| Intergovernmental: | | | | |
| Federal grants and subventions | 242,694 | 240,649 | 237,600 | (2,649) |
| State subventions: | | | | |
| Social service subventions | 106,451 | 106,673 | 106,883 | 210 |
| Health / mental health subventions | 158,258 | 165,871 | 157,788 | 1,917 |
| Health and welfare realignment | 245,599 | 245,529 | 240,131 | (5,398) |
| Public safety sales tax | 97,957 | 97,957 | 97,039 | (916) |
| Other grants and subventions | 51,462 | 51,452 | 65,054 | 13,602 |
| Other | 3,656 | 3,851 | 2,639 | (1,212) |
| Charges for services: | | | | |
| General government service charges | 66,140 | 66,140 | 68,907 | 2,687 |
| Public safety service charges | 36,549 | 39,547 | 47,106 | 7,559 |
| Recreation charges - Recreation and Park | 19,569 | 19,572 | 20,570 | 998 |
| MediCal, MediCare and health service charges | 93,236 | 94,388 | 98,350 | 3,961 |
| Other financing sources: | | | | |
| Transfers from other funds | 206,762 | 236,416 | 206,400 | (28,017) |
| Repayment of loan from Component Unit | 918 | 918 | - | (918) |
| Other resources (inflows) | 31,084 | 31,084 | 48,609 | 17,419 |
| Subtotal - Resources (inflows) | 4,405,803 | 4,433,863 | 4,572,052 | 138,189 |
| Total amounts available for appropriation | 4,587,552 | 5,669,953 | 5,808,142 | 138,189 |

## CITY AND COUNTY OF SAN FRANCISCO

### Budgetary Comparison Statement - General Fund (Continued)
Year Ended June 30, 2016
(In Thousands)

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Charges to Appropriations (Outflows)** | | | | |
| **Public Protection** | | | | |
| Adult Protection | $ 32,740 | $ 28,643 | $ 26,606 | $ 2,037 |
| District Attorney | 45,880 | 45,756 | 45,550 | 206 |
| Emergency Communications | 54,021 | 51,220 | 49,733 | 1,487 |
| Fire Department | 335,091 | 333,056 | 332,821 | 245 |
| Juvenile Probation | 38,868 | 35,541 | 32,608 | 2,933 |
| Police Department | 477,288 | 480,481 | 479,829 | 652 |
| Public Defender | 31,015 | 31,338 | 30,933 | 405 |
| Sheriff | 182,494 | 172,058 | 171,495 | 1,563 |
| Superior Court | 31,715 | 31,736 | 31,034 | 702 |
| Subtotal - Public Protection | 1,221,892 | 1,211,007 | 1,200,679 | 10,328 |
| **Public Works, Transportation and Commerce** | | | | |
| Board of Appeals | 939 | 941 | 861 | 80 |
| Business and Economic Development | 28,203 | 26,458 | 25,829 | 627 |
| General Services Agency - Public Works | 131,204 | 108,028 | 107,877 | 151 |
| Public Utilities Commission | - | 1,434 | 1,046 | 388 |
| Municipal Transportation Agency | - | 1,359 | 1,359 | - |
| Subtotal - Public Works, Transportation and Commerce | 161,546 | 138,220 | 136,762 | 1,526 |
| **Human Welfare and Neighborhood Development** | | | | |
| Children, Youth and Their Families | 35,414 | 32,912 | 32,912 | - |
| Commission on the Status of Women | 6,880 | 6,573 | 6,565 | 8 |
| County Education Office | 118 | 118 | 118 | - |
| Environment | 50 | 123 | 123 | - |
| Human Rights Commission | 2,914 | 2,478 | 2,223 | 255 |
| Human Services | 812,492 | 800,743 | 764,273 | 36,470 |
| Mayor - Housing/Neighborhoods | 42,953 | 49,124 | 47,422 | 1,702 |
| Subtotal - Human Welfare and Neighborhood Development | 900,821 | 892,071 | 853,637 | 38,432 |
| **Community Health** | | | | |
| Public Health | 787,854 | 751,418 | 695,138 | 56,278 |
| **Culture and Recreation** | | | | |
| Academy of Sciences | 6,228 | 6,370 | 6,365 | 5 |
| Arts Commission | 10,091 | 9,102 | 9,102 | - |
| Asian Art Museum | 9,003 | 9,302 | 8,919 | 383 |
| Fine Arts Museum | 15,780 | 15,099 | 14,551 | 548 |
| Law Library | 1,512 | 1,513 | 1,295 | 218 |
| Recreation and Park Commission | 84,748 | 84,567 | 84,567 | - |
| Subtotal - Culture and Recreation | 127,362 | 125,953 | 124,799 | 1,154 |



## CITY AND COUNTY OF SAN FRANCISCO

### Budgetary Comparison Statement - General Fund (Continued)
Year Ended June 30, 2016
(In Thousands)

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **General Administration and Finance** | | | | |
| Assessor/Recorder | $ 20,655 | $ 20,636 | $ 19,304 | $ 1,332 |
| Board of Supervisors | 14,083 | 14,180 | 13,187 | 993 |
| City Attorney | 12,550 | 12,761 | 11,677 | 1,084 |
| City Planning | 37,407 | 36,807 | 36,753 | 54 |
| Civil Service | 883 | 806 | 581 | 85 |
| Controller | 13,083 | 15,702 | 15,487 | 215 |
| Elections | 18,551 | 17,653 | 16,905 | 648 |
| Ethics Commission | 3,927 | 3,376 | 3,064 | 311 |
| General Services Agency - Administrative services | 80,817 | 53,327 | 51,846 | 2,481 |
| General Services Agency - Technology | 5,634 | 2,606 | 2,620 | 116 |
| Health Service System | 403 | 436 | - | 436 |
| Human Resources | 13,228 | 15,611 | 15,046 | 165 |
| Mayor | 5,805 | 5,646 | 5,646 | - |
| Retirement Services | 1,133 | 676 | 676 | - |
| Treasurer/Tax Collector | 34,064 | 32,642 | 30,159 | 2,483 |
| Subtotal - General Administration and Finance | 248,908 | 235,847 | 223,642 | 11,835 |
| **General City Responsibilities** | | | | |
| General City Responsibilities | 136,851 | 113,672 | 113,672 | - |
| Other financing uses: | | | | |
| Debt service | 3,372 | 38 | - | 38 |
| Transfers to other funds | 829,045 | 862,511 | 862,264 | 247 |
| Budgetary reserves and designations | 56,567 | 9,807 | - | 9,807 |
| Total charges to appropriations | 4,367,852 | 4,453,796 | 4,261,312 | 192,484 |
| Total Sources less Current Year Uses | $ - | $ 1,230,157 | $ 1,526,830 | $ 296,673 |

| | |
|---|---|
| Budgetary fund balance, June 30 before reserves and designations | $ 1,526,830 |
| Reserves and designations made from budgetary fund balance not available for appropriation | (866,273) |
| Reserves for Litigation and Contingencies and General Reserves | (227,289) |
| Net Available Budgetary Fund Balance, June 30 | $ 433,268 |

| | |
|---|---|
| **Sources/inflows of resources** | |
| Actual amounts (budgetary basis) "available for appropriation" | $ 5,858,142 |
| Differences - budgetary to GAAP: | |
| The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes | (1,234,080) |
| Property tax revenue - Teeter Plan net change from prior year | 1,286 |
| Change in unrealized gain/(loss) on investments | (785) |
| Interest earnings / charges from other funds assigned to General Fund as interest adjustment | (4,642) |
| Interest earnings from other funds assigned to General Fund as other revenues | 1,746 |
| Grants, subventions and other receivables received after 60-day recognition period | (6,303) |
| Prepaid lease revenue, Civic Center Garage | 84 |
| Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes | (259,866) |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - General Fund | $ 4,364,316 |
| **Uses/outflows of resources** | |
| Actual amounts (budgetary basis) "total charges to appropriations" | $ 4,261,312 |
| Differences - budgetary to GAAP: | |
| Capital asset purchases funded under capital leases with Finance Corporation and other vendors | 8,411 |
| Recognition of expenditures for advances and imprest cash and capital asset acquisition for internal service fund | 1,093 |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (862,264) |
| Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - General Fund | $ 3,408,552 |

## CITY AND COUNTY OF SAN FRANCISCO

### Statement of Net Position - Proprietary Funds
June 30, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

| | Business-Type Activities - Enterprise Funds | | | | | | | | | | Governmental Activities - Internal Service Funds | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | | | | |
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | Total 2016 | Total 2015 | 2016 | 2015 |
| **ASSETS** | | | | | | | | | | | | |
| Current Assets: | | | | | | | | | | | | |
| Deposits and investments with City Treasury | $ 410,359 | $ 323,918 | $ 194,706 | $ 811,549 | $ 339,506 | $ 159,118 | $ 131,012 | $ - | $ 2,370,188 | $ 2,440,334 | $ 35,264 | $ 37,906 |
| Deposits and investments outside City Treasury | 5,937 | 138 | 10 | 10,271 | 10 | 123 | 5 | 2 | 16,494 | 15,355 | - | - |
| Receivables (net of allowance for uncollectible amounts of $29,496 and $39,863 in 2016 and 2015, respectively): | | | | | | | | | | | | |
| Federal and state grants and subventions | - | 1,846 | 1,810 | 149,799 | - | 1,032 | 402 | 71,295 | 225,984 | 197,321 | - | - |
| Charges for services | 47,651 | 44,036 | 13,114 | 5,979 | 62,066 | 26,055 | 3,592 | 30,142 | 232,251 | 214,880 | 53 | 80 |
| Interest and other | 1,365 | 1,562 | 197 | 9,166 | 184,863 | 172 | 1,680 | 197 | 199,453 | 78,565 | 633 | 744 |
| Lease receivable | - | - | - | - | - | - | - | - | - | - | 14,409 | 19,327 |
| Due from other funds | - | 445 | 9,530 | 16,873 | 67 | 28 | - | - | 27,133 | 14,428 | - | - |
| Due from component unit | - | 84 | 418 | 31 | - | 51 | - | - | 584 | 213 | - | - |
| Inventories | 35 | 7,345 | 476 | 80,513 | 10,006 | 2,179 | 890 | 1,052 | 102,000 | 94,189 | - | - |
| Other assets | 1,807 | - | 234 | 780 | - | 88 | 259 | - | 3,163 | 1,714 | - | - |
| Restricted assets: | | | | | | | | | | | | |
| Deposits and investments with City Treasury | 197,348 | - | - | - | - | - | 41,955 | 10,812 | 250,115 | 213,672 | - | - |
| Deposits and investments outside City Treasury | 83,585 | 192,814 | 2,983 | - | - | 39,757 | 10,556 | 2,436 | 312,380 | 177,978 | 35,349 | 29,242 |
| Grants and other receivables | 21,138 | - | - | - | - | - | - | - | 21,138 | 30,215 | - | - |
| Total current assets | 749,946 | 571,987 | 223,328 | 1,083,978 | 596,530 | 228,804 | 190,352 | 115,936 | 3,760,871 | 3,479,864 | 75,708 | 86,178 |
| Noncurrent assets: | | | | | | | | | | | | |
| Other assets | 67 | 7,314 | 1,650 | - | - | 2,142 | 1,487 | - | 12,660 | 8,130 | - | - |
| Capital lease receivable | - | - | - | - | - | - | - | - | - | - | 179,041 | 193,622 |
| Advance to component unit | - | - | 2,827 | - | - | - | - | - | 2,827 | 3,027 | - | - |
| Restricted assets: | | | | | | | | | | | | |
| Deposits and investments with City Treasury | 259,134 | 123,329 | 39,849 | 66,645 | - | 208,335 | - | - | 697,292 | 705,802 | - | - |
| Deposits and investments outside City Treasury | 381,237 | - | 2,577 | 16,091 | 8,557 | - | - | 12,902 | 423,364 | 559,543 | - | 4,665 |
| Grants and other receivables | 532 | 4,512 | 131 | 1,991 | - | 2,937 | - | 14,141 | 24,114 | 33,478 | - | - |
| Capital assets: | | | | | | | | | | | | |
| Land and other assets not being depreciated | 296,183 | 1,015,270 | 91,551 | 1,367,285 | 38,105 | 401,741 | 119,488 | 322 | 3,349,945 | 3,333,650 | - | - |
| Facilities, infrastructure, and equipment, net of depreciation | 3,749,453 | 3,883,231 | 312,698 | 1,780,592 | 147,217 | 1,657,921 | 311,362 | 523,398 | 12,345,872 | 11,416,556 | 10,985 | 9,572 |
| Total capital assets | 4,045,636 | 4,898,501 | 404,249 | 3,147,877 | 185,322 | 2,059,662 | 430,850 | 523,720 | 15,695,817 | 14,750,206 | 10,985 | 9,572 |
| Total noncurrent assets | 4,686,606 | 5,033,655 | 451,263 | 3,234,474 | 193,879 | 2,273,077 | 432,337 | 550,763 | 16,656,074 | 16,059,186 | 190,026 | 207,859 |
| Total assets | 5,436,554 | 5,605,652 | 674,611 | 4,318,450 | 790,409 | 2,501,881 | 622,689 | 666,699 | 20,416,945 | 19,539,050 | 265,734 | 294,037 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | | | | | | | | |
| Unamortized loss on refunding of debt | 68,100 | 36,184 | - | - | - | 945 | - | - | 105,229 | 118,867 | 1,091 | 1,171 |
| Deferred outflows on derivative instruments | 83,614 | - | - | - | - | - | - | - | 83,614 | 85,406 | - | - |
| Deferred outflows related to pensions | 43,932 | 32,695 | 8,324 | 98,333 | 67,677 | 14,589 | 6,467 | 29,117 | 301,184 | 239,933 | 7,475 | 6,199 |
| Total deferred outflows of resources | 195,696 | 68,879 | 8,324 | 98,333 | 67,677 | 15,534 | 6,467 | 29,117 | 490,027 | 444,206 | 8,566 | 7,370 |

The notes to the financial statements are an integral part of this statement.



## CITY AND COUNTY OF SAN FRANCISCO

### Statement of Net Position - Proprietary Funds (Continued)
June 30, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

| | Business-Type Activities - Enterprise Funds | | | | | | | | | | Governmental Activities - Internal Service Funds | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | | | | |
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | Total 2016 | Total 2015 | 2016 | 2015 |
| **LIABILITIES** | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | |
| Accounts payable | $ 56,453 | $ 16,319 | $ 16,041 | $ 131,103 | $ 37,361 | $ 8,242 | $ 3,207 | $ 1,792 | $ 270,548 | $ 241,610 | $ 7,456 | $ 8,680 |
| Accrued payroll | 9,579 | 5,726 | 2,189 | 24,295 | 17,272 | 3,981 | 1,284 | 6,683 | 71,006 | 58,627 | 1,562 | 1,356 |
| Accrued vacation and sick leave pay | 9,714 | 5,924 | 2,275 | 21,799 | 14,286 | 3,784 | 1,295 | 5,786 | 64,822 | 65,754 | 1,804 | 1,744 |
| Accrued workers' compensation | 1,413 | 1,561 | 565 | 20,261 | 4,316 | 1,023 | 416 | 2,343 | 31,867 | 28,168 | 342 | 350 |
| Estimated claims payable | 1,346 | 6,034 | 593 | 37,762 | - | 6,383 | 625 | - | 52,808 | 50,390 | - | - |
| Due to other funds | - | 786 | - | 2,503 | 519 | 1,271 | 65 | - | 5,138 | 5,101 | 361 | 189 |
| Unearned revenues and other liabilities | 67,556 | 24,804 | 4,175 | 141,576 | 339,969 | 2,393 | 12,488 | 28,259 | 621,224 | 638,191 | 21,049 | 28,632 |
| Accrued interest payable | - | 30,348 | 534 | 2,098 | 97 | 9,898 | 1,619 | 1,626 | 52,885 | 53,202 | 1,315 | 1,429 |
| Bonds, loans, capital leases, and other payables | 163,797 | 279,828 | 2,007 | 7,672 | 30,239 | 82,432 | 2,456 | 6,148 | 574,729 | 526,262 | 14,025 | 18,785 |
| Liabilities payable from restricted assets: | | | | | | | | | | | | |
| Bonds, loans, capital leases, and other payables | 373,978 | - | - | - | - | - | - | - | 373,978 | 70,894 | - | - |
| Accrued interest payable | 31,475 | - | - | - | - | - | - | - | 31,475 | 38,587 | - | - |
| Other | 89,276 | 47,597 | 2,638 | 954 | - | 31,165 | - | 1,264 | 173,084 | 136,128 | - | - |
| Total current liabilities | 804,016 | 425,066 | 31,212 | 390,561 | 444,051 | 150,896 | 23,454 | 53,910 | 2,322,966 | 1,906,852 | 49,217 | 61,076 |
| Noncurrent liabilities: | | | | | | | | | | | | |
| Accrued vacation and sick leave pay | 7,326 | 4,532 | 1,532 | 13,047 | 10,230 | 2,761 | 896 | 3,467 | 43,791 | 38,906 | 1,298 | 1,150 |
| Accrued workers' compensation | 5,244 | 7,263 | 2,409 | 97,389 | 25,591 | 4,836 | 2,311 | 12,694 | 157,736 | 143,702 | 1,522 | 1,593 |
| Other postemployment benefits obligation | 124,352 | 111,548 | 25,169 | 235,992 | 231,405 | 48,053 | 21,644 | 82,429 | 878,590 | 814,606 | 23,618 | 21,867 |
| Estimated claims payable | 131 | 10,806 | 1,263 | 41,460 | - | 10,250 | 350 | - | 64,260 | 56,780 | - | - |
| Unearned revenue and other liabilities | - | 15,417 | - | - | - | 2,621 | 75,376 | - | 94,414 | 89,066 | - | - |
| Bonds, loans, capital leases, and other payables | 4,235,551 | 4,331,632 | 73,384 | 156,160 | 15,673 | 1,060,081 | 89,006 | 127,536 | 10,151,025 | 10,137,573 | 183,192 | 197,739 |
| Derivative instruments liabilities | 96,132 | - | - | - | - | - | - | - | 96,132 | 79,321 | - | - |
| Net pension liability | 144,271 | 106,024 | 26,674 | 314,611 | 220,295 | 48,177 | 21,291 | 93,395 | 978,938 | 749,919 | 24,166 | 18,494 |
| Total noncurrent liabilities | 4,613,007 | 4,590,220 | 130,631 | 900,659 | 503,194 | 1,194,578 | 210,874 | 319,723 | 12,462,886 | 12,109,905 | 232,696 | 240,837 |
| Total liabilities | 5,417,023 | 5,015,286 | 161,843 | 1,291,520 | 947,245 | 1,344,574 | 234,328 | 373,633 | 14,785,852 | 14,016,857 | 281,913 | 301,912 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | | | | | | | |
| Unamortized gain on refunding of debt | - | - | - | 337 | - | - | - | - | 337 | 393 | - | - |
| Unamortized gain on leaseback transaction | - | - | - | 4,349 | - | - | - | - | 4,349 | 16,141 | - | - |
| Deferred inflows related to pensions | 48,154 | 36,577 | 8,579 | 99,620 | 72,374 | 16,301 | 7,158 | 29,736 | 318,598 | 671,917 | 7,929 | 16,569 |
| Total deferred inflows of resources | 48,154 | 36,577 | 8,579 | 104,306 | 72,374 | 16,301 | 7,158 | 29,736 | 323,284 | 688,451 | 7,929 | 16,569 |
| **NET POSITION** | | | | | | | | | | | | |
| Net investment in capital assets | (117,377) | 549,327 | 369,754 | 2,938,712 | 147,934 | 1,098,723 | 304,898 | 405,272 | 5,690,741 | 5,117,679 | 10,985 | 9,572 |
| Restricted: | | | | | | | | | | | | |
| Debt service | 36,462 | 12,122 | 306 | 17,999 | - | 981 | - | 60,203 | 127,073 | 100,923 | - | - |
| Capital projects | 212,931 | 40,743 | 1,409 | - | 31,062 | 18,205 | 26,152 | 9,574 | 340,886 | 360,745 | - | - |
| Other purposes | - | - | - | 67,644 | - | - | - | 2,861 | 70,505 | 36,966 | - | - |
| Unrestricted (deficit) | 36,057 | 26,476 | 141,135 | (3,396) | (341,339) | 38,031 | 57,122 | (185,463) | (231,379) | (395,063) | (26,427) | (26,646) |
| Total net position | $ 167,073 | $ 622,668 | $ 512,614 | $ 3,020,967 | $ (161,833) | $ 1,155,940 | $ 387,670 | $ 292,447 | $ 5,997,836 | $ 5,278,250 | $ (15,442) | $ (17,074) |

The notes to the financial statements are an integral part of this statement.

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## CITY AND COUNTY OF SAN FRANCISCO

### Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds

Year Ended June 30, 2016

(With comparative financial information as of June 30, 2015)

(In Thousands)

| | Business-Type Activities - Enterprise Funds | | | | | | | | | | Governmental Activities - Internal Service Funds | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | | | | |
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | Total 2016 | Total 2015 | 2016 | 2015 |
| **Operating revenues:** | | | | | | | | | | | | |
| Aviation | $ 495,439 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 495,439 | $ 454,840 | $ - | $ - |
| Water and power service | - | 393,582 | 164,474 | - | - | - | - | - | 558,056 | 547,596 | - | - |
| Passenger fees | - | - | - | 205,374 | - | - | - | - | 205,374 | 213,328 | - | - |
| Net patient service revenue | - | - | - | - | 709,622 | - | - | 203,674 | 913,296 | 886,190 | - | - |
| Sewer service | - | - | - | - | - | 249,203 | - | - | 249,203 | 244,604 | - | - |
| Rents and concessions | 146,672 | 12,081 | 262 | 7,766 | 2,588 | 753 | 74,615 | - | 244,937 | 238,833 | 176 | 158 |
| Parking and transportation | 136,743 | - | - | 221,073 | - | - | 21,504 | - | 379,320 | 380,677 | - | - |
| Other charges for services | - | - | - | 22,054 | - | - | - | - | 22,054 | 21,786 | 136,820 | 128,670 |
| Other revenues | 87,537 | 13,853 | - | 39,029 | 4,843 | 11,819 | 3,614 | 1,583 | 162,688 | 157,201 | - | - |
| Total operating revenues | 866,391 | 419,516 | 164,736 | 495,296 | 717,053 | 261,775 | 99,733 | 205,257 | 3,230,367 | 3,134,814 | 136,996 | 128,828 |
| **Operating expenses:** | | | | | | | | | | | | |
| Personal services | 241,152 | 103,027 | 45,815 | 677,174 | 460,950 | 79,086 | 30,881 | 180,514 | 1,818,791 | 1,701,396 | 49,472 | 45,629 |
| Contractual services | 68,084 | 13,481 | 6,385 | 134,780 | 202,897 | 15,086 | 5,885 | 8,957 | 446,008 | 412,262 | 51,813 | 46,160 |
| Light, heat and power | 22,925 | - | 26,762 | - | - | - | 2,146 | - | 51,833 | 44,887 | - | - |
| Materials and supplies | 16,419 | 12,886 | 3,040 | 81,417 | 76,271 | 10,182 | 1,408 | 18,883 | 221,886 | 210,179 | 19,513 | 18,875 |
| Depreciation and amortization | 226,359 | 106,866 | 18,513 | 133,715 | 17,263 | 60,798 | 22,824 | 15,356 | 590,595 | 552,101 | 2,798 | 2,451 |
| General and administrative | 3,366 | 17,678 | 40,489 | 42,865 | 1,071 | 30,348 | 4,038 | - | 139,806 | 142,821 | 540 | 540 |
| Services provided by other departments | 10,945 | 80,858 | 9,451 | 61,959 | 48,621 | 36,157 | 18,082 | 10,021 | 266,115 | 249,302 | 5,886 | 5,867 |
| Other | 40,229 | - | - | (21,806) | (89) | - | 1,359 | - | 19,693 | 37,737 | 5,780 | 5,083 |
| Total operating expenses | 640,473 | 314,786 | 148,495 | 1,100,234 | 806,694 | 221,553 | 86,793 | 235,641 | 3,554,869 | 3,350,495 | 135,802 | 124,745 |
| Operating income (loss) | 225,918 | 104,730 | 16,241 | (604,938) | (89,641) | 40,222 | 12,940 | (30,384) | (324,502) | (215,681) | 1,194 | 4,081 |
| **Nonoperating revenues (expenses):** | | | | | | | | | | | | |
| Operating grants: | | | | | | | | | | | | |
| Federal | - | 1,720 | - | 10,565 | - | - | 177 | 264 | 12,726 | 17,207 | - | - |
| State / other | - | - | - | 133,867 | 53,040 | - | - | - | 186,907 | 179,294 | 41 | - |
| Interest and investment income | 13,957 | 3,585 | 1,290 | 5,410 | 1,882 | 1,165 | 884 | 373 | 28,566 | 25,938 | 4,263 | 4,706 |
| Interest expense | (208,687) | (163,258) | (3,358) | (8,186) | (1,402) | (22,251) | (4,855) | (8,881) | (400,386) | (380,868) | (4,586) | (5,022) |
| Other nonoperating revenues | 101,735 | 38,362 | 12,459 | 62,683 | - | 11,343 | 1 | 13,944 | 240,638 | 200,148 | 833 | 1,459 |
| Other nonoperating expenses | (51,881) | (3,215) | (1,622) | - | - | (485) | - | - | (56,893) | (42,036) | - | - |
| Total nonoperating revenues (expenses) | (144,493) | (111,771) | 8,759 | 203,539 | 53,520 | (10,308) | (3,584) | 7,800 | 8,571 | (16,889) | 548 | 1,145 |
| Income (loss) before capital contributions and transfers | 82,055 | (7,041) | 25,000 | (399,409) | (36,121) | 29,913 | 9,346 | (22,674) | (317,931) | (232,237) | 1,742 | 5,226 |
| Capital contributions | 10,424 | - | - | 357,971 | 5,000 | - | 1,529 | - | 374,924 | 357,819 | - | - |
| Transfers in | - | 34,368 | 1,305 | 523,489 | 240,120 | 453 | 24,232 | 51,355 | 875,308 | 666,800 | 5 | 150 |
| Transfers out | (42,542) | (1,124) | (705) | (4,694) | (131,439) | (15,495) | (32) | (7,115) | (204,136) | (164,509) | (115) | (142) |
| Change in net position | 49,937 | 26,203 | 25,600 | 478,257 | 77,560 | 13,868 | 35,075 | 21,566 | 728,188 | 820,273 | 1,632 | 5,234 |
| Net position (deficit) at beginning of year, as previously reported | 117,136 | 596,465 | 486,934 | 2,551,280 | (239,093) | 1,142,052 | 352,595 | 270,881 | 5,278,250 | 4,647,877 | (17,074) | (22,308) |
| Cumulative effect of accounting change | - | - | - | (8,580) | - | - | - | - | (8,580) | - | - | - |
| Net position (deficit) at beginning of year, as restated | 117,136 | 596,465 | 486,934 | 2,542,700 | (239,093) | 1,142,052 | 352,595 | 270,881 | 5,269,670 | 4,647,877 | (17,074) | (22,308) |
| Net position (deficit) at end of year | $ 167,073 | $ 622,668 | $ 512,534 | $ 3,020,957 | $ (161,533) | $1,155,920 | $ 387,670 | $ 292,447 | $5,997,858 | $ 5,278,250 | $ (15,442) | $ (17,074) |

The notes to the financial statements are an integral part of this statement.

## CITY AND COUNTY OF SAN FRANCISCO

### Statement of Cash Flows – Proprietary Funds

Year Ended June 30, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

| | Business-Type Activities - Enterprise Funds | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | | | Governmental Activities - Internal Service Funds | |
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | Total 2016 | Total 2015 | 2016 | 2015 |
| **Cash flows from operating activities:** | | | | | | | | | | | | |
| Cash received from customers, including cash deposits | $ 591,560 | $ 419,841 | $ 162,934 | $ 540,781 | $ 879,797 | $ 280,321 | $ 22,587 | $145,555 | $ 3,123,395 | $ 3,266,666 | $ 159,994 | $159,542 |
| Cash received from tenants for rent | - | 12,265 | 269 | 7,605 | 2,597 | 729 | 74,364 | - | 98,059 | 113,091 | - | - |
| Cash paid for employees' services | (254,837) | (113,168) | (46,427) | (887,634) | (479,504) | (81,182) | (33,064) | (190,409) | (1,892,180) | (1,833,684) | (51,530) | (49,772) |
| Cash paid to suppliers for goods and services | (104,383) | (106,441) | (76,985) | (336,056) | (332,164) | (80,788) | (36,165) | (40,220) | (1,205,195) | (1,106,969) | (91,023) | (87,781) |
| Cash paid for judgments and claims | - | (11,501) | (4,640) | (11,714) | - | (188) | - | - | (28,053) | (27,311) | - | - |
| Net cash provided by (used in) operating activities | 442,349 | 200,936 | 33,156 | (486,820) | (125,274) | 88,911 | 27,812 | (85,074) | 95,996 | 375,883 | 17,435 | 21,989 |
| **Cash flows from noncapital financing activities:** | | | | | | | | | | | | |
| Operating grants | - | 117 | 19 | 141,495 | 54,068 | 3,911 | 310 | 264 | 199,884 | 202,711 | 41 | - |
| Transfers in | - | 34,358 | 1,335 | 481,622 | 240,120 | 460 | - | 51,335 | 769,310 | 642,848 | 6 | 150 |
| Transfers out | (42,542) | (1,124) | (705) | (4,594) | (131,438) | (16,495) | (32) | (7,115) | (204,136) | (164,509) | (115) | (142) |
| Other noncapital financing sources | 2,697 | 5,262 | 11,312 | 40,001 | - | 4,244 | - | - | 63,416 | 42,945 | - | - |
| Other noncapital financing uses | (38,460) | (2,211) | (1,744) | - | (168) | (485) | - | - | (43,058) | (27,413) | - | - |
| Net cash provided by (used in) noncapital financing activities | (78,405) | 36,412 | 10,267 | 538,424 | 162,581 | (8,555) | 278 | 44,504 | 805,406 | 695,283 | (68) | 8 |
| **Cash flows from capital and related financing activities:** | | | | | | | | | | | | |
| Capital grants and other proceeds restricted for capital purposes | 20,665 | - | - | 263,924 | 5,000 | - | 699 | 15,054 | 305,342 | 498,079 | - | - |
| Transfers in | - | - | - | 61,867 | - | - | 24,132 | - | 85,999 | 28,752 | - | - |
| Transfers out | - | - | - | - | - | - | - | - | - | - | - | - |
| Bond sale proceeds and loans received | 641 | - | 4,100 | 97 | - | 360,706 | - | - | 365,744 | 652,455 | - | - |
| Proceeds from sale/transfer of capital assets | - | 9 | 1 | 653 | - | 23 | 2 | - | 688 | 5,166 | - | - |
| Proceeds from commercial paper borrowings | 304,100 | 50,000 | - | - | 24,611 | 35,000 | - | - | 413,611 | 143,761 | - | - |
| Proceeds from passenger facility charges | 96,432 | - | - | - | - | - | - | - | 96,432 | 92,702 | - | - |
| Acquisition of capital assets | (304,421) | (294,033) | (49,583) | (501,012) | (76,280) | (167,856) | (6,601) | (770) | (1,402,546) | (1,207,693) | (4,211) | (2,745) |
| Retirement of capital leases, bonds and loans | (209,910) | (31,894) | (4,245) | (7,261) | (2,236) | (105,836) | (2,476) | (6,879) | (369,898) | (733,150) | (15,795) | (26,440) |
| Bond issue costs paid | - | - | (130) | - | - | (1,666) | - | - | (1,796) | (3,075) | - | (15) |
| Interest paid on debt | (225,073) | (219,279) | (8,313) | (7,700) | (1,406) | (34,362) | (4,789) | (6,880) | (502,604) | (486,834) | (4,698) | (5,171) |
| Federal interest income subsidy from Build America Bonds | - | 24,240 | 664 | - | - | 3,991 | - | - | 28,895 | 28,794 | - | - |
| Other capital financing sources | - | - | - | 16,861 | - | - | 554 | 15 | 17,430 | - | - | - |
| Other capital financing uses | - | - | - | - | - | - | (889) | (62) | (951) | (2,821) | - | - |
| Net cash provided by (used in) capital and related financing activities | (315,366) | (470,957) | (52,508) | (172,851) | (52,083) | 90,340 | 10,460 | 1,449 | (961,334) | (884,241) | (27,704) | (34,371) |
| **Cash flows from investing activities:** | | | | | | | | | | | | |
| Purchases of investments with trustees | (824,808) | (189,584) | (19,242) | - | - | (185,525) | - | - | (1,028,954) | (1,259,826) | - | - |
| Proceeds from sale of investments with trustees | 835,126 | 281,532 | 16,665 | - | - | 192,072 | - | 285 | 1,325,680 | 1,279,186 | 4,672 | - |
| Interest and investment income | 4,808 | 4,230 | 1,328 | 5,297 | 1,882 | 1,173 | 830 | 12,836 | 32,384 | 25,744 | 137 | 154 |
| Other investing activities | - | - | - | - | - | - | - | - | - | - | (5) | 25 |
| Net cash provided by (used in) investing activities | 15,331 | 96,178 | (1,249) | 5,297 | 1,882 | 7,720 | 830 | 13,121 | 138,110 | 35,110 | 4,804 | 219 |
| Net increase (decrease) in cash and cash equivalents | 63,909 | (147,431) | (10,332) | (25,750) | (12,904) | 188,316 | 39,370 | (26,000) | 69,178 | 212,635 | (5,534) | (12,155) |
| Cash and cash equivalents-beginning of year | 809,832 | 787,560 | 247,796 | 932,305 | 360,979 | 218,965 | 143,853 | 52,151 | 3,553,441 | 3,340,806 | 66,147 | 78,302 |
| Cash and cash equivalents-end of year | $ 873,741 | $ 640,129 | $ 237,464 | $ 906,555 | $ 348,075 | $ 407,281 | $183,223 | $ 26,151 | $ 3,622,619 | $ 3,553,441 | $ 60,613 | $ 66,147 |




## CITY AND COUNTY OF SAN FRANCISCO


### Statement of Cash Flows – Proprietary Funds (Continued)

Year Ended June 30, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

| | Business-Type Activities - Enterprise Funds | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | | | Governmental Activities - Internal Service Funds | |
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | Total 2016 | Total 2015 | 2016 | 2015 |
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:** | | | | | | | | | | | | |
| Operating income (loss) | $ 226,518 | $ 104,730 | $ 15,241 | $ (634,605) | $ (89,641) | $ 40,222 | $ 12,940 | $(30,574) | $ (324,502) | $ (215,681) | $ 1,194 | $ 4,081 |
| Adjustments for non-cash and other activities: | | | | | | | | | | | | |
| Depreciation and amortization | 226,350 | 106,666 | 16,513 | 153,715 | 17,262 | 50,799 | 22,120 | 15,358 | 590,791 | 552,101 | 2,796 | 2,451 |
| Provision for uncollectibles | 561 | 176 | - | (114) | - | (63) | (28) | - | 555 | 27 | - | - |
| Write-off of capital assets | - | 423 | 4,904 | (6,089) | - | 5,548 | - | - | 4,781 | 8,864 | - | - |
| Other | 960 | - | - | - | - | - | - | - | 960 | 5,049 | 397 | 1,095 |
| Changes in assets and deferred outflows of resources/liabilities and deferred inflows of resources: | | | | | | | | | | | | |
| Receivables, net | (9,535) | (8,133) | (5,412) | 299 | (103,955) | (618) | (829) | (7,267) | (135,845) | 31,474 | 18,588 | 36,270 |
| Due from other funds | - | (66) | 861 | - | (26) | 18 | - | 18,205 | 19,001 | (47,720) | - | - |
| Inventories | 4 | 378 | (82) | (6,594) | (1,704) | 351 | (135) | (30) | (7,810) | (11,690) | - | - |
| Other assets | (1,168) | - | (311) | (266) | - | - | (22) | - | (1,667) | 4,046 | - | - |
| Accounts payable | (1,549) | (836) | 187 | (4,080) | (1,479) | 1,052 | (688) | (436) | (8,148) | 29,253 | (648) | (823) |
| Accrued payroll | 2,209 | 635 | 511 | 4,396 | 3,600 | 840 | 181 | 1,105 | 13,977 | (54,247) | 305 | (1,378) |
| Accrued vacation and sick leave pay | 746 | (308) | 283 | 2,124 | 1,281 | 187 | (28) | (282) | 3,852 | 2,869 | 206 | 119 |
| Accrued workers' compensation | 575 | (448) | 395 | 14,556 | 1,679 | 138 | (55) | 832 | 17,718 | 10,761 | (73) | 176 |
| Other postemployment benefits obligation | 8,056 | 7,283 | 2,324 | 15,895 | 18,455 | 4,073 | 1,565 | 5,544 | 63,992 | 80,174 | 1,061 | 2,078 |
| Estimated claims payable | - | (2,510) | (1,474) | 13,742 | - | 3,166 | (431) | - | 12,189 | 13,577 | - | - |
| Due to other funds | - | 707 | - | (274) | - | (168) | - | - | 265 | 206 | (82) | (8) |
| Unearned revenue and other liabilities | 11,832 | 13,014 | 2,618 | (3,164) | 89,315 | 2,358 | (3,007) | (70,654) | 32,830 | 181,077 | (7,636) | (6,841) |
| Net pension liability and pension related deferred outflows and inflows of resources | (26,252) | (19,785) | (4,626) | (54,039) | (39,640) | (8,820) | (3,687) | (16,673) | (176,131) | (208,080) | (4,944) | (6,134) |
| Total adjustments | 215,831 | 96,206 | 18,915 | 168,116 | (35,633) | 58,889 | 14,872 | (54,500) | 420,498 | 591,564 | 16,241 | 17,908 |
| Net cash provided by (used in) operating activities | $ 442,349 | $ 200,936 | $ 33,156 | $ (486,820) | $ (125,274) | $ 88,911 | $ 27,812 | $(85,074) | $ 95,996 | $ 375,883 | $ 17,435 | $ 21,989 |
| **Reconciliation of cash and cash equivalents to the statement of net position:** | | | | | | | | | | | | |
| Deposits and investments with City Treasury: | | | | | | | | | | | | |
| Unrestricted | $ 410,358 | $ 323,616 | $ 184,706 | $ 811,548 | $ 339,508 | $ 168,118 | $ 131,012 | $ - | $ 2,378,166 | $ 2,440,884 | $ 35,264 | $ 37,605 |
| Restricted | 456,482 | 123,328 | 39,849 | 86,645 | - | 208,335 | 41,955 | 10,812 | 947,407 | 918,474 | - | - |
| Deposits and investments outside City Treasury: | | | | | | | | | | | | |
| Unrestricted | 5,937 | 156 | 10 | 10,271 | 10 | 123 | 5 | 2 | 16,494 | 16,335 | - | - |
| Restricted | 445,122 | 192,614 | 5,510 | 18,061 | 6,557 | 30,757 | 10,555 | 15,338 | 725,744 | 736,921 | 25,349 | 32,907 |
| Total deposits and investments | 1,317,899 | 640,104 | 240,075 | 906,555 | 346,075 | 407,334 | 183,527 | 26,152 | 4,069,811 | 4,112,894 | 60,613 | 70,812 |
| Less: Investments outside City Treasury not meeting the definition of cash equivalents | (444,158) | (65) | (2,611) | - | - | (53) | (304) | (1) | (447,192) | (559,349) | - | (4,665) |
| Cash and cash equivalents at end of year on statement of cash flows | $ 873,741 | $ 640,129 | $ 237,464 | $ 906,555 | $ 348,075 | $ 407,281 | $183,223 | $ 26,151 | $ 3,622,619 | $ 3,553,441 | $ 60,613 | $ 66,147 |
| **Non-cash capital and related financing activities:** | | | | | | | | | | | | |
| Acquisition of capital assets on accounts payable and capital leases | $ 63,187 | $ 47,687 | $ 2,836 | $ - | $ 3,690 | $ 31,189 | $ 1,354 | $ 466 | $ 170,268 | $ 139,772 | $ 361 | $ 424 |
| Tenant improvements financed by rent credits | - | - | - | - | - | - | 241 | - | 241 | 400 | - | - |
| Net capitalized interest | 7,700 | 55,076 | 67 | 2,130 | - | 13,220 | 32 | - | 88,225 | 100,043 | - | - |
| Donated inventory | - | - | - | - | 2,844 | - | - | - | 2,844 | 7,306 | - | - |
| Capital contributions and other noncash capital items | - | - | - | - | - | - | 624 | - | 624 | (4,268) | - | - |
| Bond refunding | 262,453 | - | - | - | - | - | - | - | 262,453 | 248,527 | - | - |
| Interfund loan | - | 786 | - | - | - | 1,271 | - | - | 2,057 | 1,421 | - | - |

## CITY AND COUNTY OF SAN FRANCISCO

### Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016
(In Thousands)

| | Pension, Other Employee and Other Post-Employment Benefit Trust Funds | Investment Trust Fund | Private-Purpose Trust Fund | Agency Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments with City Treasury | $ 97,306 | $ 746,083 | $ 209,234 | $ 138,794 |
| Deposits and investments outside City Treasury: | | | | |
| Cash and deposits | 43,521 | 108 | 4,571 | 817 |
| Short-term investments | 1,009,676 | - | 138,800 | - |
| Debt securities | 4,747,318 | - | - | - |
| Equity securities | 9,351,884 | - | - | - |
| Real assets | 2,341,500 | - | - | - |
| Private equity | 2,753,849 | - | - | - |
| Foreign currency contracts, net | 14,126 | - | - | - |
| Invested in securities lending collateral | 865,881 | - | - | - |
| Receivables: | | | | |
| Employer and employee contributions | 32,424 | - | - | 43,571 |
| Brokers, general partners and others | 86,689 | - | - | - |
| Federal and state grants and subventions | - | - | 404 | - |
| Interest and other | 44,254 | 850 | 10,061 | 279,318 |
| Other assets | - | - | 702 | 46,636 |
| Capital assets: | | | | |
| Land and other assets not being depreciated | - | - | 56,589 | - |
| Facilities, infrastructure and equipment, net of depreciation | - | - | 100,632 | - |
| Total assets | 21,366,028 | 747,938 | 520,453 | 505,338 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred outflows related to pensions | - | - | 1,494 | - |
| Unamortized loss on refunding of debt | - | - | 29,748 | - |
| Total deferred outflows of resources | - | - | 31,242 | - |
| **LIABILITIES** | | | | |
| Accounts payable | 26,956 | 4,043 | 21,801 | 53,952 |
| Estimated claims payable | 29,347 | - | - | - |
| Due to the primary government | - | - | 2,611 | - |
| Agency obligations | - | - | - | 451,386 |
| Bond interest payable | - | - | 16,113 | - |
| Payable to brokers | 107,444 | - | - | - |
| Deferred Retirement Option Program | 613 | - | - | - |
| Payable to borrowers of securities | 863,535 | - | - | - |
| Other liabilities | 2,289 | - | 1,353 | - |
| Advance from primary government | - | - | 14,602 | - |
| Long-term obligations | - | - | 836,830 | - |
| Net pension liability | - | - | 16,583 | - |
| Total liabilities | 1,030,137 | 4,043 | 1,009,673 | 505,338 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred inflows related to pensions | - | - | 7,674 | - |
| **NET POSITION** | | | | |
| Restricted for pension and other employee benefits | 20,337,886 | - | - | - |
| Held for external pool participants | - | 743,895 | - | - |
| Held for Redevelopment Agency dissolution | - | - | (377,042) | - |
| Total net position | $ 20,337,886 | $ 743,895 | $ (377,042) | $ - |

The notes to the financial statements are an integral part of this statement.



## CITY AND COUNTY OF SAN FRANCISCO

### Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2016
(In Thousands)

| | Pension, Other Employee and Other Post-Employment Benefit Trust Funds | Investment Trust Fund | Private-Purpose Trust Fund |
|---|---|---|---|
| Additions: | | | |
| Redevelopment property tax revenues | $ - | $ - | $ 110,302 |
| Charges for services | - | - | 92,659 |
| Contributions: | | | |
| Employees' contributions | 468,278 | - | - |
| Employer contributions | 1,386,104 | - | - |
| Contributions to pooled investments | - | 3,183,781 | - |
| Total contributions | 1,854,382 | 3,183,781 | 202,961 |
| Investment income: | | | |
| Interest | 190,793 | 3,772 | 1,632 |
| Dividends | 219,529 | - | - |
| Net depreciation in fair value of investments | (215,895) | - | - |
| Securities lending income | 7,582 | - | - |
| Total investment income | 201,989 | 3,772 | 1,632 |
| Less investment expenses: | | | |
| Securities lending borrower rebates and expenses | (1,315) | - | - |
| Other investment expenses | (47,174) | - | - |
| Total investment expenses | (48,489) | - | - |
| Other additions | - | - | 32,891 |
| Total additions, net | 2,007,882 | 3,187,553 | 237,484 |
| Deductions: | | | |
| Neighborhood development | - | - | 120,903 |
| Depreciation | - | - | 5,543 |
| Interest on debt | - | - | 52,204 |
| Benefit payments | 2,222,409 | - | - |
| Refunds of contributions | 12,846 | - | - |
| Distribution from pooled investments | - | 2,963,674 | - |
| Administrative expenses | 17,313 | - | 10,467 |
| Total deductions | 2,252,313 | 2,963,674 | 189,117 |
| Change in net position | (244,731) | 223,879 | 48,367 |
| Net position at beginning of year | 20,582,617 | 520,016 | (425,409) |
| Net position at end of year | $ 20,337,886 | $ 743,895 | $ (377,042) |

The notes to the financial statements are an integral part of this statement.

## (1) The Financial Reporting Entity

San Francisco is a city and county chartered by the State of California and as such can exercise the powers as both a city and a county under state law. As required by generally accepted accounting principles, the accompanying financial statements present the City and County of San Francisco (the City or primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationships with the City.

As a government agency, the City is exempt from both federal income taxes and California State franchise taxes.

### *Blended Component Units*

Following is a description of those legally separate component units for which the City is financially accountable that are blended with the primary government because of their individual governance or financial relationships to the City.

*San Francisco County Transportation Authority (Transportation Authority)* – The voters of the City created the Transportation Authority in 1989 to impose voter-approved sales and use tax of one-half of one percent, for a period not to exceed 20 years, to fund essential traffic and transportation projects. In 2003, the voters approved Proposition K, extending the city-wide one-half of one percent sales tax with a new 30-year plan. A board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the Transportation Authority. The Transportation Authority is reported in a special revenue fund in the City's basic financial statements. Financial statements for the Transportation Authority can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103.

*San Francisco City and County Finance Corporation (Finance Corporation)* – The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase $20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. The Finance Corporation is governed by a three-member board of directors approved by the Mayor and the Board of Supervisors. The Finance Corporation is reported as an internal service fund. Financial statements for the Finance Corporation can be obtained from their administrative offices at City Hall, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

*San Francisco Parking Authority (The Parking Authority)* – The Parking Authority was created in October 1949 to provide services exclusively to the City. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (PTC). The PTC consists of five commissioners appointed by the Mayor. Upon creation of the PTC, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the PTC. The staff and fiscal operations of the Parking Authority were also incorporated into the PTC. Beginning on July 1, 2002, the responsibility for overseeing the operations of the PTC became the responsibility of the Municipal Transportation Agency (SFMTA) pursuant to Proposition E, which was passed by the voters in November 1999. Separate financial statements are not prepared for the Parking Authority. Further information about the Parking Authority can be obtained from the SFMTA Chief Financial Officer at 1 South Van Ness Avenue, 8th Floor, San Francisco, CA 94102.





### *Discretely Presented Component Unit*

*Treasure Island Development Authority (The TIDA)* – The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern the TIDA. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse, and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare, and common benefit of the inhabitants of the City. The TIDA has adopted as its mission the creation of affordable housing and economic development opportunities on Treasure Island.

The TIDA's governing body is not substantively the same as that of the City and does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial statements are not prepared for TIDA. Further information about TIDA can be obtained from their administrative offices at 1 Avenue of the Palms, Suite 241, Treasure Island, San Francisco, CA 94130.

### *Fiduciary Component Unit*

*Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Successor Agency)* – The Successor Agency was created on February 1, 2012 to serve as a custodian for the assets and to wind down the affairs of the former San Francisco Redevelopment Agency pursuant to California Redevelopment Dissolution Law. The Successor Agency is governed by the Successor Agency Commission, commonly known as the Commission on Community Investment and Infrastructure, and is a separate public entity from the City. The Commission has five members, which serve at the pleasure of the City's Mayor and are subject to confirmation by the Board of Supervisors. The City is financially accountable for the Successor Agency through the appointment of the Commission and a requirement that the Board of Supervisors approve the Successor Agency's annual budget.

The financial statements present the Successor Agency and its component units, entities for which the Successor Agency is considered to be financially accountable. The City and County of San Francisco Redevelopment Financing Authority (Financing Authority) is a joint powers authority formed between the former Agency and the City to facilitate the long-term financing of the former Agency activities. The Financing Authority is included as a blended component unit in the Successor Agency's financial statements because the Financing Authority provides services entirely to the Successor Agency.

Per the Redevelopment Dissolution Law, certain actions of the Successor Agency are also subject to the direction of an Oversight Board. The Oversight Board is comprised of seven-member representatives from local government bodies: four City representatives appointed by the Mayor of the City subject to confirmation by the Board of Supervisors of the City; the Vice Chancellor of the San Francisco Community College District; the Board member of the Bay Area Rapid Transit District; and the Executive Director of Policy and Operations of the San Francisco Unified School District.

In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the Successor Agency will only be allocated revenues in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. Based upon the nature of the Successor Agency's custodial role, the Successor Agency is reported in a fiduciary fund (private-purpose trust fund). Complete financial statements can be obtained from the Successor Agency's finance department at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94103.

***Non-Disclosed Organizations***

There are other governmental agencies that provide services within the City. These entities have independent governing boards and the City is not financially accountable for them. The City's basic financial statements, except for certain cash held by the City as an agent, do not reflect operations of the San Francisco Airport Improvement Corporation, San Francisco Health Authority, San Francisco Housing Authority, San Francisco Unified School District and San Francisco Community College District. The City is represented in two regional agencies, the Bay Area Rapid Transit District and the Bay Area Air Quality Management District, both of which are also excluded from the City's reporting entity.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as seperate columns in the fund financial statements.

The basic financial statements include certain prior year summarized comparative information. This information is presented only to facilitate financial analysis, and is not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

### (b) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, report only assets and liabilities and cannot be said to have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The





City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are generally collected within 60 days of the end of the current fiscal period. It is the City's policy to submit reimbursement and claim requests for federal and state grant revenues within 30 days of the end of the program cycle and payment is generally received within the first or second quarter of the following fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, grants and subventions, licenses, charges for services, rents and concessions, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

During the year ended June 30, 2016, the City adopted a new revenue recognition policy, and changed the availability period from 90 days to 60 days. The new policy more closely reflects the use of current resources to pay liabilities of the current period. The adoption of the new accounting principle resulted in a reduction in revenues by approximately $23.7 million for the year ended June 30, 2016, and did not have a significant impact on the financial statements as of and for the year ended June 30, 2015.

The City reports the following major governmental fund:

- The ***General Fund*** is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major proprietary (enterprise) funds:

- The ***San Francisco International Airport Fund*** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.
- The ***San Francisco Water Enterprise Fund*** accounts for the activities of the San Francisco Water Enterprise (Water Enterprise). The Water Enterprise is engaged in the distribution of water to the City and certain suburban areas.
- The ***Hetch Hetchy Water and Power Enterprise Fund*** accounts for the activities of Hetch Hetchy Water and Power Department (Hetch Hetchy). The department is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity.
- The ***Municipal Transportation Agency Fund*** accounts for the activities of the Municipal Transportation Agency (SFMTA). The SFMTA was established by Proposition E, passed by the City's voters in November 1999. The SFMTA includes the San Francisco Municipal Railway (Muni) and the operations of Sustainable Streets, which includes the Parking Authority. Muni was established in 1912 and is responsible for the operations of the City's public transportation system. Sustainable Streets is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. Sustainable Streets is a separate department of the SFMTA. The parking garages fund accounts for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.
- The ***General Hospital Medical Center Fund*** accounts for the activities of the San Francisco General Hospital (SFGH), a City-owned acute care hospital.
- The ***San Francisco Wastewater Enterprise Fund*** was created after the San Francisco voters approved a proposition in 1976, authorizing the City to issue $240 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City's municipal sewage treatment and disposal system.

* The ***Port of San Francisco Fund*** accounts for the operation, development, and maintenance of seven and one-half miles of waterfront property of the Port of San Francisco (Port). This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.
* The ***Laguna Honda Hospital Fund*** accounts for the activities of Laguna Honda Hospital (LHH), the City-owned skilled nursing facility, which specializes in serving elderly and disabled residents.

Additionally, the City reports the following fund types:

* The ***Debt Service Funds*** account for the accumulation of property taxes and other revenues for periodic payment of interest and principal on general obligation and certain lease revenue bonds and related authorized costs.
* The ***Capital Projects Funds*** are used to account for financial resources that are restricted, committed or assigned to expenditures for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.
* The ***Special Revenue Funds*** are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects
* The ***Permanent Fund*** accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.
* The ***Internal Service Funds*** account for the financing of goods or services provided by one City department to another City department on a cost-reimbursement basis. Internal Service Funds account for the activities of the equipment maintenance services, centralized printing and mailing services, centralized telecommunications and information services, and lease financing through the Finance Corporation.
* The ***Pension, Other Employee and Other Postemployment Benefit Trust Funds*** reflect the activities of the Employees' Retirement System (Retirement System), the Health Service System and the Retiree Health Care Trust Fund. The Retirement System accounts for employee contributions, City contributions, and the earnings and profits from investments. It also accounts for the disbursements made for employee retirement benefits, withdrawals, disability and death benefits as well as administrative expenses. The Health Service System accounts for contributions from active and retired employees and surviving spouses, City contributions, and the earnings and profits from investments. It also accounts for the disbursements to various health plans and health care providers for the medical expenses of beneficiaries. The Retiree Health Care Trust Fund currently accounts for other postemployment benefit contributions from the City and the San Francisco Community College District, together with the earnings and profits from investments. No disbursements, other than to defray reasonable expenses of administering the trust, will be made until sufficient funds are set aside to pay for all future retiree health care costs, except in certain limited circumstances.
* The ***Investment Trust Fund*** accounts for the external portion of the Treasurer's Office investment pool. The funds of the San Francisco Community College District, San Francisco Unified School District, the Trial Courts of the State of California and the Transbay Joint Powers Authority are accounted for within the Investment Trust Fund.
* The ***Private-Purpose Trust Fund*** accounts for the custodial responsibilities that are assigned to the Successor Agency with the passage of the Redevelopment Dissolution Act.
* The ***Agency Funds*** account for the resources held by the City in a custodial capacity on behalf of the State of California and other governmental agencies; employees for payroll deductions; and human welfare, community health, and transportation programs.

The City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.





In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City departments from the General Fund, Water Enterprise and Hetch Hetchy. These charges have not been eliminated because elimination would distort the direct costs and program revenues reported in the statement of activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, airline fees and charges, parking fees, hospital patient service fees, commercial and industrial rents, printing services, vehicle maintenance fees, and telecommunication and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**(c) Budgetary Data**

The City adopts two-year rolling budgets annually for all governmental funds on a substantially modified accrual basis of accounting except for capital project funds and certificates of participation and other debt service funds, which substantially adopt project length budgets.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are deliberated, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The Administrative Code Chapter 3 outlines the City's general budgetary procedures, with Section 3.3 detailing the budget timeline. A summary of the key budgetary steps is summarized as follows:

***Original Budget***

(1) Departments and Commissions conduct hearings to obtain public comment on their proposed annual budgets beginning in December and submit their budget proposals to the Controller's Office no later than February 21.

(2) The Controller's Office consolidates the budget estimates and transmits them to the Mayor's Office no later than the first working day of March. Staff of the Mayor's Office analyze, review and refine the budget estimates before transmitting the Mayor's Proposed Budget to the Board of Supervisors.

(3) By the first working day of May, the Mayor submits the Proposed Budget for selected departments to the Board of Supervisors. The selected departments are determined by the Controller in consultation with the Board President and the Mayor's Budget Director. Criteria for selecting the departments include (1) that they are not supported by the City's General Fund or (2) that they do not rely on the State's budget submission in May for their revenue sources.

(4) By the first working day of June, the Mayor submits the complete Proposed Budget to the Board of Supervisors along with a draft of the Annual Appropriation Ordinance prepared by the Controller's Office.

(5) Within five working days of the Mayor's proposed budget transmission to the Board of Supervisors, the Controller reviews the estimated revenues and assumptions in the Mayor's Proposed Budget and provides an opinion as to their accuracy and reasonableness. The Controller also may make

a recommendation regarding prudent reserves given the Mayor's proposed resources and expenditures.

(6) The designated Committee (usually the Budget Committee) of the Board of Supervisors conducts hearings, hears public comment, and reviews the Mayor's Proposed Budget. The Committee recommends an interim budget reflecting the Mayor's budget transmittal and, by June 30, the Board of Supervisors passes an interim appropriation and salary ordinances.

(7) Not later than the last working day of July, the Board of Supervisors adopts the budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

*Final Budget*

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

(1) Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year. In certain circumstances, other programs and regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

(2) Appropriations may be adjusted during the year with the approval of the Mayor and the Board of Supervisors, e.g. supplemental appropriations. Additionally, the Controller is authorized to make certain transfers of surplus appropriations within a department. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

Budgetary data, as revised, is presented in the basic financial statements for the General Fund. Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures.

**(d) Deposits and Investments**

*Investment in the Treasurer's Pool*

The Treasurer invests on behalf of most funds of the City and external participants in accordance with the City's investment policy and the California State Government Code. The City Treasurer who reports on a monthly basis to the Board of Supervisors manages the Treasurer's pool. In addition, the function of the County Treasury Oversight Committee is to review and monitor the City's investment policy and to monitor compliance with the investment policy and reporting provisions of the law through an annual audit.

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to Successor Agency separately managed funds, bond issues of the Enterprise Funds, and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the Retirement System and of the Retiree Health Care Trust Fund are held by trustees.

The San Francisco Unified School District (School District), San Francisco Community College District (Community College District), and the City are involuntary participants in the City's investment pool. As of June 30, 2016, involuntary participants accounted for approximately 85.6% of the pool. Voluntary





participants accounted for 4.4% of the pool. Further, the School District, Community College District, the Trial Courts of the State of California, and the Transbay Joint Powers Authority are external participants of the City's pool. At June 30, 2016, $743.9 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these four external participants is 9.4%. Internal participants accounted for 90.6% of the pool.

*Investment Valuation*

Investments are carried at fair value, except for certain non-negotiable investments that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as collateralized certificates of deposit and public time deposits. The fair value of investments is determined monthly and is based on current market prices. The fair value of participants' position in the pool approximates the value of the pool shares. The method used to determine the value of participants' equity is based on the book value of the participants' percentage participation. In the event that a certain fund overdraws its share of pooled cash, the overdraft is covered by the General Fund and a payable to the General Fund is established in the City's basic financial statements.

*Retirement System* – Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Securities that do not have an established market are reported at estimated fair value derived from third-party pricing services. Purchases and sales of investments are recorded on a trade date basis.

The fair values of real estate investments are based on net asset values provided by the investment managers. Private equity investments represent interest in limited partnerships. The fair values of private equity investments are also based on net asset values provided by the general partners. For investments that are not traded on national or international exchanges with closing market prices available data is obtained to corroborate pricing.

The Charter and Retirement Board policies permit the Retirement System to use investments to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The collateral may consist of cash or non-cash; non-cash collateral is generally U.S. Treasuries or other U.S. government obligations. The Retirement System's securities custodian is the agent in lending the domestic securities for collateral of 102% and international securities for collateral of 105%. Contracts with the lending agent require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults, and therefore, is not reported in the Retirement System's financial statements.

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2016 was 78 days. All cash collateral received was invested in a separately managed account by the lending agent using investment guidelines developed and approved by the Retirement System. As of June 30, 2016, the weighted average maturity of the reinvested cash collateral account was 25 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

Cash collateral invested in the separate account managed by the lending agent is reported at fair value. Payable to borrowers of securities in the statement of fiduciary net position represents the cash collateral received from borrowers. Additionally, the income and costs of securities lending transactions, such as borrower rebates and fees, are recorded respectively as revenues and expenses in the statement of changes in fiduciary net position.

(Dollars in Thousands)

*San Francisco International Airport* – The Airport has entered into certain derivative instruments, which it values at fair value, in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* and GASB Statement No. 72 – *Fair Value Measurement and Application*. The Airport applies hedge accounting for changes in the fair value of hedging derivative instruments, in accordance with GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. Under hedge accounting, if the derivatives are determined to be effective hedges, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statement of net position, otherwise changes in fair value are recorded within the investment revenue classification.

*Other funds* – Non-pooled investments are also generally carried at fair value. However, money market investments (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) are carried at amortized cost, which approximates fair value. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

***Investment Income***

Income from pooled investments is allocated at month-end to the individual funds or external participants based on the fund or participant's average daily cash balance in relation to total pooled investments. City management has determined that the investment income related to certain funds should be allocated to the General Fund. On a budget basis, the interest income is recorded in the General Fund. On a generally accepted accounting principles (GAAP) basis, the income is reported in the fund where the related investments reside. A transfer is then recorded to transfer an amount equal to the interest earnings to the General Fund. This is the case for certain other governmental funds, Internal Service, Investment Trust and Agency Funds.

It is the City's policy to charge interest at month-end to those funds that have a negative average daily cash balance. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then a transfer from the General Fund for an amount equal to the interest expense is made to the fund. This is the case for certain other funds, SFMTA, LHH, SFGH, and the Internal Service Funds.

Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

**(e) Loans Receivable**

The Mayor's Office of Housing (MOH) and the Mayor's Office of Community Development (MOCD) administer several housing and small business subsidy programs and issue loans to qualified applicants. In addition, the Department of Building Inspection manages other receivables from organizations. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. At June 30, 2016, it was determined that $1,122.0 million of the $1,203.8 million loan portfolio is not expected to be ultimately collected.

For the purposes of the fund financial statements, the governmental funds expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred inflow of resources. For purposes of the government-wide financial statements, long-term loans are not offset by deferred inflows of resources.





**(f) Inventories**

Inventories recorded in the proprietary funds primarily consist of construction materials and maintenance supplies, as well as pharmaceutical supplies maintained by the hospitals. Generally, proprietary funds value inventory at cost or average cost and expense supply inventory as it is consumed. This is referred to as the consumption method of inventory accounting. The governmental fund types use the purchase method to account for supply inventories, which are not material. This method records items as expenditures when they are acquired.

**(g) Property Held for Resale**

Property held for resale includes both residential and commercial property and is recorded as other assets at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of each property parcel based on its current intended use. Property held for sale may, during the period it is held by the City, generate rental income, which is recognized as it becomes due and is considered collectible.

**(h) Capital Assets**

Capital assets, which include land, facilities and improvements, machinery and equipment, infrastructure assets, and intangible assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary and private-purpose trust funds. Capital assets, except for intangible assets, are defined as assets with an initial individual cost of more than $5 thousand and have an estimated life that extends beyond a single reporting period or more than a year. Intangible assets have a capitalization threshold of $100 thousand. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds of tax-exempt debt over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, easements, and intangible assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Facilities and improvements | 15 to 175 |
| Infrastructure | 15 to 70 |
| Machinery and equipment | 2 to 75 |
| Intangible assets | Varies with type |

Works of art, historical treasures and zoological animals held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, kept unencumbered, cared for, and preserved by the City. It is the City's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

**(i) Accrued Vacation and Sick Leave Pay**

Vacation pay, which may be accumulated up to ten weeks depending on an employee's length of service, is payable upon termination. Sick leave may be accumulated up to six months. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death.

The City accrues for all salary-related items in the government-wide and proprietary fund financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay.

### (j) Bond Issuance Costs, Premiums, Discounts, and Interest Accretion

In the government-wide financial statements, the proprietary fund type and fiduciary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, proprietary fund or fiduciary fund statement of net position. Bond issuance costs related to prepaid insurance costs, bond premiums and discounts for San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, SFMTA, and San Francisco Wastewater Enterprise are amortized over the life of the bonds using the effective interest method. The remaining bond prepaid insurance costs, bond premiums and discounts are calculated using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively. Issuance costs including bond insurance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interest accreted on capital appreciation bonds is reported as accrued interest payable in the government-wide, proprietary fund and fiduciary fund financial statements.

### (k) Fund Equity

***Governmental Fund Balance***

As prescribed by Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds report fund balance in one of five classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The five fund balance classifications are as follows:

* *Nonspendable* – includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The not in spendable form criterion includes items that are not expected to be converted to cash, such as prepaid amounts, as well as certain long-term receivables that would otherwise be classified as unassigned.
* *Restricted* – includes amounts that can only be used for specific purposes due to constraints imposed by external resource providers, by the City's Charter, or by enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
* *Committed* – includes amounts that can only be used for specific purposes pursuant to an ordinance passed by the Board of Supervisors and signed by the Mayor. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.
* *Assigned* – includes amounts that are not classified as nonspendable, restricted, or committed, but are intended to be used by the City for specific purposes. Intent is expressed by legislation or by action of the Board of Supervisors or the City Controller to which legislation has delegated the authority to assign amounts to be used for specific purposes.
* *Unassigned* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Other governmental funds may only report a negative unassigned balance that was created after classification in one of the other four fund balance categories.





In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

***Encumbrances***

The City establishes encumbrances to record the amount of purchase orders, contracts, and other obligations, which have not yet been fulfilled, cancelled, or discharged. Encumbrances outstanding at year-end are recorded as part of restricted or assigned fund balance.

***Net Position***

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

* *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt, including debt related deferred outflows and inflows of resources, that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
* *Restricted Net Position* – This category represents net position that has external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
* *Unrestricted Net Position* – This category represents net position of the City, not restricted for any project or other purpose.

### (l) Interfund Transfers

Interfund transfers are generally recorded as transfers in (out) except for certain types of transactions that are described below.

* Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.
* Reimbursements for expenditures, initially made by one fund, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

### (m) Refunding of Debt

In governmental and business-type activities and proprietary and fiduciary funds, losses or gains from advance refundings are recorded as deferred outflows of resources and deferred inflows of resources, respectively, and amortized into expense.

### (n) Pollution Remediation Obligations

Pollution remediation obligations are measured at their current value using a cost-accumulation approach, based on the pollution remediation outlays expected to be incurred to settle those obligations. Each obligation or obligating event is measured as the sum of probability-weighted amounts in a range of possible estimated amounts. Some estimates of ranges of possible cash flows may be limited to a few discrete scenarios or a single scenario, such as the amount specified in a contract for pollution remediation services.

(Dollars in Thousands)

**(o) Cash Flows**

Statements of cash flows are presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the City's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

**(p) Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the SFERS and the California Public Employees' Retirement System ("CalPERS") plans and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2014 and were rolled forward to June 30, 2015. For this report, the following timeframes are used for the City's pension plans:

| | |
|---|---|
| Valuation Date (VD)............ | June 30, 2014 updated to June 30, 2015 |
| Measurement Date (MD)...... | June 30, 2015 |
| Measurement Period (MP)... | July 1, 2014 to June 30, 2015 |

**(q) Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(r) Reclassifications**

Certain amounts, presented as 2014-15 Summarized Comparative Financial Information in the basic financial statements, have been reclassified for comparative purposes, to conform to the presentation in the 2015-16 basic financial statements.

**(s) Effects of New Pronouncements**

During fiscal year 2016, the City implemented the following accounting standards:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 requires the City to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016, however, the San Francisco International Airport restated its beginning deferred outflows on derivative instruments and derivative instruments liabilities of fiscal year 2016 by $1.4 million. This restatement did not affect the City's beginning net position.





In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The provisions in this statement are effective for the City's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City's fiscal year ending June 30, 2017. Partial implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of GAAP for state and local governments. The new standard is effective for periods beginning after June 15, 2015. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure all their investments at amortized cost. The new standard is effective for periods beginning after June 15, 2015, except for certain provisions that will be effective for reporting periods beginning after December 15, 2015. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As Statement No. 82 changes the classification of these payments, commonly referred to as Employer-Paid Member Contributions, the City reclassified these payments. While the applicable requirements of this Statement are effective for reporting periods beginning after June 15, 2016, the City has elected early implementation for the year ended June 30, 2016. During the year ended June 30, 2015, the SFMTA made Employer-Paid Member Contributions to satisfy contribution requirements of the Retirement System and collective bargaining agreements. Statement No. 82 requires Employer-Paid Member contributions to be classified as employee contributions rather than classified as employer contributions. In fiscal year 2014-15, such payments were treated as employer contributions by the SFMTA as required by Statement No. 68. Therefore, early implementation of Statement No. 82, which amends Statement No. 68, resulted in a restatement which decreased beginning net position for fiscal year 2015-16 by $8.6 million.

In addition, the City is currently analyzing its accounting practices to determine the potential impact of the following pronouncements:

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 74 revises and establishes new accounting and financial reporting requirements for postemployment benefit plans other than pensions (OPEB). Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEB and requires additional OPEB disclosures. Statement No. 74 is effective for periods beginning after June 15, 2016 and is effective for the City's fiscal year ending June 30, 2017. Statement No. 75 is effective for periods beginning after June 15, 2017 and is effective for the City's fiscal year ending June 30, 2018.

(Dollars in Thousands)

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The new standard is effective for periods beginning after December 15, 2015. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided by state or local governments through a cost-sharing plan that meets the criteria of Statement No. 68 and is not a state or local governmental pension plan. The new standard is effective for periods beginning after December 15, 2015. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts in which a donor irrevocably transfers resources to an intermediary. The new standard is effective for periods beginning after December 15, 2016. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

**(t) Restricted Assets**

Certain proceeds of the City's governmental activities, enterprise and internal service funds bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to pay debt service, unspent bond proceeds, and amounts restricted for future capital projects.

**(u) Deferred Outflows and Inflows of Resources**

The City records deferred outflows or inflows of resources in its governmental, proprietary, fiduciary, and government-wide financial statements for consumption or acquisition of net position that is applicable to a future reporting period. These financial statement elements are distinct from assets and liabilities.

In governmental fund statements, deferred inflows of resources consist of revenues not collected within the availability period after fiscal year-end. In government-wide financial statements, deferred outflows and inflows of resources are recorded for unamortized losses and gains on refunding of debt, deferred outflows and inflows of resources related to pensions, deferred outflows of resources on derivative instruments, and deferred inflows of resources related to the SFMTA's leaseback transaction.





## (3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

**(a) Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position**

Total fund balances of the City's governmental funds, $2,835,474, differs from net position of governmental activities, $2,009,063, reported in the statement of net position. The difference primarily results from the long-term economic focus in the statement of net position versus the current financial resources focus in the governmental funds balance sheets.

| | Total Governmental Funds | Long-term Assets, Liabilities (1) | Internal Service Funds (2) | Reclassifications and Eliminations | Statement of Net Position Totals |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Deposits and investments with City Treasury | $ 3,279,724 | $ - | $ 35,264 | $ - | $ 3,314,988 |
| Deposits and investments outside City Treasury | 84,845 | - | 25,349 | - | 110,194 |
| Receivables, net: | | | | | |
| Property taxes and penalties | 77,241 | - | - | - | 77,241 |
| Other local taxes | 278,763 | - | - | - | 278,763 |
| Federal and state grants and subventions | 303,316 | - | - | - | 303,316 |
| Charges for services | 99,919 | - | 53 | - | 99,972 |
| Interest and other | 15,822 | - | 633 | - | 16,455 |
| Due from other funds | 12,062 | - | - | (12,062) | - |
| Due from component unit | 2,437 | - | - | - | 2,437 |
| Advance to component unit | 17,498 | - | - | - | 17,498 |
| Loans receivable, net | 61,601 | - | - | - | 61,601 |
| Capital assets, net | - | 5,114,267 | 15,635 | - | 5,129,902 |
| Other assets | 6,855 | 6 | 266 | - | 7,127 |
| Total assets | 4,260,281 | 5,114,273 | 72,550 | (12,062) | 9,435,142 |
| **Deferred outflows of resources:** | | | | | |
| Unamortized loss on refunding of debt | - | 17,282 | 1,091 | - | 18,373 |
| Deferred outflows related to pensions | - | 378,712 | 7,475 | - | 386,187 |
| Total deferred outflows of resources | - | 395,994 | 8,566 | - | 404,560 |
| **Liabilities:** | | | | | |
| Accounts payable | 353,721 | - | 7,459 | - | 361,180 |
| Accrued payroll | 89,262 | - | 1,862 | - | 91,124 |
| Accrued vacation and sick leave pay | - | 147,925 | 3,102 | - | 151,027 |
| Accrued workers' compensation | - | 225,961 | 1,864 | - | 227,825 |
| Other postemployment benefits obligation | - | 1,179,466 | 23,516 | - | 1,202,982 |
| Estimated claims payable | - | 160,406 | - | - | 160,406 |
| Accrued interest payable | - | 11,893 | 1,315 | - | 13,208 |
| Unearned grant and subvention revenues | 24,250 | - | - | - | 24,250 |
| Due to other funds | 33,696 | - | 361 | (12,062) | 21,995 |
| Unearned revenues and other liabilities | 494,796 | 2,022 | 56 | - | 496,874 |
| Bonds, loans, capital leases, and other payables | 102,776 | 3,084,836 | 107,217 | - | 3,294,829 |
| Net pension liability | - | [illegible] | [illegible] | - | 1,466,369 |
| Total liabilities | 1,098,503 | 6,043,411 | 260,922 | (12,062) | 7,490,774 |
| **Deferred inflows of resources** | | | | | |
| Unavailable revenue | 326,304 | (326,304) | - | - | - |
| Unamortized gain on refunding of debt | - | 236 | - | - | 236 |
| Deferred inflows related to pensions | - | 421,800 | 7,829 | - | 429,629 |
| Total deferred inflows of resources | 326,304 | 95,732 | 7,829 | - | 429,865 |
| **Fund balances/net position** | | | | | |
| Total fund balances/net position | $ 2,835,474 | $ (638,776) | $ (187,635) | $ - | $ 2,009,063 |

## CITY AND COUNTY OF SAN FRANCISCO

**Notes to Basic Financial Statements (Continued)**
June 30, 2016
(Dollars in Thousands)

(1) When capital assets (land, infrastructure, buildings, equipment, and intangible assets) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets, net of accumulated depreciation, among the assets of the City as a whole.

| | |
|---|---|
| Cost of capital assets | $ 6,682,703 |
| Accumulated depreciation | (1,568,336) |
| | $ 5,114,367 |

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.

| | |
|---|---|
| Accrued vacation and sick leave pay | $ (147,925) |
| Accrued workers' compensation | (225,961) |
| Other postemployment benefits obligation | (1,179,468) |
| Estimated claims payable | (160,498) |
| Unearned revenue and other liabilities | (2,022) |
| Bonds, loans, capital leases, and other payables | (2,994,530) |
| | $(4,710,404) |

| | |
|---|---|
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | $ (11,893) |

Deferred outflows (inflows) of resources related to debt refundings in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.

| | |
|---|---|
| Unamortized loss on refunding of debt | $ 17,282 |
| Unamortized gain on refunding of debt | (236) |
| | $ 17,046 |

Net pension liability is not due and payable in the current period, and accordingly is not reported as a fund liability. Deferred outflows (inflows) of resources related to pensions are not financial resources, and therefore, are not reported in the governmental funds.

| | |
|---|---|
| Net pension liability | $ (1,331,114) |
| Deferred outflows of resources related to pensions | 378,712 |
| Deferred inflows of resources related to pensions | (421,800) |
| | $ (1,374,202) |

Because the focus of governmental funds is on the availability of resources, some assets will not be available to pay for current period expenditures and thus are not included in fund balance.

| | |
|---|---|
| Revenue not collected within 60 days of the end of the current fiscal period | $ 326,304 |
| Other postemployment benefits assets | 6 |
| | $ 326,310 |



## CITY AND COUNTY OF SAN FRANCISCO

**Notes to Basic Financial Statements (Continued)**
June 30, 2016
(Dollars in Thousands)

(2) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance services, printing and mailing services, and telecommunications and information systems, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

| | |
|---|---|
| Net position before adjustments | $ (15,442) |
| Adjustments for internal balances with the San Francisco Finance Corporation: | |
| Capital lease receivables from other governmental and enterprise funds | (193,450) |
| Other assets | 266 |
| Unearned revenue and other liabilities | 20,991 |
| | $ (187,635) |

In addition, intrafund receivables and payables among various internal service funds of $24 are eliminated.

(Dollars in Thousands)

(b) **Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The net change in fund balances for governmental funds, $546,531, differs from the change in net position for governmental activities, $721,849, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

| | Total Governmental Funds | Long-term Revenues/ Expenses (3) | Capital-related Items (4) | Internal Service Funds (5) | Long-term Debt Transactions (2) | Statement of Activities Totals |
|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | |
| Property taxes | $ 1,798,776 | $ 10,141 | $ - | $ - | $ - | $ 1,808,917 |
| Business taxes | 660,025 | - | - | - | - | 660,025 |
| Sales and use tax | 267,443 | 2,608 | - | - | - | 270,051 |
| Hotel room tax | 367,661 | - | - | - | - | 367,661 |
| Utility users tax | 98,661 | - | - | - | - | 98,661 |
| Parking tax | 86,012 | - | - | - | - | 86,012 |
| Real property transfer tax | 269,090 | - | - | - | - | 269,090 |
| Other local taxes | 44,780 | - | - | - | - | 44,780 |
| Licenses, permits and franchises | 43,722 | 102 | - | - | - | 43,824 |
| Fines, forfeitures, and penalties | 36,169 | 4,046 | - | - | - | 40,215 |
| Interest and investment income | 28,081 | - | - | 117 | - | 28,198 |
| Rents and concessions | 135,865 | (21,537) | - | - | - | 114,328 |
| Intergovernmental: | | | | | | |
| Federal | 419,823 | 16,154 | - | - | - | 435,977 |
| State | 775,965 | 2,372 | - | - | - | 778,295 |
| Other | 85,872 | 1,346 | - | - | - | 87,218 |
| Charges for services | 382,665 | 1,245 | - | - | - | 383,910 |
| Other | 264,722 | (6,161) | - | 674 | - | 259,435 |
| Total revenues | 5,789,874 | 10,818 | - | 691 | - | 5,801,383 |
| **Expenditures/ Expenses** | | | | | | |
| Current: | | | | | | |
| Public Protection | 1,268,000 | (63,087) | 12,740 | (6,322) | - | 1,222,549 |
| Public works, transportation and commerce | 416,552 | (8,362) | 10,368 | (667) | - | 418,675 |
| Human welfare and neighborhood development | 1,253,686 | (18,431) | 536 | (343) | - | 1,235,448 |
| Community health | 776,612 | (18,431) | (11,080) | - | - | 747,101 |
| Culture and recreation | 364,908 | (13,972) | (25,295) | (14,514) | - | 311,026 |
| General administration and finance | 277,725 | (22,563) | (8,828) | 1,140 | - | 248,363 |
| General City responsibilities | 114,654 | - | - | (1,164) | - | 113,490 |
| Debt service: | | | | | | |
| Principal retirement | 252,455 | - | - | - | (252,455) | - |
| Interest and other fiscal charges | 119,722 | - | - | 6,569 | (16,083) | 108,248 |
| Bond issuance costs | 7,109 | - | - | - | - | 7,108 |
| Capital outlay | 225,904 | - | (225,904) | - | - | - |
| Total expenditures | 5,074,685 | (121,486) | (240,220) | (17,357) | (268,519) | 4,406,959 |
| Excess (deficiency) of revenues over (under) expenditures | 715,189 | 141,912 | 240,229 | 18,248 | 268,519 | 1,393,022 |
| **Other financing sources (uses)/ changes in net position** | | | | | | |
| Net transfers in (out) | (671,063) | - | - | (110) | - | (671,173) |
| Issuance of bonds and loans: | | | | | | |
| Face value of bonds issued | 556,925 | - | - | - | (556,925) | - |
| Premium on issuance of bonds | 32,845 | - | - | - | (32,845) | - |
| Payment to refunded bond escrow agent | (131,835) | - | - | - | 131,835 | - |
| Other financing sources | 5,690 | - | - | (5,685) | - | - |
| Total other financing sources (uses) | (168,378) | - | - | (5,795) | (496,935) | (671,173) |
| Net change for the year | $ 548,531 | $ 141,912 | $ 240,229 | $ 12,563 | $ (226,316) | $ 721,849 |





| | |
|---|---|
| (3) Property taxes that were unavailable and are reported as deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities. | $ 10,141 |
| Other revenues that were unavailable and reported as deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities. | 175 |
| | $ 10,316 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net position were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long-term liabilities exceeded expenditures in funds that do not require the use of current financial resources. | $ (155,650) |
| Changes to net pension liability and pension related deferred outflows and inflows of resources do not provide financial resources and, therefore, are not reported as a reduction in expenditures in governmental funds. | 262,088 |
| Governmental funds report revenues and expenditures primarily pertaining to long-term loan activities, which are not reported in the statement of activities. These activities are reported at the government-wide level in the statement of net position. This is the net expenditures reported in the governmental funds. | 5,098 |
| | $ 131,484 |

(4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year and the loss on disposal of capital assets.

| | |
|---|---|
| Capital expenditures | $ 413,493 |
| Depreciation expenses | (134,465) |
| Loss on disposal of capital assets | (263) |
| Write off construction of progress | (28,533) |
| Difference | $ 240,229 |

| | |
|---|---|
| (5) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. | $ 12,563 |

(Dollars in Thousands)

(6) Bond premiums are a source of funds in the governmental funds when the bonds are issued, but are capitalized in the statement of net position. This is the amount of premiums capitalized during the current period. $ (32,845)

Repayment of bond principal and the payment to escrow for refunding of debt are reported as expenditures and other financing uses in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole however, the principal payments and payment to escrow for refunded debt reduce the liabilities in the statement of net position and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders and payments were made to escrow for refunded debt.

| | |
|---|---|
| Principal payments made | $ 252,456 |
| Payments to escrow for refunded debt | 131,935 |
| | 384,391 |

Bond and loan proceeds and capital leases are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and do not affect the statement of activities. Proceeds were received from:

| | |
|---|---|
| General obligation bonds | (321,875) |
| Certificates of participation | (274,050) |
| | (595,925) |
| | $ (211,534) |

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued and accreted interest was calculated for bonds, notes payable and capital leases, and (2) amortization of bond discounts, premiums and refunding losses and gains are not expended within the fund statements.

| | |
|---|---|
| Increase in accrued interest | $ (825) |
| Loss on refundings on certificates of participation | 1,359 |
| Amortization of bond premiums and discounts | 19,313 |
| Amortization of bond refunding losses and gains | (3,784) |
| | $ 16,063 |





## (4) Budgetary Results Reconciled to Results in Accordance with Generally Accepted Accounting Principles

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP). The results of operations are presented in the budget-to-actual comparison statement in accordance with the budgetary process (Budget basis) to provide a meaningful comparison with the budget.

The major differences between the Budget basis "actual" and GAAP basis are timing differences. Timing differences represent transactions that are accounted for in different periods for Budget basis and GAAP basis reporting. Certain revenues accrued on a Budget basis have been deferred for GAAP reporting. These primarily relate to the accounting for property tax revenues under the Teeter Plan (Note 6), revenues not meeting the 60-day availability period and other assets not available for budgetary appropriation.

The fund balance of the General Fund as of June 30, 2016 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows:

| | |
|---|---|
| Fund Balance - Budget Basis | $ 1,526,830 |
| Unrealized Gains/ (Losses) on Investments | 349 |
| Cumulative Excess Property Tax Revenues Recognized on a Budget Basis | (36,008) |
| Cumulative Excess Health, Human Services, Franchise and Other Revenues Recognized on a Budget Basis | (56,709) |
| Pre-paid lease revenue | (5,816) |
| Nonspendable Fund Balance (Assets Reserved for Not Available for Appropriation) | 522 |
| Fund Balance - GAAP basis | $ 1,429,162 |

General Fund budget basis fund balance as of June 30, 2016 is composed of the following:

| | | |
|---|---|---|
| **Not available for appropriations:** | | |
| Restricted Fund Balance: | | |
| Rainy Day - Economic Stabilization Reserve | $ 74,986 | |
| Rainy Day - One Time Spending Account | 45,120 | |
| Committed Fund Balance: | | |
| Budget Stabilization Reserve | 178,434 | |
| Recreation and Parks Expenditure Saving Reserve | 8,736 | |
| Assigned for Encumbrances | 190,965 | |
| Assigned for Appropriation Carryforward | 293,921 | |
| Assigned for Subsequent Years' Budgets: | | |
| Budget Savings Incentive Program City-wide | 58,907 | |
| Salaries and benefits costs (MOU) | 18,203 | |
| Subtotal | | $ 869,272 |
| **Available for appropriations:** | | |
| Assigned for Litigation and Contingencies | 145,443 | |
| Assigned balance subsequently appropriated as part of the General Fund budget for use in fiscal year 2016-17 | 172,128 | |
| Unassigned - General Reserve | 76,913 | |
| Unassigned - Budget for use in fiscal year 2017-18 | 191,202 | |
| Unassigned - Contingency for fiscal year 2017-18 | 60,000 | |
| Unassigned - Available for future appropriations | 11,872 | |
| Subtotal | | 657,558 |
| Fund Balance, June 30, 2016 - Budget basis | | $ 1,526,830 |

(Dollars in Thousands)

## (5) Deposits and Investments

### (a) Cash, Deposits and Investments Presentation

Total City cash, deposits and investments, at fair value, are as follows:

| | Primary Government | | | | Component Unit |
|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total | TIDA |
| Deposits and investments with: | | | | | |
| City Treasury | $ 3,314,388 | $ 2,370,168 | $ 1,272,867 | $ 6,958,121 | $ 11,130 |
| Deposits and investments outside | | | | | |
| City Treasury | 84,446 | 15,494 | 20,405,764 | 20,507,103 | - |
| Restricted assets: | | | | | |
| Deposits and investments with | | | | | |
| City Treasury | - | 847,407 | - | 847,407 | - |
| Deposits and investments outside | | | | | |
| City Treasury | 26,348 | 735,744 | - | 761,093 | - |
| Invested in securities lending collateral | - | - | 865,681 | 865,681 | - |
| Total deposits & investments | $ 3,425,182 | $ 4,069,611 | $ 22,544,412 | $ 30,039,405 | $ 11,130 |
| | | | | | |
| Cash and deposits | | | | $ 228,638 | $ - |
| Investments | | | | 29,810,767 | 11,130 |
| Total deposits and investments | | | | $ 30,039,405 | $ 11,130 |

### (b) Investment Policies

*Treasurer's Pool*

The City's investment policy addresses the Treasurer's safekeeping and custody practices with financial institutions in which the City deposits funds, types of permitted investment instruments, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The objectives of the policy, in order of priority, are safety, liquidity, and earning a market rate of return on public funds. The City has established a Treasury Oversight Committee (Oversight Committee) as defined in the City Administrative Code section 10.80-3, comprised of various City officials, representatives of agencies with large cash balances, and members of the public, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits an investment report to the Mayor, the Board of Supervisors, members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

The investment policy places maturity limits based on the type of security. Investments held by the Treasurer during the year did not include repurchase agreements or reverse repurchase agreements. The table below identifies the investment types that are authorized by the City's investment policy dated May 2016. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk.





| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasuries | 5 years | 100% | 100% |
| Federal Agencies | 5 years | 100% | 100% |
| State and Local Government Agency Obligations | 5 years | 20% | 5% * |
| Public Time Deposits | 13 months * | None | None |
| Negotiable Certificates of Deposit/Yankee Certificates of Deposit | 5 years | 30% | None |
| Bankers Acceptances | 180 days | 40% | None |
| Commercial Paper | 270 days | 25% * | 10% |
| Medium Term Notes | 24 months * | 25% * | 10% * |
| Repurchase Agreements (Government Securities) | 1 year | None | N/A |
| Repurchase Agreements (Securities permitted by CA Government Code, Sections 53601 and 53635) | 1 year | 10% | N/A |
| Reverse Repurchase Agreements / Securities Lending | 45 days * | None | $75 million * |
| Money Market (Institutional Government Funds) | N/A | 10% * | N/A |
| Money Market (Institutional Prime Funds) | 60 days | 5%* | N/A |
| Supranationals | 5 years | 5% * | None |
| State of California Local Agency Investment Fund (LAIF) | N/A | Statutory | None |

* Represents restriction on which the City's investment policy is more restrictive than the California Government Code.

The Treasurer also holds for safekeeping bequests, trust funds, and lease deposits for other City departments. The bequests and trust funds consist of stocks and debentures. These instruments are valued at par, cost, or fair value at the time of donation.

*Other Funds*

Other funds consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These funds are invested either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

(Dollars in Thousands)

***Employees' Retirement System***

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

Investment managers are required to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board. The Retirement System invests in securities with contractual cash flows, such as asset backed securities, commercial mortgage backed securities and collateralized mortgage obligations. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be affected by shifts in the market's perception of the issuers and changes in interest rates.

The investment policy permits investments in domestic and international debt and equity securities; real estate; securities lending; foreign currency contracts, derivative instruments, and private equity investments, which include investments in a variety of commingled partnership vehicles.

The Retirement Board's asset allocation policies for the year ended June 30, 2016 are as follows:

| Asset Class | Target Allocation through January 2015 | Target Allocation since February 2015 |
|---|---|---|
| Global Equity | 47.0% | 40.0% |
| Fixed Income | 25.0% | 20.0% |
| Private Equity | 16.0% | 18.0% |
| Real Assets | 12.0% | 17.0% |
| Hedge Funds/Absolute Return | 0% | 5.0% |
| | 100.0% | 100.0% |

The Retirement System is not directly involved in repurchase or reverse repurchase agreements. However, external investment managers retained by the Retirement System may employ repurchase arrangements if the securities purchased or sold comply with the manager's investment guidelines. The Retirement System monitors the investment activity of its investment managers to ensure compliance with guidelines. In addition, the Retirement System's securities lending cash collateral separately managed account is authorized to use repurchase arrangements. As of June 30, 2016, $419.0 million (or 46.4% of cash collateral) consisted of such agreements.

***Retiree Health Care Trust Fund***

The RHCTF's investments outside of the City Treasury are invested pursuant to investment policy guidelines as established by the RHCTF Board. The objective of the policy is to manage fund assets so as to achieve the highest, reasonably prudent real return possible. The investment policy permits the RHCTF to invest in domestic and international equity securities and investment grade bonds. It also allows investments in global equity, U.S. nominal bonds, inflation-linked bonds, global real estate, and commodities, although the RHCTF does not currently hold assets in these classes. The RHCTF Board has established percentage guidelines for types of investments to ensure the portfolio is diversified, as follows:

| Asset Class | Target Allocation | Range |
|---|---|---|
| Domestic Equity | 37.0% | 32.0-42.0% |
| International Equity | 37.0% | 32.0-42.0% |
| Investment Grade Bonds | 26.0% | 21.0-31.0% |
| | 100.0% | |





**(c) Fair Value Hierarchy**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs (the City does not value any of its investments using Level 3 inputs). The inputs or methodology used for valuing securities are not an indication of risk associated with investing in those securities.

The following is a summary of inputs used in valuing the City's investments as of June 30, 2016:

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Fair Value 6/30/2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| **Primary Government:** | | | | |
| Investments in City Treasury: | | | | |
| U.S. Treasury Notes | $ 501,077 | $ 501,077 | $ - | $ - |
| U.S. Agencies - Discount | 296,660 | 296,660 | - | - |
| U.S. Agencies - Coupon (no call option) | 2,683,602 | 2,683,602 | - | - |
| U.S. Agencies (callable option) | 1,047,592 | 1,047,592 | - | - |
| State and Local Agencies | 193,556 | - | 193,556 | - |
| Negotiable Certificates of Deposits | 1,241,116 | 1,194,126 | 46,990 | - |
| Corporate Notes | 571,178 | 571,178 | - | - |
| Supranationals | 150,104 | - | 150,104 | - |
| Commercial Paper | 449,127 | - | 449,127 | - |
| Public Time Deposits | 1,440 * | - | - | - |
| Money Market Mutual Funds | 556,450 * | - | - | - |
| Subtotal | 7,770,902 | $ 6,871,196 | $ 842,779 | $ - |
| Separately managed account: | | | | |
| SFRDA South Beach Harbor Revenue Bond | 575 | | | |
| Subtotal investments in City Treasury | 7,771,477 | | | |
| Investments Outside City Treasury: | | | | |
| (Governmental and Business - Type) | | | | |
| U.S. Treasury Notes | 287,606 | $ 287,606 | $ - | $ - |
| U.S. Agencies | 164,251 | 164,251 | - | - |
| Commercial Paper | 18,212 * | - | - | - |
| Money Market Mutual Funds | 453,775 * | - | - | - |
| Certificates of Deposit | 204 * | - | - | - |
| Subtotal Investments Outside City Treasury | 955,559 | $ 451,857 | $ - | $ - |

* Not subject to fair value hierarchy

(Continued)

(Dollars in Thousands)

| | Fair Value 6/30/2016 | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Employees' Retirement System Investments** | | | | |
| Short Term Investments | $ 1,008,676 | $ - | $ - | $ 1,008,676 |
| Debt Securities: | | | | |
| U.S. Government & Agency Securities | 605,309 | - | 605,309 | - |
| Other Debt Securities | 2,246,580 | - | 2,134,544 | 112,036 |
| Equity Securities: | | | | |
| Domestic Equity | 4,280,051 | 4,186,857 | 7,608 | 85,586 |
| International Equity | 3,087,999 | 3,077,544 | 7,961 | 2,493 |
| Foreign Currency Contracts, net | 54,125 | - | - | 54,125 |
| Invested securities lending collateral | 845,651 | - | 369,063 | 476,588 |
| Subtotal | 12,218,821 | $ 7,276,503 | $ 3,234,517 | $ 1,704,801 |
| **Investments measured at the net asset value (NAV)** | | | | |
| Fixed Income Funds Invested in: | | | | |
| U.S. Government & Agency Securities | 952,862 | | | |
| Other Fixed Income | 822,065 | | | |
| Equity Funds Invested in: | | | | |
| Domestic Equity | 674,767 | | | |
| International Equity | 1,216,025 | | | |
| Real Assets | 2,341,500 | | | |
| Private Equity | 2,750,619 | | | |
| Subtotal investments measured at the NAV | 8,757,850 | | | |
| Total investments in Employees' Retirement System | 20,976,460 | | | |
| **Healthcare Trust (measurements at the NAV)** | | | | |
| Fixed Income: | | | | |
| U.S. Debt Index Fund | 50,100 | | | |
| Equities: | | | | |
| Domestic: | | | | |
| S&P 500 Equity Index Fund | 39,026 | | | |
| International: | | | | |
| EAFE Equity Index Fund | 37,975 | | | |
| Money Market Investments | | | | |
| Treasury Money Market Fund | 3,250 * | | | |
| Total Investments in Healthcare Trust | 130,351 | | | |
| **Total investments** | $20,821,897 | | | |

* Not subject to fair value hierarchy





***Investments In City Treasury***

U.S. Treasury Notes, U.S. Government Agencies, Corporate Notes, and Negotiable Certificates of Deposit are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

State and Local agencies, Negotiable Certificates of Deposit, Commercial Paper and Supranationals are valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, indices, and other market related data and classified in Level 2 of the fair value hierarchy.

Money Market Funds and Public Time Deposits have maturities of one year or less from fiscal year end and are not subject to GASB Statement No. 72.

***Investments Outside City Treasury***

U.S. Treasury Notes and U.S. Government Agencies are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy. Commercial Paper is valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, indices, and other market related data and are not subject to fair value hierarchy. Money Market Funds are valued at amortized costs and are not subject to fair value hierarchy.

***Employees' Retirement System Investments***

**Investments, at Fair Value**

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Invested securities lending collateral and debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Debt securities including short-term instruments are priced based on evaluated prices. Such evaluated prices may be determined by factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities. For equity securities not traded on an active exchange, or if the closing price is not available, corroborated indicative quotes obtained from pricing vendors are generally used. Short-term investments and debt and equity securities classified in Level 3 of the fair value hierarchy are securities whose stated market prices are unobservable by the market place. Many of these securities are priced using uncorroborated indicative quotes, adjusted prices based on inputs from different sources, or evaluated prices using unobservable inputs, such as extrapolated data, proprietary models, and indicative quotes from pricing vendors.

Fair value is defined as the quoted market value on the last trading day of the period. In some cases, a valuation technique may have multiple inputs used to measure fair value, and each input might fall into a different level of the fair value hierarchy. The level in the fair value hierarchy within which a fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the measurement. The prices used in determining the fair value hierarchy are obtained from various pricing sources by the Retirement System's custodian bank.

**Investments, at Net Asset Value (NAV)**

__Equity and Debt Funds__

The equity and debt funds are commingled funds that are priced at net asset value by industry vendors and fund families. NAV is the market value of all securities owned by a fund, minus its total liabilities, divided by the number of shares issued and outstanding. The NAV of an open-end fund is its price.

**Real Assets, Private Equity, and Opportunistic Fixed Income Investments**

The fair value of the Retirement System's investments in real assets, private equity, and opportunistic fixed income investments are based on net asset values provided by the investment managers and general partners (hereinafter collectively referred to as the "General Partners"). Such value generally represents the Retirement System's proportionate share of the net assets of the limited partnerships. The partnership financial statements are audited annually as of December 31 and the net asset value are adjusted by additional contributions to and distributions from the partnership, the Retirement System's share of net earnings and losses, and unrealized gains and losses resulting from changes in fair value, as determined by the General Partners.

The General Partners may use one or more valuation methodologies outlined in FASB ASC 820, *Fair Value Measurement*. For some investments, little market activity may exist. The General Partners' determination of fair value is then based on the best information available in the circumstances and may involve subjective assumptions and estimates, including the General Partners' assessment that market participants would use in valuing the investments. The General Partners may take into consideration a combination of internal and external factors, including but not limit to, appropriate risk adjustments for nonperformance and liquidity. Such fair value estimates involve subjective judgments of unrealized gains and losses.

The values provided by the General Partners may differ significantly from the values that would have been used had a ready market existed for these investments.

***Retiree Health Care Trust Fund***

**Investments, at Net Asset Value (NAV)**

At June 30, 2016 the Retiree Health Care Trust Fund had investments in equity and debt commingled funds index funds and the City Treasury Pool. These funds include a S&P 500 Equity Index Fund, an EAFE Equity Index Fund, a U.S. Debt Index Fund and a Money Market Fund. The funds are priced at net asset value (NAV) by industry vendors and fund families. NAV is the market value of all securities owned by a fund, minus its total liabilities, divided by the number of shares issued and outstanding. As of June 30, 2016, there are no redemption restrictions on the commingled index funds.

**(d) Investment Risks**

***Custodial Credit Risk - Deposits***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units not covered by Federal Deposit Insurance Corporation insurance by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i) of the City's deposits. The collateral must be held at the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the City's name. As of June 30, 2016, $2.6 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.



CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. Information about the sensitivity to the fair values of the City's investments to interest rate fluctuations is provided by the following tables, which shows the distribution of the City's investments by maturity. The Retirement System's interest rate risk information is discussed in section (f) of this note.

| | S&P Rating | Fair Value | Investment Maturities: Less than 1 year | Investment Maturities: 1 to 5 years |
|---|---|---|---|---|
| **Primary Government:** | | | | |
| Investments in City Treasury: | | | | |
| Pooled Investments: | | | | |
| U.S. Treasury Notes | AA+ | $ 566,017 | $ 306,241 | $ 259,776 |
| U.S. Agencies | NR - AA+ | 4,062,754 | 1,688,504 | 2,374,250 |
| State/Local Agencies | A+ - AA+ | 163,556 | 56,247 | 107,309 |
| Public time deposits | NR | 1,440 | 1,440 | - |
| Negotiable certificates of deposits | A+ - AA+ | 1,241,116 | 1,141,226 | 99,890 |
| Commercial paper | A-1 - A-1+ | 449,127 | 449,127 | - |
| Corporate notes | A+ - AA+ | 571,178 | 486,121 | 85,057 |
| Money market mutual funds | AAAm | 555,450 | 555,450 | - |
| Supranationals | NR - AAA | 160,164 | 124,894 | 35,270 |
| Subtotal | | 7,770,802 | 4,809,250 | 2,961,552 |
| Less: Treasure Island Development Authority investments with City Treasury | n/a | (11,130) | - | (11,130) |
| Less: Employees' Retirement System investments with City Treasury | n/a | (6,556) | - | (6,556) |
| Less: Health Care Trust investments with City Treasury | n/a | (3,022) | - | (3,022) |
| Subtotal pooled investments | | 7,750,094 | 4,809,250 | 2,940,844 |
| Separately managed account: | | | | |
| SFRDA South Beach Harbor Revenue Bond | n/a | 675 | 675 | - |
| Subtotal investments in City Treasury | | 7,750,769 | $ 4,809,925 | $ 2,940,844 |
| Investments Outside City Treasury: | | | | |
| (Governmental and Business - Type) | | | | |
| U.S. Treasury Notes | NR/AAA/AA+ | $ 297,806 | $ 104,078 | $ 193,635 |
| U.S. Agencies - Coupon | AA+ | 8,308 | - | 8,308 |
| U.S. Agencies - Discount | AA+/A-1+ | 176,183 | 18,635 | 157,548 |
| Certificates of Deposit | NR | 304 | 304 | - |
| Commercial Paper | A-1+/A-1 | 16,212 | 16,212 | - |
| Money Market Mutual Funds | AAAm | 299,895 | 299,860 | - |
| U.S. Treasury Money Market Funds | AAAm | 159,281 | 154,281 | - |
| Subtotal investments outside City Treasury | | 958,589 | $ 597,493 | $ 358,769 |
| Retiree Health Care Trust investments | | 113,373 | | |
| Employees' Retirement System investments | | 20,800,825 | | |
| Total Primary Government | | $ 29,610,767 | | |
| **Component Unit:** | | | | |
| Treasure Island Development Authority Investments with City Treasury | n/a | 11,130 | $ - | $ 11,130 |
| Total investments | | $ 29,621,897 | | |

As of June 30, 2016, the investments in the City Treasury had a weighted average maturity of 372 days.

(Dollars in Thousands)

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to pay the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Standard & Poor's rating for each of the investment types are shown in the table above.

***Custodial Credit Risk for Investments***

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name. The governmental and business-type activities also have investments with trustees related to the issuance of bonds that are uninsured, unregistered and held by the counterparty's trust departments but not in the City's name. These amounts are included in the investments outside City Treasury shown in the table above.

***Concentration of Credit Risk***

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code and/or its investment policy. U.S. Treasury and agency securities explicitly guaranteed by the U.S. government are not subject to single issuer limitation.

As of June 30, 2016, the City Treasurer has investments in U.S. Agencies that represent 5% or more of the total Pool in the following:

| | |
|---|---|
| Federal Farm Credit Bank | 19.1% |
| Federal Home Loan Mortgage Corporation | 12.8% |
| Federal Home Loan Bank | 11.5% |
| Federal National Mortgage Association | 5.1% |

In addition, the following major funds hold investments with trustees that represent 5% or more of the funds' investments outside City Treasury as of June 30, 2016:

| | |
|---|---|
| Airport: | |
| Federal National Mortgage Association | 29.0% |
| Federal Home Loan Mortgage Corporation | 7.8% |
| Hetch Hetchy: | |
| Federal Farm Credit Bank | 45.5% |





**(e) Treasurer's Pool**

The following represents a condensed statement of net position and changes in net position for the Treasurer's Pool as of June 30, 2016:

**Statement of Net Position**

| | |
|---|---|
| Net position held in trust for all pool participants | $7,916,658 |
| Equity of internal pool participants | $7,172,086 |
| Equity of seperately managed account participant | 677 |
| Equity of external pool participants | 743,895 |
| Total equity | $7,916,658 |

**Statement of Changes in Net Position**

| | |
|---|---|
| Net position at July 1, 2015 | $7,190,206 |
| Net change in investments by pool participants | 726,452 |
| Net position at June 30, 2016 | $7,916,658 |

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2016:

| Type of Investment | Rates | Maturities | Par Value | Carrying Value |
|---|---|---|---|---|
| Pooled Investments: | | | | |
| U.S. Treasury Notes | 0.67% - 1.21% | 09/30/16 - 11/30/17 | $ 500,000 | $ 501,077 |
| U.S. Agencies - Coupon | 0.03% - 2.09% | 07/01/16 - 12/24/20 | 4,003,428 | 4,007,754 |
| State and local agencies | 0.44% - 1.88% | 07/14/16 - 10/01/19 | 191,200 | 193,556 |
| Public time deposits | 0.72% - 1.05% | 08/10/16 - 06/29/17 | 1,440 | 1,440 |
| Negotiable certificates of deposit | 0.54% - 1.17% | 08/08/16 - 10/25/17 | 1,240,000 | 1,241,116 |
| Commercial paper | 0.50% - 1.02% | 07/01/16 - 03/07/17 | 450,000 | 449,127 |
| Corporate notes | 0.34% - 1.36% | 07/05/16 - 04/06/18 | 670,676 | 671,178 |
| Money market mutual funds | 0.22% - 0.30% | 07/01/16 - 07/01/16 | 555,450 | 555,450 |
| Supranationals | 0.32% - 1.07% | 07/01/16 - 10/05/18 | 150,000 | 150,104 |
| | | | $ 7,762,194 | 7,770,802 |
| Segregated account: | | | | |
| Local agencies | 3.50% | 12/1/2016 | $ 675 | 675 |
| Carrying amount of deposits with Treasurer | | | | 145,181 |
| Total cash and investments with Treasurer | | | | $ 7,916,658 |

(Dollars in Thousands)

**(f) Retirement System's Investments**

The Retirement System's investments as of June 30, 2016 are summarized as follows:

| | |
|---|---|
| Fixed income investments: | |
| Short-term investments | $ 1,009,676 |
| Investments with City Treasury | 6,656 |
| Debt securities: | |
| U.S. Government and agencies | 1,648,271 |
| Other debt securities | 3,068,745 |
| Subtotal debt securities | 4,717,016 |
| Total fixed income investments | 5,733,348 |
| Equity securities: | |
| Domestic | 4,970,838 |
| International | 4,304,025 |
| Total equity securities | 9,274,863 |
| Real assets | 2,341,600 |
| Private equity | 2,750,619 |
| Foreign currency contracts, net | 14,125 |
| Investment in lending agent's short-term investment pool | 865,661 |
| **Total Retirement System Investments** | **$ 20,980,136** |

***Interest Rate Risk***

The Retirement System does not have a specific policy to manage interest rate risk. Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2016:

| | | Maturities | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 year | 1-5 years | 6-10 years | 10+ years |
| Asset Backed Securities | $ 178,327 | $ - | $ 67,102 | $ 11,880 | $ 99,345 |
| Bank Loans | 139,880 | 1,240 | 106,367 | 31,665 | - |
| City Investment Pool | 6,956 | 4,119 | 2,837 | - | - |
| Collateralized Bonds | 187 | - | - | - | 187 |
| Commercial Mortgage-Backed | 450,264 | 8,254 | 6,700 | 5,066 | 430,244 |
| Commingled and Other Fixed Income Funds | 221,780 | 254,114 | 569 | 51 | (32,954) |
| Corporate Bonds | 1,627,327 | 580,310 | 443,592 | 437,779 | 165,646 |
| Corporate Convertible Bonds | 263,380 | 3,480 | 197,036 | 35,709 | 27,155 |
| Foreign Currencies and Cash Equivalents | 144,456 | 144,456 | - | - | - |
| Government Agencies | 971,329 | 952,662 | 588 | - | 17,999 |
| Government Bonds | 589,416 | 150,467 | 276,583 | 43,497 | 118,869 |
| Government Mortgage Backed Securities | 145,030 | - | 10,819 | - | 134,211 |
| Index Linked Government Bonds | 1,359 | - | - | 1,243 | 116 |
| Municipal/Provincial Bonds | 40,049 | - | 9,182 | 1,628 | 29,239 |
| Non-Government Backed Collateralized Mortgage Obligations | 59,549 | - | 2,375 | 2,033 | 55,141 |
| Options | (64) | (64) | - | - | - |
| Short Term Investment Funds | 865,219 | 865,219 | - | - | - |
| Swaps | 950 | (78) | 831 | 197 | - |
| Total | $ 5,733,348 | $ 2,972,468 | $ 1,116,292 | $ 571,429 | $ 1,073,169 |





***Credit Risk***

Fixed income investment managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agency securities. The Retirement System's credit risk policy is embedded in the individual investment manager agreements as prescribed and approved by the Retirement Board.

Investments are classified and rated using the lower of (1) Standard & Poor's (S&P) rating or (2) Moody's Investors Service (Moody's) rating corresponding to the equivalent S&P rating. If only a Moody's rating is available, the rating equivalent to S&P is used for the purpose of this disclosure.

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2016. Investments issued or explicitly guaranteed by the U.S. government of $505.3 million as of June 30, 2016 are not considered to have credit risk and are excluded from the table below.

| Credit Rating | Fair Value | Fair Value as a Percentage of Total |
|---|---|---|
| AAA | $ 184,327 | 3.5% |
| AA | 72,743 | 1.4% |
| A | 247,306 | 4.7% |
| BBB | 683,861 | 13.1% |
| BB | 322,041 | 6.2% |
| B | 294,025 | 5.6% |
| CCC | 78,854 | 1.5% |
| CC | 1,888 | 0.0% |
| C | 4,240 | 0.1% |
| D | 4,159 | 0.1% |
| Not Rated | 3,352,782 | 64.2% |
| Total | $ 5,228,036 | 100.0% |

The securities listed as "Not Rated" include short-term investment funds, government mortgage backed securities, and investments that invest primarily in rated securities, such as commingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these securities, the "Not Rated" component of credit would be approximately 12.7% for 2016.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the Retirement System's investment in a single issuer. Guidelines for investment managers typically restrict a position to become no more than 5% (at fair value) of the investment manager's portfolio. Securities issued or guaranteed by the U.S. government or its agencies are exempt from this limit.

As of June 30, 2016, the Retirement System had no investments of a single issuer that equaled or exceeded 5% of total Retirement System's investments or net position.

***Custodial Credit Risk***

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but investments are generally insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2016, $153.6 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

For fiscal year 2016, cash received as securities lending collateral is invested in a separate account managed by the lending agent using investment guidelines approved by the Retirement System and held by the Retirement System's custodial bank. Securities in this separately managed account are not exposed to custodial credit risk.

(Dollars in Thousands)

***Foreign Currency Risk***

The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated cash, equity, fixed income, private equity investments, real assets, and swap investments. The Retirement System's investment policy allows international managers to enter into foreign exchange contracts, which are limited to hedging currency exposure existing in the portfolio.

The Retirement System's net exposures to foreign currency risk as of June 30, 2016 are as follows:

| Currency | Cash | Equities | Fixed Income | Private Equities | Real Assets | Foreign Currency Contracts | Total |
|---|---|---|---|---|---|---|---|
| Australian dollar | $ 1,846 | $ 103,383 | $ – | $ 10,441 | $ – | $ 2,000 | $ 117,628 |
| Brazilian real | (881) | 26,360 | 19,870 | – | – | (6,478) | 38,874 |
| British pound sterling | 717 | 355,202 | 12,255 | – | 14,474 | (46,346) | 336,306 |
| Canadian dollar | 1,027 | 89,396 | 6,651 | – | – | (3,632) | 105,406 |
| Chilean peso | – | 2,012 | – | – | – | 94 | 2,106 |
| Chinese yuan renminbi | – | – | – | – | – | (1,582) | (1,582) |
| Colombian peso | 63 | – | 5,451 | – | – | 1,572 | 7,086 |
| Czech koruna | 101 | 337 | – | – | – | (101) | 337 |
| Danish krone | 275 | 39,118 | – | – | – | (1,428) | 37,965 |
| Euro | (4,329) | 748,341 | 124,616 | 144,865 | 38,666 | (80,026) | 972,064 |
| HK offshore Chinese yuan renminbi | – | – | – | – | – | (1,063) | (1,063) |
| Hong Kong dollar | 567 | 162,996 | – | – | – | 3,562 | 167,125 |
| Hungarian forint | 137 | 277 | – | – | – | 2,515 | 2,929 |
| Indian rupee | – | – | – | – | – | 864 | 864 |
| Indonesian rupiah | 16 | 11,124 | 10,168 | – | – | 1,100 | 22,408 |
| Japanese yen | 4,567 | 542,661 | – | – | 23,565 | 60,306 | 653,329 |
| Malaysian ringgit | 316 | 20,648 | 6,626 | – | – | 4,087 | 31,678 |
| Mexican peso | 260 | 34,861 | 8,566 | – | – | 4,764 | 48,735 |
| New Israeli shekel | 73 | 6,388 | – | – | – | 6,815 | 13,271 |
| New Romanian leu | 25 | – | 2,136 | – | – | (743) | 1,418 |
| New Taiwan dollar | 1,855 | 66,013 | – | – | – | (2,764) | 65,104 |
| New Zealand dollar | 47 | 3,474 | – | – | – | 65,979 | 69,500 |
| Norwegian krone | 368 | 11,966 | – | – | – | (1,341) | 10,633 |
| Peruvian nuevo sol | 6 | – | 2,388 | – | – | (316) | 2,078 |
| Philippine peso | (220) | 3,344 | 311 | – | – | (478) | 2,957 |
| Polish zloty | 6 | – | 8,519 | – | – | 3,360 | 11,794 |
| Qatari rial | – | 6,448 | – | – | – | – | 6,448 |
| Russian ruble | (671) | – | 5,957 | – | – | 731 | 6,027 |
| Singapore dollar | 966 | 14,746 | – | – | – | 3,074 | 18,184 |
| South African rand | (848) | 24,765 | 8,182 | – | – | 3,350 | 34,250 |
| South Korean won | 1,362 | 88,321 | – | – | – | (76) | 89,787 |
| Swedish krona | 1,220 | 65,341 | – | – | – | 6,961 | 74,492 |
| Swiss franc | 379 | 162,466 | 947 | – | – | (35,283) | 109,609 |
| Thai baht | 14 | 7,354 | 2,598 | – | – | 8,889 | 18,292 |
| Turkish lira | 1,058 | 10,296 | 17,013 | – | – | (7,331) | 20,874 |
| United Arab Emirates dirham | – | 5,893 | – | – | – | – | 5,893 |
| Total | $ 8,261 | $ 2,790,333 | $ 227,767 | $ 155,306 | $ 81,005 | $ 36,734 | $ 3,344,086 |

***Derivative Instruments***

As of June 30, 2016, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in fiduciary net position. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The fair value of the exchange traded derivative instruments, such as futures, options, rights and warrants are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of swaps are determined by the Retirement System's investment managers based on quoted market prices of the underlying investment instruments.





The table below presents the notional amounts, the fair value amounts, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2016:

| Derivative Type / Contracts | Notional Amount | Fair Value | Net Appreciation (Depreciation) in Fair Value |
|---|---|---|---|
| Forwards | | | |
| Foreign Exchange Contracts | (a) | $ 14,144 | $ 14,144 |
| Other Contracts | (a) | (114) | (114) |
| Options | | | |
| Foreign Exchange Contracts | $ 8,428 | (84) | 4 |
| Swaps | | | |
| Credit Contracts | 2,300 | (18) | 12 |
| Interest Rate Contracts | 43,514 | 888 | 766 |
| Rights/Warrants | | | |
| Equity Contracts | 23,123 shares | 1,957 | (6,406) |
| Total | | $ 16,773 | $ 8,406 |

(a) The Retirement System's investment managers enter into a wide variety of forward foreign exchange and other contracts, which frequently do not involve the U.S. dollar. As a result, a U.S. dollar-based notional value is not included.

All investment derivatives are reported as investments at fair value in the statement of fiduciary net position. Rights and warrants are reported in equity securities. Foreign exchange contracts are reported in foreign currency contracts, which also include spot contracts that are not derivatives. All other derivative contracts are reported in other debt securities. All changes in fair value are reported as net appreciation (depreciation) in fair value of investments in the statements of changes in fiduciary net position.

***Counterparty Credit Risk***

The Retirement System is exposed to credit risk on non-exchange traded derivative instruments that are in asset positions. As of June 30, 2016, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $14.3 million and $0.8 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 99.6% of the positions as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch) while 0.4% were not rated.

(Dollars in Thousands)

***Custodial Credit Risk***

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2016, all of the Retirement System's investments in derivative instruments are held in the Retirement System's name and are not exposed to custodial credit risk.

***Interest Rate Risk***

The table below describes the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2016.

| | | Maturities | | |
|---|---|---|---|---|
| Derivative Type / Contracts | Fair Value | Less than 1 year | 1-5 years | 6-10 years |
| Forwards | | | | |
| Foreign Exchange Contracts | $ 14,144 | $ 14,053 | $ 91 | $ - |
| Options | | | | |
| Foreign Exchange Contracts | (64) | (64) | - | - |
| Swaps | | | | |
| Credit Contracts | (18) | 2 | (20) | - |
| Interest Rate Contracts | 968 | (80) | 851 | 197 |
| Total | $ 15,030 | $ 13,911 | $ 922 | $ 197 |





The following table details the reference rate, notional amount, and fair value of interest rate swaps that are highly sensitive to changes in interest rates as of June 30, 2016:

| Investment Type | Reference Rate | Notional Value | Fair Value |
|---|---|---|---|
| Interest Rate Swap | Receive Fixed 1.50%, Pay Variable 6-Month WIBOR | $ 606 | $ (1) |
| Interest Rate Swap | Receive Fixed 1.93%, Pay Variable 6-Month THB | 501 | 4 |
| Interest Rate Swap | Receive Fixed 12.655%, Pay Variable 1-Day BIDOR | 252 | (3) |
| Interest Rate Swap | Receive Fixed 12.20%, Pay Variable 1-Day BIDOR | 1,109 | 19 |
| Interest Rate Swap | Receive Fixed 12.23%, Pay Variable 1-Day BIDOR | 209 | (1) |
| Interest Rate Swap | Receive Fixed 12.265%, Pay Variable 1-Day BIDOR | 5,361 | (71) |
| Interest Rate Swap | Receive Fixed 12.85%, Pay Variable 1-Day BIDOR | 259 | 18 |
| Interest Rate Swap | Receive Fixed 13.73%, Pay Variable 1-Day BIDOR | 626 | 5 |
| Interest Rate Swap | Receive Fixed 15.44%, Pay Variable 1-Day BIDOR | 588 | 104 |
| Interest Rate Swap | Receive Fixed 15.86%, Pay Variable 1-Day BIDOR | 5,267 | 534 |
| Interest Rate Swap | Receive Fixed 16.15%, Pay Variable 1-Day BIDOR | 624 | 172 |
| Interest Rate Swap | Receive Fixed 16.335%, Pay Variable 1-Day BIDOR | 162 | 23 |
| Interest Rate Swap | Receive Fixed 16.40%, Pay Variable 1-Day BIDOR | 127 | 30 |
| Interest Rate Swap | Receive Fixed 16.65%, Pay Variable 1-Day BIDOR | 82 | 22 |
| Interest Rate Swap | Receive Fixed 2.015%, Pay Variable 6-Month THB | 569 | 10 |
| Interest Rate Swap | Receive Fixed 2.12%, Pay Variable 6-Month THB | 585 | 14 |
| Interest Rate Swap | Receive Fixed 2.175%, Pay Variable 6-Month THB | 643 | 19 |
| Interest Rate Swap | Receive Fixed 2.19%, Pay Variable 6-Month THB | 199 | 5 |
| Interest Rate Swap | Receive Fixed 2.22%, Pay Variable 6-Month THB | 396 | 10 |
| Interest Rate Swap | Receive Fixed 2.58%, Pay Variable 6-Month THB | 771 | 45 |
| Interest Rate Swap | Receive Fixed 2.625%, Pay Variable 6-Month THB | 1,180 | 75 |
| Interest Rate Swap | Receive Fixed 2.73%, Pay Variable 6-Month THB | 26 | 2 |
| Interest Rate Swap | Receive Fixed 5.21%, Pay Variable 1-Day MXIBR | 596 | (5) |
| Interest Rate Swap | Receive Fixed 5.23%, Pay Variable 3-Month CBR | 124 | (5) |
| Interest Rate Swap | Receive Fixed 5.31%, Pay Variable 3-Month CBR | 48 | (2) |
| Interest Rate Swap | Receive Fixed 5.32%, Pay Variable 3-Month CBR | 567 | (20) |
| Interest Rate Swap | Receive Fixed 5.33%, Pay Variable 3-Month CBR | 574 | (40) |
| Interest Rate Swap | Receive Fixed 5.61%, Pay Variable 28-Day MXIBR | 1,724 | 6 |
| Interest Rate Swap | Receive Fixed 5.63%, Pay Variable 28-Day MXIBR | 1,006 | 2 |
| Interest Rate Swap | Receive Fixed 5.84%, Pay Variable 28-Day MXIBR | 341 | 4 |
| Interest Rate Swap | Receive Fixed 6.12%, Pay Variable 3-Month CBR | 112 | (5) |
| Interest Rate Swap | Receive Fixed 6.20%, Pay Variable 3-Month CBR | 144 | (6) |
| Interest Rate Swap | Receive Fixed 6.22%, Pay Variable 3-Month CBR | 151 | (6) |
| Interest Rate Swap | Receive Fixed 6.26%, Pay Variable 28-Day MXIBR | 136 | 4 |
| Interest Rate Swap | Receive Fixed 7.50%, Pay Variable 3-Month JIBAR | 658 | (22) |
| Interest Rate Swap | Receive Fixed 8.00%, Pay Variable 3-Month JIBAR | 901 | 4 |
| Interest Rate Swap | Receive Fixed 8.50%, Pay Variable 3-Month JIBAR | 1,634 | 36 |
| Interest Rate Swap | Receive Fixed 8.75%, Pay Variable 3-Month JIBAR | 1,072 | 37 |
| Interest Rate Swap | Receive Fixed 8.80%, Pay Variable 3-Month JIBAR | 205 | 9 |
| Interest Rate Swap | Receive Fixed 8.60%, Pay Variable 3-Month JIBAR | 496 | 29 |
| Interest Rate Swap | Receive Variable 1-Day BIDOR, Pay Fixed 11.16% | 98 | 7 |
| Interest Rate Swap | Receive Variable 1-Day BIDOR, Pay Fixed 12.86% | 651 | 7 |
| Interest Rate Swap | Receive Variable 1-Day BIDOR, Pay Fixed 14.205% | 5,133 | (9) |
| Interest Rate Swap | Receive Variable 1-Day BIDOR, Pay Fixed 15.50% | 1,125 | (55) |
| Interest Rate Swap | Receive Variable 1-Day BIDOR, Pay Fixed 15.77% | 1,636 | (62) |
| Interest Rate Swap | Receive Variable 28-Day MXIBR, Pay Fixed 4.65% | 423 | 2 |
| Interest Rate Swap | Receive Variable 28-Day MXIBR, Pay Fixed 5.86% | 721 | 14 |
| Interest Rate Swap | Receive Variable 28-Day MXIBR, Pay Fixed 6.06% | 1,241 | (3) |
| Interest Rate Swap | Receive Variable 28-Day MXIBR, Pay Fixed 6.32% | 363 | (8) |
| Interest Rate Swap | Receive Variable 28-Day MXIBR, Pay Fixed 6.50% | 244 | (1) |
| Interest Rate Swap | Receive Variable 3-Month CBR, Pay Fixed 6.42% | 229 | 6 |
| Interest Rate Swap | Receive Variable 3-Month CBR, Pay Fixed 6.43% | 68 | 2 |
| Interest Rate Swap | Receive Fixed 2.81%, Pay Return THB | 324 | 41 |
| Total Interest Rate Swap | | $ 43,614 | $ 868 |

(Dollars in Thousands)

*Foreign Currency Risk*

At June 30, 2016, the Retirement System is exposed to foreign currency risk on its investments in forwards, rights, warrants, and swaps denominated in foreign currencies. Below is the derivative instruments foreign currency risk analysis as of June 30, 2016:

| Currency | Forwards | Rights/ Warrants | Swaps | Total |
|---|---|---|---|---|
| Australian dollar | $ 2,650 | $ - | $ - | $ 2,650 |
| Brazilian real | (5,349) | - | 703 | (4,646) |
| British pound sterling | (43,351) | - | - | (43,351) |
| Canadian dollar | 31,384 | - | - | 31,384 |
| Chilean peso | 94 | - | - | 94 |
| Chinese yuan renminbi | (1,682) | - | - | (1,682) |
| Colombian peso | 1,872 | - | (74) | 1,798 |
| Czech koruna | (45) | - | - | (45) |
| Danish krone | (1,423) | - | - | (1,423) |
| Euro | (67,878) | 75 | - | (67,803) |
| HK offshore Chinese yuan renminbi | (1,052) | - | - | (1,052) |
| Hong Kong dollar | 3,568 | - | - | 3,568 |
| Hungarian forint | 2,652 | - | - | 2,652 |
| Indian rupee | 564 | - | - | 564 |
| Indonesian rupiah | 1,100 | - | - | 1,100 |
| Japanese yen | 100,599 | - | - | 100,599 |
| Malaysian ringgit | 4,087 | - | - | 4,087 |
| Mexican peso | 3,471 | - | 16 | 3,487 |
| New Israeli shekel | 6,513 | - | - | 6,513 |
| New Romanian Leu | (740) | - | - | (740) |
| New Russian ruble | 150 | - | - | 150 |
| New Taiwan dollar | (2,758) | - | - | (2,758) |
| New Zealand dollar | 53,079 | - | - | 53,079 |
| Norwegian krone | (1,656) | 87 | - | (1,569) |
| Peruvian nuevo sol | (319) | - | - | (319) |
| Philippine peso | (272) | - | - | (272) |
| Polish zloty | 1,665 | - | (1) | 1,664 |
| Singapore dollar | 3,074 | - | - | 3,074 |
| South African rand | 2,689 | - | 101 | 2,790 |
| South Korean won | (75) | - | - | (75) |
| Swedish krona | 10,958 | - | - | 10,958 |
| Swiss franc | (33,477) | - | - | (33,477) |
| Thai baht | 6,696 | - | 222 | 6,918 |
| Turkish lira | (6,847) | - | - | (6,847) |
| Total | $ 69,442 | $ 162 | $ 967 | $ 70,571 |

*Contingent Features*

At June 30, 2016, the Retirement System held no positions in derivatives containing contingent features.





*Securities Lending*

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Cash and non-cash collateral is pledged at 102% and 105% of the fair value of domestic securities and international securities lent, respectively. There are no restrictions on the number of securities that can be lent at one time. However, starting in the year ended June 30, 2009, the Retirement System engaged in a systematic reduction of the value of securities on loan with a target of no more than ten percent (10%) of total fund assets on loan at any time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the corresponding collateral.

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statement of fiduciary net position. As of June 30, 2016, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. However, the lending agent indemnifies the Retirement System against all borrower defaults.

As of June 30, 2016, the Retirement System lent $1.2 billion in securities and received collateral of $0.9 billion and $0.4 billion in cash and securities, respectively, from borrowers. The cash collateral is invested in a separately managed account by the lending agent using investment guidelines approved by the Retirement Board. Due to the increase in the fair value of assets held in the separately managed account, the Retirement System's invested cash collateral was valued at $0.9 billion. The net unrealized gain of $2.1 million is presented as part of the net appreciation (depreciation) in fair value of investments in the statement of changes in the fiduciary net position in the year in which the unrealized gains or losses occur. The Retirement System is exposed to investment risk including the possible loss of principal value in the separately managed securities lending account due to the fluctuation in the fair value of assets held in the account.

(Dollars in Thousands)

The Retirement System's securities lending transactions as of June 30, 2016, are summarized in the following table:

| Investment Type | Fair Value of Loaned Securities | Cash Collateral | Fair Value of Non-Cash Collateral |
|---|---|---|---|
| **Securities on Loan for Cash Collateral** | | | |
| International Corporate Fixed Income | $ 5,600 | $ 5,842 | $ - |
| International Equities | 40,741 | 42,797 | - |
| International Government Fixed | 1,105 | 1,153 | - |
| U.S. Government Agencies | 204 | 208 | - |
| U.S. Corporate Fixed Income | 114,536 | 116,353 | - |
| U.S. Equities | 439,182 | 445,863 | - |
| U.S. Government Fixed Income | 247,020 | 251,320 | - |
| **Securities on Loan for Non-Cash Collateral** | | | |
| International Corporate Fixed Income | 8,735 | - | 9,163 |
| International Equities | 295,913 | - | 316,144 |
| International Government Fixed | 105 | - | 110 |
| U.S. Corporate Fixed Income | 6,132 | - | 6,225 |
| U.S. Equities | 37,080 | - | 37,609 |
| **Total** | $ 1,196,354 | $ 863,536 | $ 368,251 |

The following table presents the segmented time distribution, based upon the expected maturity (in years), for investments within the short term investment pool in which the securities lending cash collateral is invested, as of June 30, 2016:

| Investment Type | Fair Value | Maturity Less Than 1 Year |
|---|---|---|
| Commercial Paper | $ 44,260 | $ 44,260 |
| Negotiable Certificates of Deposit | 345,116 | 345,116 |
| Repurchase Agreements | 419,000 | 419,000 |
| Short Term Investment Funds | 57,305 | 57,305 |
| Total | $ 865,681 | $ 865,681 |

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2016 is as follows:

| Credit Rating | Fair Value | Fair Value as a Percentage of Total |
|---|---|---|
| AA | $ 153,325 | 17.7% |
| A | 337,076 | 38.9% |
| Not Rated * | 375,280 | 43.4% |
| Total | $ 865,681 | 100.0% |

* Repurchase agreements of $270.0 million are not rated by Moody's, but are held by counterparties with S&P ratings of A or AA.





***Investments in Real Assets Holdings***

Real assets investments represent the Retirement System's interests in real assets limited partnerships and separate accounts. The changes in these investments during the year ended June 30, 2016 are summarized as follows:

| | |
|---|---|
| **Investments:** | |
| Beginning of the year | $ 1,975,926 |
| Capital investments | 1,318,111 |
| Equity in net earnings | 46,492 |
| Net appreciation in fair value | 166,196 |
| Capital distributions | (1,169,225) |
| End of the year | $ 2,341,500 |

The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 40% and 65%, respectively. The leverage limits for high return real estate investments depend on each specific offering. Outstanding mortgages for the Retirement System's real estate investments were $482.2 million including $25.7 million in recourse debt at June 30, 2016. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice. Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a purchase and sale transaction.

**(g) Retiree Health Care Trust Fund**

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The RHCTF does not have a specific policy to manage interest rate risk.

As of June 30, 2016, the weighted average maturities in years for the RHCTF's fixed income investments were as follows:

| Investment Type | Weighted Average Maturity in Years |
|---|---|
| US Debt Index Fund | 7.45 |
| City Investment Pool | 1.02 |
| Treasury Money Market Fund | 0.15 |

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment pool is not rated. Although the RHCTF's fixed income investments in various commingled funds are not rated, the issuers/sponsors of the funds are rated as of June 30, 2016 as follows:

| Issuer/Sponsors | Investment Type | S&P | Moody's |
|---|---|---|---|
| Northern Trust Company | Equity Index Funds, Money Market Fund | A+ | A2 |
| Blackrock | US Debt Index Fund | AA- | A1 |

(Dollars in Thousands)

## (6) Property Taxes

The City is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state law. Property taxes are levied on both real and personal property. Liens for secured property taxes attach on January 1st preceding the fiscal year for which taxes are levied. Secured property taxes are levied on the first business day of September and are payable in two equal installments: the first is due on November 1st and delinquent with penalties after December 10th; the second is due February 1st and delinquent with penalties after April 10th. Secured property taxes that are delinquent and unpaid as of June 30th are subject to redemption penalties, costs, and interest when paid. If not paid at the end of five years, the secured property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are levied on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the date the bill is mailed.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-1979, general property taxes are based either on a flat 1% rate applied to the adjusted 1975-1976 value of the property and new construction value added after the 1975-1976 valuation or on a flat 1% rate of the sales price of the property for changes in ownership. Taxable values on properties (exclusive of increases related to sales and construction) can rise or be adjusted at the lesser of 2% per year or the inflation rate as determined by the Board of Equalization's California Consumer Price Index.

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. In 2000, California voters approved Proposition 39, which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for the City's debt service amounted to approximately $241 million for the year ended June 30, 2016.

Taxable valuation for the year ended June 30, 2016 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Successor Agency) was approximately $178 billion, an increase of 6.9%. The secured tax rate was $1.1826 per $100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: about $0.65 for general government, about $0.35 for other taxing entities including the San Francisco Unified School District, San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District, and also $0.1826 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 0.66% and 5.08%, respectively, of the current year tax levy, for an average delinquency rate of 0.93% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the City; in return, as the delinquent property taxes and associated penalties and interest are collected, the City retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve as of June 30, 2016 was $22.9 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.





## (7) Capital Assets

### *Primary Government*

Capital asset activity of the primary government for the year ended June 30, 2016 was as follows:

| Governmental Activities: | Balance July 1, 2015 | Increases* | Decreases* | Balance June 30, 2016 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 299,911 | $ 34,350 | $ - | $ 334,261 |
| Intangible assets | 8,716 | 28,468 | (6,014) | 31,170 |
| Construction in progress | 1,245,064 | 321,030 | (1,118,001) | 456,093 |
| Total capital assets, not being depreciated | 1,553,691 | 383,848 | (1,118,015) | 821,524 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 3,534,003 | 905,880 | - | 4,439,883 |
| Machinery and equipment | 430,807 | 151,214 | (11,073) | 570,948 |
| Infrastructure | 799,764 | 57,439 | - | 857,203 |
| Intangible assets | 48,411 | 5,650 | - | 54,061 |
| Total capital assets, being depreciated | 4,812,985 | 1,120,183 | (11,073) | 5,922,095 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 989,867 | 77,593 | - | 1,067,460 |
| Machinery and equipment | 354,505 | 25,695 | (10,865) | 369,335 |
| Infrastructure | 140,262 | 30,576 | - | 170,838 |
| Intangible assets | 7,212 | 3,102 | - | 10,314 |
| Total accumulated depreciation | 1,491,846 | 137,266 | (10,865) | 1,618,247 |
| Total capital assets, being depreciated, net | 3,321,019 | 982,897 | (208) | 4,303,828 |
| Governmental activities capital assets, net | $ 4,874,710 | $1,365,745 | $ (1,118,223) | $ 5,125,352 |
| **Business-Type Activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 217,441 | $ - | $ - | $ 217,441 |
| Intangible assets | 12,043 | - | - | 12,043 |
| Construction in progress | 3,104,166 | 1,446,023 | (1,429,728) | 3,120,461 |
| Total capital assets, not being depreciated | 3,333,650 | 1,446,023 | (1,429,728) | 3,349,945 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 15,114,026 | 1,166,566 | (34,165) | 16,246,427 |
| Machinery and equipment | 2,269,042 | 347,813 | (67,314) | 2,549,541 |
| Infrastructure | 1,270,624 | 19,582 | - | 1,290,206 |
| Property held under Lease | 597 | - | - | 597 |
| Intangible assets | 214,810 | 4,380 | - | 219,190 |
| Total capital assets, being depreciated | 18,869,101 | 1,538,341 | (101,479) | 20,305,963 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 5,368,560 | 388,006 | (24,291) | 5,732,275 |
| Machinery and equipment | 1,362,063 | 154,496 | (60,628) | 1,455,931 |
| Infrastructure | 551,384 | 37,793 | - | 589,177 |
| Property held under lease | 597 | - | - | 597 |
| Intangible assets | 161,051 | 10,301 | - | 171,352 |
| Total accumulated depreciation | 7,473,545 | 590,596 | (84,639) | 7,979,501 |
| Total capital assets, being depreciated, net | 11,416,556 | 946,156 | (16,840) | 12,345,872 |
| Business-type activities capital assets, net | $ 14,750,206 | $2,391,179 | $ (1,445,568) | $ 15,695,817 |

* The increases and decreases include transfers of categories of capital assets from construction in progress to depreciable categories.

Depreciation expense was charged to functions/programs of the primary government as follows:

| | | |
|---|---|---|
| **Governmental Activities:** | | |
| Public protection | $ | 24,247 |
| Public works transportation and commerce | | 29,285 |
| Human welfare and neighborhood development | | 629 |
| Community Health | | 4,145 |
| Culture and recreation | | 52,210 |
| General administration and finance | | 23,952 |
| Capital assets held by the City's internal service funds charged to the various functions on a prorated basis | | 2,798 |
| Total depreciation expense - governmental activities | $ | 137,266 |
| **Business-type activities:** | | |
| Airport | $ | 228,359 |
| Water | | 106,668 |
| Power | | 16,513 |
| Transportation | | 133,715 |
| Hospitals | | 32,618 |
| Wastewater | | 50,799 |
| Port | | 21,924 |
| Total depreciation expense - business-type activities | $ | 590,595 |

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Enterprise that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Enterprise, Hetch Hetchy, the Wastewater Enterprise, the SFMTA, and the Port that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of SFMTA, and pier substructures of the Port, which totaled $3.7 billion as of June 30, 2016. Hetch Hetchy Water had intangible assets of water rights having estimated useful lives from 51 to 100 years, which totaled $45.6 million as of June 30, 2016. The Airport had $6.9 million in intangible assets of permanent easements. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled $6.8 million as of June 30, 2016.

In fiscal year 2015-16, the Airport had write-offs and loss on disposal in the amount of $13.1 million primarily due to disposal. During fiscal year ended June 30, 2016, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $0.4 million, $4.9 million, and $5.5 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued.

During the fiscal year ended June 30, 2016, the City's enterprise funds incurred total interest expense and interest income of approximately $494.6 million and $29.8 million, respectively. Of these amounts, interest expense of approximately $86.2 million was capitalized.



CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

## (8) BONDS, LOANS, CAPITAL LEASES AND OTHER PAYABLES

### Changes in Short-Term Obligations

The changes in short-term obligations for governmental and business-type activities for the year ended June 30, 2016, are as follows:

| Type of Obligation | July 1, 2015 | Additional Obligation | Current Maturities | June 30, 2016 |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| Commercial paper | | | | |
| Multiple Capital Projects | $ 157,766 | $ 684,861 | $ (739,849) | $ 102,778 |
| Governmental activities short-term obligations | $ 157,766 | $ 684,861 | $ (739,849) | $ 102,778 |
| **Business-type activities:** | | | | |
| Commercial paper | | | | |
| San Francisco General Hospital | $ 3,761 | $ 26,572 | $ (3,761) | $ 26,572 |
| San Francisco International Airport | 40,000 | 304,100 | (1,050) | 343,050 |
| San Francisco Water Enterprise | 166,000 | 236,000 | (166,000) | 236,000 |
| San Francisco Wastewater Enterprise | 120,000 | 51,000 | (120,000) | 51,000 |
| Business-type activities short-term obligations | $ 329,761 | $ 617,672 | $ (290,811) | $ 656,622 |

<u>City and County of San Francisco Commercial Paper Program</u>

The City launched its commercial paper (CP) program to pay for project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles (Resolution No. 85-09). Pursuant to Resolution No. 85-09 approved in March 2009, the Board of Supervisors established a $150.0 million commercial paper program. Pursuant to Resolution 247-13, the authorization of the commercial paper program was increased to $250.0 million from $150.0 million. The City currently has letters of credit supporting the $250.0 million program.

The CP is an alternative form of short-term (or interim) financing for capital projects that permits the City to pay project costs as project expenditures are incurred. The CP notes are issued and short-term debt is incurred only when needed to pay project costs as they are incurred. The CP has a fixed maturity date from one to 270 days and generally matures in 270 days. The CP notes are supported by two Revolving Credit Agreements (RCA) issued by State Street Bank and Trust Company ("State Street Bank") and U.S. Bank N.A. with a fee of 0.45% and 0.45%, respectively and a Letter of Credit Agreement (LOC) issued by State Street Bank with a fee of 0.50%. The State Street Bank and US Bank N.A. RCAs are scheduled to expire in May 2021 and the State Street Bank LOC is scheduled to expire in February 2019.

In fiscal year 2016, the City retired $743.6 million and issued $713.4 million CP to provide interim financing for the acquisition and improvement of various approved capital projects: the purchase of capital equipment for the San Francisco General Hospital and Trauma Center, rebuilding of severely distressed public housing sites while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (HOPE SF), War Memorial Veterans Building seismic retrofit and Moscone Center expansion. As of June 30, 2016, the outstanding principal amount of tax exempt and taxable CP was $119.9 million and $11.5 million, respectively. The tax exempt and taxable CP bear interest rates ranging from 0.43% to 0.47% and 0.53%, respectively.

San Francisco International Airport

In May 1997, the Airport adopted Resolution No. 97-0146, as amended and supplemented (the "Note Resolution"), authorizing the issuance of CP in an aggregate principal amount not to exceed the lesser of $400.0 million or the stated amount of the letter(s) of credit securing the CP.

The Airport issues CP in series that are subdivided into subseries according to tax status and that are secured by direct-pay LOC. In addition to the applicable LOC, the CP notes are further secured by a pledge of the Net Revenues of the Airport, subject to the prior payment of the Airports' Second Series Revenue Bonds (the Senior Bonds) outstanding from time to time under Resolution No. 91-0210, adopted by the Airport on December 3, 1991, as amended and supplemented (the Senior Bond Resolution).

Net Revenues are generally defined in the Note Resolution as all revenues earned by the Airport from or with respect to its possession, management, supervision, operation and control of the Airport (not including certain amounts specified in the Note Resolution), less Operation and Maintenance Expenses (as defined in the Note Resolution).

The CP notes are special, limited obligations of the Airport, and the payment of the principal of and interest on the CP notes is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the Note Resolution, subject to the prior payment of principal of and interest on the Senior Bonds. The CP notes are secured on parity with any other bonds or other obligations from time to time outstanding under the Note Resolution.

During fiscal year 2016, the CP program was supported by two $100.0 million principal amount direct-pay LOC issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, with expiration dates of May 2, 2019, and May 31 2019, respectively, and a third LOC issued by Royal Bank of Canada in the principal amount of $200.0 million with expiration date of May 19, 2017. Each of the LOC supports separate subseries of CP and permits the Airport to issue CP up to a combined maximum principal amount of $400.0 million as of June 30, 2016.

As of June 30, 2016, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2016, the Airport issued $280.4 million of new money CP (AMT) and $22.7 million (Non-AMT) to fund capital improvement projects. The Airport also issued and retired $1.1 million of new money CP (taxable) during fiscal year 2016 to fund costs related to various bond and note transactions. As of June 30, 2016, the interest rates on taxable, AMT and Non-AMT CP were 0.55%, 0.02% to 0.58%, and 0.05% to 0.52%, respectively.

San Francisco Water Enterprise

The San Francisco Public Utilities Commission and the Board of Supervisors have authorized the issuance of up to $500.0 million in CP pursuant to the voter-approved 2002 Proposition E. Prior to June 2014, the $500.0 million CP authorization was comprised of $250.0 million pursuant to voter-approved 2002 Proposition A, and $250.0 million pursuant to voter-approved Proposition E. As of June 30, 2016, no CP was outstanding under Proposition A. Amounts outstanding under Proposition E were $236.0 million at June 30, 2016. CP interest rates ranged from 0.1% to 0.6%. With maturities up to 270 days, the Water Enterprise intends to maintain the program by remarketing the CP upon maturity over the near-to-medium term, at which time outstanding CP will likely be refunded with revenue bonds. This is being done to take advantage of the continued low interest rate environment. If the CP interest rates rise to a level that exceeds these benefits, the Water Enterprise will refinance the CP with long-term, fixed rate debt.





Hetch Hetchy Water and Power

Effective December 2015, under Charter Sections 9.107(6) and 9.107(8), the San Francisco Public Utilities Commission and Board of Supervisors authorized the issuance of up to $90.0 million in CP for the purpose of reconstruction or replacement of existing generation, transmission and distribution facilities of the Hetch Hetchy Power. Hetch Hetchy Water and Power had no commercial paper outstanding as of June 30, 2016.

San Francisco Wastewater Enterprise

Under the voter-approved 2002 Proposition E, the San Francisco Public Utilities Commission and Board of Supervisors authorized the issuance of up to $500.0 million in CP for the purpose of reconstructing, expanding, repairing, or improving the Wastewater Enterprise's facilities. The Enterprise had $81.0 million CP outstanding as June 30, 2016.

San Francisco Municipal Transportation Agency

In June 2013, pursuant to the City Charter Section 8A.102 (b) 13, the SFMTA Board of Directors authorized the issuance of CP notes in an aggregate principal amount not to exceed $100.0 million. In July 2013, the Board of Supervisors concurred with the issuance. The CP is secured by an irrevocable LOC from the State Street Bank and Trust Company issued on September 10, 2013 for a term of five years and interest rate not to exceed 12% per annum. The LOC will cover the principal as well as the interest accrued on the 270 days prior to the maturity date. The CP program is jointly administered by the Office of Public Finance (OPF) and SFMTA. OPF will be initiating the issuance of CP with the dealers and reporting on the CP program. The CP will be issued from time to time on a revolving basis to pay for Board-approved project costs in the Capital Improvement Program and other related uses. SFMTA will be requesting drawdowns based on cash flow needs and expenditures schedules. No CP notes have been drawn or outstanding as of June 30, 2016.

(Dollars in Thousands)

**Long-Term Obligations**

The following is a summary of long-term obligations of the City as of June 30, 2016:

GOVERNMENTAL ACTIVITIES

| Type Of Obligation and Purpose | Final Maturity Date | Remaining Interest Rates | Amount |
|---|---|---|---|
| GENERAL OBLIGATION BONDS [a]: | | | |
| Earthquake safety and emergency response | 2035 | 2.25% - 5.00% | $ 469,540 |
| Parks and playgrounds | 2035 | 2.00% - 6.25% | 175,050 |
| Road repaving and street safety | 2035 | 2.00% - 5.00% | 176,250 |
| San Francisco General Hospital | 2033 | 3.25% - 6.26% | 573,085 |
| Seismic safety loan program | 2035 | 1.037% - 5.83%* | 46,767 |
| Transportation and road improvement | 2035 | 2.75% - 5.00% | 47,005 |
| Refunding | 2030 | 4.00% - 5.00% | 523,360 |
| General obligation bonds | | | 2,011,057 |
| LEASE REVENUE BONDS: | | | |
| San Francisco Finance Corporation [b][c][f] | 2034 | 0.425% - 5.75% ** | 196,055 |
| CERTIFICATES OF PARTICIPATION: | | | |
| Certificates of participation [b][c][f] | 2045 | 1.096% - 6.00% | 589,560 |
| OTHER LONG TERM OBLIGATIONS: | | | |
| Loans [b][c][f] | 2045 | 2.00% - 5.74% | 29,395 |
| Revolving credit agreement loan - Transportation Authority [c] | 2018 | 0.62% *** | 114,684 |
| Governmental activities total long-term obligations | | | $ 2,936,751 |

* Includes the 1992 Seismic Safety Loan Program GOB Series 2015A which bears variable interest rate that resets monthly. The rate for GOB Series 2015A at June 30, 2016 was 1.037%.

** Includes the Moscone Center West Expansion Project Refunding Bonds Series 2008 - 1 & 2, both of which were financed with variable rate bonds that reset weekly. The rate at June 30, 2016 for Series 2008-1 & 2 averaged to 0.425%.

*** The Revolving credit agreement loan interest rate equals to the sum of 70% of 1-month LIBOR plus 30%.

Debt service payments are made from the following sources:

(a) Property tax recorded in the Debt Service Fund.
(b) Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
(c) Sales tax revenues recorded in the Transportation Authority Special Revenue Fund.
(d) Revenues recorded in the General Fund.
(e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
(f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.

Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.





BUSINESS-TYPE ACTIVITIES

| Entity and Type of Obligation | Final Maturity Date | Remaining Interest Rates | Amount |
|---|---|---|---|
| San Francisco International Airport: | | | |
| Revenue bonds * | 2044 | 2.00% - 6.00%* | $ 4,234,725 |
| San Francisco Water Enterprise: | | | |
| Revenue bonds | 2051 | 1.80% - 6.95% | 4,075,890 |
| Certificates of participation | 2042 | 2.00% - 6.49% | 111,405 |
| Accreted interest | 2019 | - | 5,860 |
| Hetch Hetchy Water and Power: | | | |
| Energy and revenue bonds | 2046 | 0.00% - 5.00% | 55,598 |
| Certificates of participation | 2042 | 2.00% - 6.49% | 15,167 |
| Municipal Transportation Agency: | | | |
| Revenue bonds | 2044 | 3.00% - 5.00% | 165,535 |
| Loans | 2019 | 2.66% | 76 |
| San Francisco General Hospital Medical Center: | | | |
| Certificates of participation | 2026 | 5.55% | 17,082 |
| Capital leases | 2017 | 2.41% - 2.66% | 258 |
| San Francisco Wastewater Enterprise: | | | |
| Revenue bonds | 2047 | 1.00% - 5.82% | 976,135 |
| Certificates of participation | 2042 | 2.00% - 6.49% | 29,456 |
| Port of San Francisco: | | | |
| Revenue bonds | 2044 | 1.60% - 7.408% | 54,125 |
| Certificates of participation | 2036 | 4.00% - 5.25% | 33,335 |
| Loans | 2029 | 4.50% | 2,244 |
| Laguna Honda Hospital: | | | |
| Certificates of participation | 2031 | 4.30% - 5.25% | 131,710 |
| Capital leases | 2017 | 4.00% | 8 |
| Business-type activities total long-term obligations | | | $ 9,930,912 |

* Includes Second Series Revenue Bonds Issue 36 A, B & C, 37C and 2010A, which were issued as variable rate bonds in a weekly mode. For the fiscal year ended June 30, 2016, the average interest rates on issue 36A, 36B, 36C and 37C were 0.12%, 0.11%, 0.12%, & 0.11%, respectively; for issue 2010A-1, 2010A-2 and 2010A-3 rates were 0.12%, 0.12% and 0.12%, respectively.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in the respective enterprise funds.

Debt Compliance

The City believes it is in compliance with all significant limitations and restrictions contained in the limitations and restrictions in the various bond indentures.

Legal Debt Limit and Legal Debt Margin

As of June 30, 2016, the City's debt limit (3% of valuation subject to taxation) was $5.83 billion. The total amount of debt applicable to the debt limit was $2.23 billion. The resulting legal debt margin was $3.60 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issuance. The City has evaluated each general obligation bond and certificates of participation issued and the Finance Corporation has evaluated each lease revenue bonds. The City and the Finance Corporation do not have rebatable arbitrage liability as of June 30, 2016. Each enterprise fund has performed similar analysis of its debt, which is subject to arbitrage rebate requirements. Any material arbitrage liability related to the debt of the enterprise funds has been recorded as a liability in the respective fund.

San Francisco Sustainable Financing

The City and County of San Francisco Special Tax District No. 2009-1 (San Francisco Sustainable Financing) was formed in accordance with Ordinance 16-10 to implement the "GreenFinanceSF" program to provide financing for renewable energy, energy efficiency and water efficiency improvements on private or public property in the City. The bonded indebtedness issued by the Special District for the improvement area under the program are payable solely from special taxes levied and collected on property in the improvement area and are not considered obligation of the City. Assessments for the repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the leasehold interest on the parcels within the Special District No. 2009-1.

In October 2012, the City issued $1.4 million Special Tax Bonds Series A for the Area No.1 and in November 2014, the City issued $1.9 million Special Tax Bonds Series A for the Area No.2 of the Special District. As of June 30, 2016, the amount outstanding on the Area No. 1 and No. 2 bonds was $1.3 million and $1.8 million, respectively.

Assessment District

In June 1996, the City issued $1.0 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915 to finance the construction of a new public right-of-way and are not considered obligation of the City. The bonds mature from September 1998 through September 2025 bearing interest rates ranging from 5.0% to 6.85%. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within the Bayshore-Hester Assessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels. As of June 30, 2016, the principal amount of bonds outstanding was $0.6 million.

Mortgage Revenue Bonds

The City, through the Mayor's Office of Housing and Community Development and the former San Francisco Redevelopment Agency has issued various mortgage revenue bonds and community district facility bonds for the financing of multifamily rental housing, below-market rate mortgage for first time homebuyers in order to facilitate affordable housing and the construction and rehabilitation in the City. These obligations have been issued on behalf of various property owners and developers who retain full responsibility for the payment of the debt and are secured by the related mortgage indebtedness and special assessment taxes and are not considered obligations of the City. As of June 30, 2016, the total obligation outstanding was $711.5 million.



CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

Changes in Long-Term Obligations

The changes in long-term obligations for the year ended June 30, 2016, are as follows:

| | July 1, 2015 | Additional Obligations, and Net Increases | Current Maturities, Retirements, and Net Decreases | June 30, 2016 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | $ 1,881,110 | $ 321,875 | $ (191,928) | $ 2,011,057 | $ 120,004 |
| Lease revenue bonds | 214,850 | - | (15,765) | 199,085 | 14,025 |
| Certificates of participation | 687,216 | 274,050 | (171,585) | 789,681 | 39,075 |
| Subtotal | 2,783,176 | 595,925 | (379,278) | 2,999,823 | 173,104 |
| Issuance premiums / discounts: | | | | | |
| Add: unamortized premiums | 236,218 | 32,845 | (19,862) | 249,201 | - |
| Less: unamortized discounts | (1,504) | - | 1,300 | (204) | - |
| Total bonds payable, net | 3,017,890 | 628,770 | (397,840) | 3,248,820 | 173,104 |
| Loans | 168,827 | - | (25,775) | 143,052 | 802 |
| Accrued vacation and sick leave pay | 146,874 | 110,753 | (106,600) | 151,027 | 85,856 |
| Accrued workers' compensation | 232,684 | 65,897 | (46,755) | 227,826 | 38,357 |
| Estimated claims payable | 157,869 | 80,575 | (25,143) | 163,496 | 63,527 |
| Governmental activity long-term obligations | $ 3,816,851 | $ 821,386 | $ (806,182) | $ 3,781,067 | $ 362,758 |

| | July 1, 2015 | Additional Obligations, and Net Increases | Current Maturities, Retirements, and Net Decreases | June 30, 2016 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Total Business-type Activities: | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 9,558,350 | $ 540,475 | $ (563,115) | $ 9,535,710 | $ 265,516 |
| Clean renewable energy bonds | 55,445 | 4,100 | (3,949) | 55,596 | 1,592 |
| Certificates of participation | 342,465 | - | (11,308) | 331,157 | 11,949 |
| Subtotal | 9,956,260 | 544,575 | (578,372) | 9,922,463 | 279,056 |
| Issuance premiums / discounts: | | | | | |
| Add: unamortized premiums | 440,114 | 103,525 | (40,471) | 503,168 | - |
| Less: unamortized discounts | (601) | - | 31 | (570) | - |
| Total bonds payable, net | 10,395,773 | 648,100 | (621,805) | 10,423,064 | 279,056 |
| Accrued interest payable | 5,471 | 389 | - | 5,860 | - |
| Notes, loans, and other payables | 2,360 | 97 | (128) | 2,329 | 193 |
| Capital leases | 1,174 | - | (806) | 368 | 368 |
| Accrued vacation and sick leave pay | 104,882 | 58,756 | (57,825) | 105,813 | 64,522 |
| Accrued workers' compensation | 171,880 | 57,863 | (40,150) | 189,593 | 31,967 |
| Estimated claims payable | 107,170 | 37,837 | (27,938) | 117,069 | 53,956 |
| Long-term obligations | $10,788,509 | $ 801,042 | $ (743,757) | $10,845,794 | $ 423,962 |

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

## CITY AND COUNTY OF SAN FRANCISCO

**Notes to Basic Financial Statements (Continued)**
June 30, 2016
(Dollars in Thousands)

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2016 for governmental and business-type activities are as follows:

**Governmental Activities [1]**

| Fiscal Year Ending June 30 | General Obligation Bonds | | Lease Revenue Bonds | | Other Long-Term Obligations | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest [2] | Principal | Interest [3] | Principal | Interest [4] | Principal | Interest |
| 2017 | $ 120,554 | $ 69,814 | $ 14,025 | $ 4,078 | $ 39,674 | $ 26,766 | $ 173,907 | $ 121,565 |
| 2018 | 117,286 | 83,890 | 10,660 | 4,576 | 155,681 | 25,315 | 283,650 | 113,665 |
| 2019 | 117,306 | 76,382 | 12,995 | 4,287 | 30,965 | 22,674 | 160,966 | 103,623 |
| 2020 | 116,436 | 72,637 | 8,110 | 3,995 | 22,721 | 21,757 | 145,267 | 65,563 |
| 2021 | 114,695 | 66,641 | 12,740 | 3,726 | 30,256 | 20,747 | 150,681 | 91,499 |
| 2022-2026 | 616,330 | 249,765 | 75,275 | 13,692 | 114,440 | 88,624 | 802,923 | 352,101 |
| 2027-2031 | 623,745 | 164,034 | 62,730 | 5,254 | 155,013 | 62,205 | 782,353 | 175,493 |
| 2032-2036 | 203,275 | 14,186 | 6,600 | 727 | 114,656 | 30,231 | 324,776 | 45,187 |
| 2037-2041 | - | - | - | - | 71,584 | 15,044 | 71,584 | 15,044 |
| 2042-2046 | - | - | - | - | 33,485 | 3,494 | 33,485 | 3,494 |
| Total | $ 2,011,057 | $ 765,705 | $ 190,053 | $ 41,286 | $ 732,639 | $ 320,138 | $ 2,856,751 | $ 1,135,278 |

**Business-Type Activity [1]**

| Fiscal Year Ending June 30 | Revenue Bonds [5][6] | | Clean Renewable Energy Bonds/ Certificates of Participation [6] | | Other Long-Term Obligations | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | $ 265,515 | $ 477,197 | $ 13,641 | $ 21,286 | $ 429 | $ 147 | $ 279,485 | $ 498,629 |
| 2018 | 279,235 | 467,033 | 14,682 | 20,624 | 170 | 97 | 294,357 | 487,754 |
| 2019 | 309,000 | 450,682 | 15,612 | 19,896 | 154 | 80 | 324,766 | 470,658 |
| 2020 | 344,020 | 435,502 | 16,213 | 19,157 | 149 | 62 | 360,382 | 454,671 |
| 2021 | 364,890 | 418,833 | 16,649 | 18,396 | 156 | 78 | 381,695 | 437,307 |
| 2022-2026 | 1,969,965 | 1,812,546 | 89,291 | 78,920 | 981 | 287 | 2,060,237 | 1,891,753 |
| 2027-2031 | 1,758,370 | 1,318,043 | 95,447 | 54,507 | 637 | 58 | 1,855,454 | 1,372,608 |
| 2032-2036 | 1,544,180 | 899,452 | 48,073 | 32,539 | - | - | 1,592,253 | 931,991 |
| 2037-2041 | 1,708,045 | 485,640 | 59,335 | 16,365 | - | - | 1,767,380 | 502,005 |
| 2042-2046 | 644,780 | 125,742 | 24,563 | 2,046 | - | - | 669,353 | 127,788 |
| 2047-2051 | 139,630 | 21,906 | - | - | - | - | 139,630 | 21,906 |
| Total | $ 9,328,710 | $ 6,912,630 | $ 393,756 | $ 286,837 | $ 2,666 | $ 817 | $ 9,635,062 | $ 7,187,584 |

[1] The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.

[2] The interest is before federal subsidy for the General Obligation Bonds Series 2010 C and Series 2010 D. The subsidy is approximately $32.2 million and $6.0 million, respectively, through the year ending 2030. The payment of subsidy by the IRS in fiscal year 2016 was reduced by 6.8% due to federal sequestration. Future interest subsidy may be reduced as well.

[3] Includes the Moscone Center Expansion Project Lease Revenue Refunding Bonds Series 2008-1 & 2 which bear interest at a weekly rate. An assumed rate of 0.426%, together with liquidity fee of 0.350% and remarketing fee of 0.0725% were used to project the interest rate payment in this table.

[4] The San Francisco County Transportation Authority variable interest rate revolving loan expires on June 6, 2018 and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus 0.30%. An assumed rate of 0.82% was used to project the interest rate payment in this table.



## CITY AND COUNTY OF SAN FRANCISCO

**Notes to Basic Financial Statements (Continued)**
June 30, 2016
(Dollars in Thousands)

[5] Debt service for the Airport is per debt service requirement. In the event the letters of credit securing the Airport's outstanding variable rate bonds had to be withdrawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreement with banks providing such letters of credit, the total interest would be $106.8 million less.

[6] The interest payment is before federal subsidy. The federal subsidy for the San Francisco Water Enterprise, San Francisco Wastewater and Hetch Hetchy Water and Power were $472.5 million, $60.0 million and $7.3 million through the fiscal year ending 2051, respectively. The payment of subsidy by the IRS in fiscal year 2016 was reduced by 6.8% due to federal sequestration. Future interest subsidy may be reduced as well.

***Governmental Activities Long-term Liabilities***

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2016, are as follows:

**Governmental Activities - General Obligation Bonds**

| | |
|---|---|
| Authorized and unissued as of June 30, 2015 | $ 1,285,100 |
| Increases in authorization this fiscal year: | |
| Affordable Housing | 310,000 |
| Public Health and Safety | 350,000 |
| Bonds issued: | |
| Series 2015B Transportation and Road Improvements | (67,005) |
| Series 2015A Seismic Safety Loan Program | (24,000) |
| Series 2016A Clean and Safe Neighborhood Parks | (8,695) |
| Series 2016B Clean and Safe Neighborhood Parks | (43,220) |
| Series 2016C Earthquake Safety and Emergency Response | (25,215) |
| Series 2016D Earthquake Safety and Emergency Response | (109,595) |
| Series 2016E Road Repaving and Street Safety | (44,145) |
| Net authorized and unissued as of June 30, 2016 | $ 1,323,225 |

The increase in authorized amount of $310.0 million of Affordable Housing and $350.0 million of Public Health and Safety General Obligation Bonds was approved by at least two-third votes on Proposition A at an election held on November 3, 2015 and June 7, 2016, respectively. The proceeds of the Affordable Housing bonds will be used to finance the City's various affordable housing programs. The Public Health and Safety bonds will finance the acquisition and improvement of facilities for emergency response and safety, health care and homeless services.

In July 2015, the City issued Transportation and Road Improvement General Obligation Bonds Series 2015B in the amount of $67.0 million with interest rates ranging from 2.0% to 5.0% and maturity from June 2016 through June 2035. The proceeds of the Series 2015B will be used to finance the improvements to the City's transportation system, streets and roads and to pay certain costs related to the issuance of the Series 2015B.

In August 2015, the City issued Seismic Safety Loan Program General Obligation Bonds Series 2015A in the amount of $24.0 million to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City and to pay for the costs of issuance of the Series 2015A bonds. On the date of issuance, the Series 2015A shall be Index Rate Bonds and bear interest at the LIBOR Index Rate, provided that from the date of issuance to but not including the first business day of the next succeeding month, the Series 2015A shall bear interest at the rate as set in the Declaration of Trust. The initial index rate period shall commence on and be effective from the date of issuance of the Series 2015A and shall continue through the end of the initial period. The index rate shall be determined in accordance with the Declaration of Trust. At the option of the City, the interest rate with respect to all (but not less than all) Series 2015A may be (a) on any LIBOR Index Reset Date, converted from an Index Rate to a new Index Rate or (2) converted to a Fixed Rate, in each case in accordance with the Declaration of Trust. The Series 2015A will mature from June 2019 through June 2035.

(Dollars in Thousands)

In February 2016, the City issued Clean and Safe Neighborhood Parks General Obligation Bonds Series 2016A and 2016B in the amount of $8.7 million and $43.2 million, respectively. The proceeds of the Series 2016A and 2016B bonds will be used to finance improvements to park, open space and recreational facilities and to pay certain costs related to the issuance of the Series 2016A and 2016B bonds. Interest rates on both series range from 2.0% to 5.0% with principal amortizing from June 2016 through June 2035.

In April 2016, the City issued General Obligation Bonds Earthquake Safety and Emergency Response Series 2016C in the amount of $25.2 million, Earthquake Safety and Emergency Response Series 2016D in the amount of $109.6 million and Road Repaving and Street Safety Series 2016E in the amount of $44.1 million. The Series 2016C, 2016D and 2016E bonds bear rates ranging from 2.25% to 5.0% with principal amortizing from June 2016 through June 2035. The proceeds of the Series 2016C and 2016D bonds will be used to finance improvements to earthquake safety and emergency responsiveness facilities and infrastructure and to pay certain costs related to the issuance of the Series 2016C and 2016D bonds. The proceeds of the Series 2016E bonds will be used to finance the repaving and reconstruction of various roads; the rehabilitation and seismic improvement of street structures; the replacement of sidewalks; the installation and renovation of curb ramps; the redesign of streetscapes to include pedestrian and bicycle safety improvements; and the construction, rehabilitation and renovation of traffic infrastructure within the City and to pay certain costs related to the issuance of the Series 2016E bonds.

The debt service payments on the general obligation bonds are funded through ad valorem taxes on property.

Certificates of Participation

In July 2015, the City issued Certificates of Participation (War Memorial Veterans Building Seismic Upgrade and Improvements) Series 2015A and Series 2015B (the "Series 2015AB") for $112.1 million and $22.2 million respectively. The Series 2015AB were sold to provide funds to: 1) finance or refinance the costs of the seismic retrofit, construction, reconstruction, installation, equipping, improvement or rehabilitation of the War Memorial Veterans Building and related property owned by the City and located at 401 Van Ness Avenue, San Francisco; 2) fund capitalized interest payable with respect to the Series 2015AB through September 2015; 3) fund the 2015 Reserve Account of the Reserve Fund established under the Trust Agreement for the Series 2015AB; and 4) to pay costs of the execution and delivery of the Series 2015AB. The Series 2015A bears interest rates ranging from 4.0% to 5.0% with principal amortizing from April 2023 through April 2045. The Series 2015B bears interest rates ranging from 2.0% to 4.0% with principal amortizing from April 2016 through April 2024.

In October 2015, the City issued Refunding Certificates of Participation Series 2015-R1 (City Office Buildings-Multiple Properties Project) (the "Series 2015-R1") for $123.6 million to prepay a portion of certain outstanding certificates of participation the proceeds of which financed the acquisition of and capital improvements to certain office buildings occupied by various City departments or certain tenants which are qualified as non-profit organizations exempt from Federal income taxes pursuant to Section 501 (c)(3) of the Code ("501(c)(3) Tenants"); fund a debt service reserve for the Series 2015-R1; and pay costs of execution and delivery of the Series 2015-R1. The Series 2015-R1 matures from September 2016 through September 2040 with interest rate ranging from of 4.0% to 5.0%. The refunding resulted in the recognition of deferred accounting loss of $1.4 million and reduced the City's





aggregate debt service payment by $18.1 million over the next 25 years and obtained net present value savings of $11.9 million or 9.0% of refunded bond.

In June 2016, the City issued Certificates of Participation (War Memorial Veterans Building Seismic Upgrade and Improvements) Series 2016A (the "Series 2016A") for $16.1 million to provide funds to: 1) reimburse the City for certain costs of the seismic retrofit, construction reconstruction, installation, equipping, improvement or rehabilitation of the War Memorial Veterans Building and related property owned by the City and located at 401 Van Ness Avenue, San Francisco; 2) fund the 2016 Reserve Account of the Reserve Fund established under the Trust Agreement for the Series 2016A; and 3) pay costs of the execution and delivery of the Series 2016A. The Series 2016A were issued with interest rates ranging from 1.306% to 3.771% and matures from April 2017 through April 2032.

At June 30, 2016, the City has a total of $589.6 million of certificates of participation payable by pledged revenues from the base rental payments payable by the City. Total debt service payments remaining on the certificates of participation are $886.2 million payable through April 1, 2045. For the fiscal year ended June 30, 2016, principal and interest paid by the City totaled $39.8 million and $25.3 million, respectively.

Lease Revenue Bonds

The changes in authorized and unissued lease revenue bonds – governmental activities for the year ended June 30, 2016 were as follows:

| | |
|---|---|
| Authorized and unissued as of June 30, 2015 | $ 164,432 |
| Increase in authorization in this fiscal year: | |
| Current year annual increase in Finance Corporation's equipment program | 3,225 |
| Current year maturities in Finance Corporation's equipment program | 7,725 |
| Net authorized and unissued as of June 30, 2016 | $ 175,382 |

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of an Indenture and Equipment Lease Agreement. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any amount that is not applied towards the acquisition or construction of real and personal property such as unapplied acquisition fund, bond issue costs, fund withheld pursuant to reserve fund requirement, and amount designated for capitalized interest is recorded as unearned revenues in the internal service fund until such time as it is used for its intended purpose. The unearned amounts are eliminated in the governmental activities statement of net position.

The lease revenue bonds are payable by pledged revenues from the base rental payments payable by the City, pursuant to a Master Lease Agreement between the City and the San Francisco Finance Corporation for the use of equipment and facilities acquired, constructed and improved by the Finance Corporation. The total debt service requirement remaining on the lease revenue bonds is $237.3 million payable through June 2034. For the fiscal year ended June 30, 2016, principal and interest paid by the Corporation in the form of lease payments made by the City totaled $15.6 million and $4.7 million, respectively.

(Dollars in Thousands)

*Equipment Lease Program* - In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20.0 million of equipment through a non-profit corporation using tax-exempt obligations. Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20.0 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2016, the amount authorized and outstanding was $87.7 million, and $6.5 million, respectively.

San Francisco County Transportation Authority Revolving Credit Agreement

In June 2015, the Transportation Authority substituted its $200.0 million commercial paper notes (Limited Tax Bonds), Series A and B with a $140.0 million tax-exempt revolving credit agreement (Revolving Credit Agreement). The commercial paper notes provided a source of financing for the Transportation Authority's voter-approved Proposition K Expenditure Plan. The Revolving Credit Agreement expires on June 8, 2018 and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus 0.30%. The interest payments are due the first business day of each month and the outstanding principal payment is required to be paid at the end of the agreement June 8, 2018. The Revolving Credit Agreement is secured by a first lien gross pledge of the Transportation Authority's sales tax. The Transportation Authority paid $20.0 million of the outstanding balance of $134.7 million as of July 1, 2015. Annual principal and interest payments were $20.8 million in FY2015-16 and pledged revenues were $99.5 million for the year ended June 30, 2016. As of June 30, 2016, $114.7 million of the Revolving Credit Agreement balance was outstanding, with an interest rate of 0.62%.

***Business-Type Activities Long-Term Liabilities***

The following provides a brief description of the current year additions to the long-term debt of the business-type activities.

San Francisco International Airport

**Second Series Revenue Bonds (Capital Plan Bonds)**

Pursuant to resolutions approved in fiscal years 2008, 2012, 2014 and 2016, the Airport has authorized the issuance of up to $5.0 billion of San Francisco International Airport Second Series Revenue Bonds to finance and refinance the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes (CP) issued for capital projects, funding debt service reserves, and for paying costs of issuance. As of June 30, 2016, $3.4 billion of the authorized capital plan bonds remained unissued.

In September 2016, the Airport authorized the issuance of an additional $243.0 million of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) and $225.0 million of San Francisco International Airport Hotel Special Facility Revenue Bonds to finance the development and construction of a new Airport-owned hotel and related AirTrain station. The Airport also designated the planned hotel as a "special facility" under the 1991 Master Resolution, which will allow the hotel revenues to be segregated from the Airport's other revenues and used to pay hotel operating expenses and debt service on the Hotel Special Facility Bonds. In order to obtain the lowest cost of financing, the Airport does not plan to sell the Hotel Special Facility Bonds to investors, but will purchase them itself with a portion of the proceeds of the Capital Plan Bonds, which will be sold to investors. The total net proceeds of the two bond issuances are expected to be approximately $243.0 million, which will be applied to the $225.0 million construction costs of the hotel and AirTrain station, capitalized interest and other costs of issuance. In December 2016, the City's Board of Supervisors authorized the issuance of such Hotel Special Facility Bonds and Capital Plan Bonds for the hotel and AirTrain station. Airport approval of the bond sale is required before such bonds can be issued.





**Second Series Revenue Refunding Bonds**

Pursuant to sale resolutions approved between fiscal years 2005 through 2016, the Airport has authorized the issuance of up to $8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate CP notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. In February 2016, the Airport issued its Second Series Revenue Refunding Bonds, Series 2016A (Non-AMT/Governmental Purpose), in the principal amount of $232.1 million to refund $66.5 million of its Issue 32F, $155.3 million of its Issue 32G and $83.1 million of its Issue 34D long-term fixed rate bonds for debt service savings. As of June 30, 2016, net of expired sale authorizations, $1.2 billion of such refunding bonds remained authorized but unissued.

**Variable Rate Demand Bonds**

As of June 30, 2016, the Airport had outstanding aggregate principal amount of $477.9 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C and Issue 37C, and Series 2010A (collectively, the "Variable Rate Bonds"), with final maturity dates of May 1, 2026 (Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days' notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport. The scheduled payment of the principal and purchase price of and interest on the Variable Rate Bonds is secured by separate irrevocable LOC issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the tables below. Amounts drawn under a LOC that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the LOC range between 0.45% and 0.63% per annum. As of June 30, 2016, there were no unreimbursed draws under these facilities.

In June 2015, the Airport closed a new irrevocable LOC issued by Wells Fargo Bank, National Association, supporting the Second Series Variable Rate Revenue Refunding Bonds, Issue 36A. The LOC will expire June 29, 2018. In June 2016, the Airport closed a new irrevocable LOC issued by Bank of America, N.A., supporting the Second Series Variable Rate Revenue Refunding Bonds Series 2010A. The LOC expires June 29, 2020. The LOC securing the Variable Rate Bonds included in long-term debt as of June 30, 2016, are as follows:

Variable rate bonds

| | Issue 36A | Issue 36B | Issue 36C | Issue 37C | Series 2010A |
|---|---|---|---|---|---|
| Principal Amount | $ 100,000 | $ 40,620 | $ 36,145 | $ 63,650 | $ 232,475 |
| Expiration Date | June 29, 2018 | April 26, 2019 | April 25, 2019 | January 26, 2019 | June 29, 2020 |
| Credit Provider | Wells Fargo (1) | BTMU (2) | BTMU (2) | MUFG Union Bank (3) | Bank of America (4) |

(1) Wells Fargo Bank, National Association
(2) The Bank of Tokyo-Mitsubishi UFJ, Ltd.
(3) Formerly Union Bank, N.A.
(4) Bank of America, National Association

(Dollars in Thousands)

**Interest Rate Swaps**

***Objective and Terms*** – In December 2004, the Airport entered into seven forward starting interest rate swaps (the 2004 swaps) with an aggregate notional amount of $405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E in February 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 in February 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

In July 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, in May 2008 (the 2007 swaps), and Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, in February 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and 2030, respectively. In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, and Issue 37A. Subsequently, in October 2008 and December 2008, the Airport refunded Issue 37A and Issue 37B, respectively. Concurrently with the refunding of Issue 37A, the three associated swaps with an aggregate notional amount of $205.1 million were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

In December 2010, the Airport terminated a swap associated with the Series 2010A-3 Bonds, with a notional amount of $72.0 million. The Airport paid a termination amount of $6.7 million to the counterparty, Depfa Bank plc. The payment was funded with taxable CP, which was subsequently retired with Airport operating funds in March 2011. Following the termination of the Depfa swap, the Series 2010A-3 Bonds, which are variable rate, were no longer hedged with an interest rate swap. The swap associated with the Issue 37B Bonds, however, is now associated with the Series 2010A-3 Bonds.

In September 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International Airport Second Series Revenue Bonds, Series 2011H and terminated the swap associated with Issue 36D, which had an initial notional amount of $30.0 million and JP Morgan Chase Bank, N.A. as counterparty. The Airport paid a termination fee of $4.6 million to the counterparty. Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.50% of USD-LIBOR-BBA plus 0.29%. Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD-LIBOR-BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at their market value at any time solely at the option of the Airport.





As of June 30, 2016, the Airport's derivative instruments comprised six interest rate swaps that the Airport entered into to hedge the interest payments on several series of its variable rate Second Series Revenue Bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps to be effective as of June 30, 2016.

| # | Current Bonds | Initial Notional Amount | Notional Amount June 30, 2016 | Effective Date |
|---|---|---|---|---|
| 1 | 36AB | $ 70,000 | $ 70,000 | 2/10/2005 |
| 2 | 36AB | 62,930 | 59,930 | 2/10/2005 |
| 3 | 36C | 30,000 | 30,000 | 2/10/2005 |
| 4 | 2010A (37B)* | 79,684 | 79,684 | 5/15/2008 |
| 5 | 37C | 66,856 | 68,616 | 5/15/2008 |
| 6 | 2010A** | 143,847 | 142,383 | 2/1/2010 |
| | Total | $ 483,417 | $ 480,613 | |

* The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Airport subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.
** Hedges Series 2010-1 and 2010A-2.

***Fair Value***

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps to arrive at the so-called "settlement amount", i.e. the approximate amount a party would have to pay or would receive if the swap was terminated.

In addition, pursuant to GASB Statement No. 72, the settlement amounts are then adjusted for the non-performance risk of each party to the swap to arrive at the fair value. For each swap, the non-performance risk was computed as the total cost of the transactions required to hedge the default exposure, i.e., a series of European swaptions, exercisable on each of the future payment exchange dates under the swap that are structured to reverse the remaining future cash flow obligations as of such dates, adjusted by probability of default on each future date. Default probabilities were derived from recovery rate adjusted credit default swap quotes or generic ratings based borrowing curves that fall into Level 2 of the GASB Statement No. 72 fair value hierarchy.

(Dollars in Thousands)

As of June 30, 2016, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport are as follows:

| # | Current Bonds | Counterparty/guarantor* | Counterparty credit ratings (S&P/Moody's/Fitch) | Fixed Rate Payable by Airport | Fair Value to Airport |
|---|---|---|---|---|---|
| 1 | 36AB | J.P. Morgan Chase Bank, N.A. | A+/Aa3/AA- | 3.444% | $ (6,963) |
| 2 | 36AB | J.P. Morgan Chase Bank, N.A. | A+/Aa3/AA- | 3.445% | (8,905) |
| 3 | 36C | J.P. Morgan Chase Bank, N.A. | A+/Aa3/AA- | 3.444% | (3,842) |
| 4 | 2010A (37B)** | Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG | AA-/Aa3/NR* | 3.773% | (17,705) |
| 5 | 37C | J.P. Morgan Chase Bank, N.A. | A+/Aa3/AA- | 3.898% | (20,596) |
| 6 | 2010A*** | Goldman Sachs Bank USA/ Goldman Sachs Group, Inc. | BBB+/A3/A* | 3.925% | (36,069) |
| | | | | | $ (96,132) |

* Reflects ratings of the guarantor.

** The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Airport subsequently refunded, and the Issue 37B are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purpose

*** Hedges Series 2010A - 1 and 2010A - 2.

***Fair Value Hierarchy:***

| | Fair Value Measurement Using: Fair Value 6/30/2016 | Significant Other Observable Inputs (Level 2) |
|---|---|---|
| Interest rate swaps | $ (96,132) | $ (96,132) |

The impact of the interest rate swaps on the financial statements for the fiscal year ended June 30, 2016 is as follows:

| | Deferred outflows on derivative instruments | Derivative Instruments |
|---|---|---|
| Balance as of June 30, 2015 (as restated) | $ 65,408 | $ 79,321 |
| Change in fair value to year end | 18,206 | 16,811 |
| Balance as of June 30, 2016 | $ 83,614 | $ 96,132 |

The fair value of the interest rate swap portfolio is recorded as a liability (since the Airport would owe a termination payment to the counterparty) in the statements of net position. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if a termination payment would be due to the counterparty) or inflow liability (if a termination payment would be due to the Airport). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows and derivative instruments presented in the table above constitutes the unamortized off-market portions of the swaps as of June 30, 2016.





***Basis Risk*** – The Airport has chosen a variable rate index based on a percentage of London Interbank Offered Rate (LIBOR) plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2016, the Airport paid a total of $2.0 million less in interest on its variable rate bonds than the floating-rate payments it received from the swap counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

***Credit Risk*** – As of June 30, 2016, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

***Counterparty Risk*** – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and non-collateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30, 2016, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated).

***Termination Risk*** – All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty.

The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all its interest rate swaps, except the swaps associated with the Series 2010A Bonds, from the following insurers:

| # | Swap | Swap Insurer | Insurer Credit Ratings June 30, 2016 (S&P/Moody's/Fitch) |
|---|---|---|---|
| 1 | Issue 36AB | FGIC/National Public Finance Guarantee Corporation | AA-/A3/NR |
| 2 | Issue 36AB | FGIC/National Public Finance Guarantee Corporation | AA-/A3/NR |
| 3 | Issue 36C | Assured Guaranty Municipal Corp. | AA/A2/NR |
| 4 | Series 2010A | None | N/A |
| 5 | Issue 37C | Assured Guaranty Municipal Corp. | AA/A2/NR |
| 6 | Series 2010A | None | N/A |

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer nonpayment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty or its guarantor include a rating downgrade below A3/A1/A1 (Moody's/S&P/Fitch), followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

Goldman Sachs Group, Inc., which is the guarantor of the Airport's swap counterparty Goldman Sachs Bank USA, was downgraded to BBB+ by S&P during the year ended June 30, 2016.

Merrill Lynch Derivative Products AG, which is the guarantor of the Airport's swap counterparty Merrill Lynch Capital Services, Inc., was upgraded by one or more of the rating agencies during the year ended June 30, 2016.

The downgrade of any swap counterparty increases the risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a non-performing counterparty and may be required to pay a substantial termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2016, the fair value of each swap was negative to the Airport as shown above.

San Francisco Wastewater Enterprise

In May 2016, the San Francisco Wastewater Enterprise issued tax-exempt revenue bonds 2016 Series A (Green Bonds) in the amount of $240.6 million with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off $63.4 million of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively and mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2016, the principal amount outstanding of the 2016 Series A bonds was $240.6 million. Also in May 2016, the Wastewater Enterprise issued tax-exempt revenue bonds 2016 Series B in the amount of $67.6 million with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off $20.6 million of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively and mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2016, the principal amount outstanding of the 2016 Series B bonds was $67.6 million.





Hetch Hetchy Water and Power

In October 2015, Hetch Hetchy Power issued $4.1 million of taxable 2015 New Clean Renewable Energy Bonds (NCREB). The NCREB were issued to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs were non-rated and privately-placed with Bank of America Leasing. The NCREB bears interest rate of 4.62%, with net effective interest rate of 1.4% after the federal tax subsidy and matures through fiscal year 2033.

## (9) Employee Benefit Programs

### (a) Retirement Plans

General Information About the Pension Plans – The San Francisco City and County Employees' Retirement System (Retirement System) administers a cost-sharing multiple-employer defined benefit pension plan (SFERS Plan), which covers substantially all of the employees of the City and County of San Francisco, and certain classified and certificated employees of the San Francisco Community College and Unified School Districts, and San Francisco Trial Court employees other than judges. The San Francisco City and County Charter and the Administrative Code are the authority which establishes and amends the benefit provisions and employer obligations of the SFERS Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the SFERS Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

In addition, some City employees are eligible to participate in the Public Employees' Retirement Fund (PERF) of the California Public Employees' Retirement System (CalPERS) Safety Plan, an agent multi-employer pension plan, or the CalPERS Miscellaneous Plan, a cost-sharing multiple-employer pension plan. Some employees of the Transportation Authority, a blended component unit, are eligible to participate in a CalPERS Miscellaneous Plan or a CalPERS PEPRA Miscellaneous Plan, both are cost-sharing multiple-employer pension plans. In addition, some employees of the Successor Agency, a fiduciary component unit, are eligible to participate in a CalPERS Miscellaneous Plan or a CalPERS PEPRA Miscellaneous Plan, both are cost-sharing multiple-employer pension plans. Lastly, some employees of the Treasure Island Development Authority, a discretely presented component unit, are eligible to participate in the CalPERS Miscellaneous cost-sharing multiple-employer pension plan.

CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. Benefit provisions and other requirements are established by State statute, employer contract with CalPERS and by City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

***Benefits***

SFERS – The SFERS Plan provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The SFERS Plan also provides pension continuation benefits to qualified survivors. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City. The four main categories of SFERS Plan members are:

* Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
* Sheriff's Department and Miscellaneous Safety Members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's Department, and miscellaneous safety employees hired on and after January 7, 2012.
* Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
* Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are summarized as follows:

*Miscellaneous Non-Safety Members* who became members prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

*Miscellaneous Non-Safety Members* who became members on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

*Miscellaneous Non-Safety Members* who became members on or after January 7, 2012 qualify for a service retirement benefit if they are at least 53 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

*Sheriff's Department Members and Miscellaneous Safety Members* who were hired on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.





*Firefighter Members and Police Members* who became members before November 2, 1976 qualify for a service retirement benefit if they are at least 50 years old and have at least 25 years of credited service. The service retirement benefit is calculated using the member's final compensation (monthly salary earnable at the rank or position the member held for at least one year immediately prior to retiring) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

*Firefighter Members and Police Members* who became members on or after November 2, 1976 and prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

*Firefighter Members and Police Members* who became members on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

*Firefighter Members and Police Members* who became members on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. Effective July 1, 2012, the SFERS Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the SFERS Plan and the SFERS Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including the Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits.

CalPERS – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on a final compensation which is the highest average pay rate and special compensation during any consecutive one-year or three-year period. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees' Retirement Law. The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such, members who established CalPERS membership on or after January 1, 2013 are known as "PEPRA" members.

(Dollars in Thousands)

The CalPERS' provisions and benefits in effect at June 30, 2016, are summarized as follows:

| | City Miscellaneous Plan | | City Safety Plan | |
|---|---|---|---|---|
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013* | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2% @ 60 | | 3% @ 50, 3% @ 55, or 2% @ 55 | 2% @ 57, or 2.7% @ 57 |
| Benefit vesting schedule | 5 years of service | | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | | Monthly for life | Monthly for life |
| Required employee contribution rates | 5.00% | | 7.00% to 12.25% | 10.00% to 12.25% |
| Required employer contribution rates | 9.66% | | 24.73% | 24.73% |

| | Transportation Authority Miscellaneous Plan | | Successor Agency Miscellaneous Plan | |
|---|---|---|---|---|
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.0% @ 55 | 2% @ 62 | 3% @ 60 | 2% @ 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life | Monthly for life | Monthly for life |
| Required employee contribution rates | 7.00% | 6.25% | 7.00% | 6.50% |
| Required employer contribution rates | 6.51% | 6.24% | 22.76% | 6.52% |

* *For the City Miscellaneous Plan, there are no current active employees hired on or after January 1, 2013. For the Treasure Island Miscellaneous Plan, there are no current active employees.*

At June 30, 2016, the CalPERS' City Safety Plan had a total of 2,311 members who were covered by these benefits, which includes 944 inactive employees or beneficiaries currently receiving benefits, 329 inactive employees entitled to but not yet receiving benefits, and 1,038 active employees.

*Contributions*

For the years ended June 30, 2016 and 2015, the City's actuarial determined contributions were as follows:

| | 2016 | 2015 |
|---|---|---|
| SFERS Plan | $ 496,343 | $ 556,511 * |
| City CalPERS Miscellaneous Plan | 33 | 31 |
| City CalPERS Safety Plan | 23,629 | 20,718 ** |
| Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans | 280 | 400 |
| Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans | 828 | 598 |
| Treasure Island Development Authority CalPERS Miscellaneous Plan | 2 | 2 |
| | $ 521,115 | $ 578,260 |

* *Fiscal Year 2015 SFERS Plan balance was increased by $8.6 million as a result of early implementation of GASB Statement No. 82. Specifically, the 'employer pickup' amount which posted as an employer contribution was retroactively adjusted. This amount is now considered an employee contribution consistent with Statement No. 82.*

** *In Fiscal Year 2015 this amount was based on an estimate. A $102K adjustment was made to align the estimated employer contribution amount with the actual employer contribution per the June 30, 2015 Agent Multiple-Employer CalPERS report.*

SFERS – Contributions are made to the basic SFERS Plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2016 varied from 7.5% to 13.0% as a percentage of gross covered salary. For fiscal year ended June 30, 2016, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2014 actuarial report, the required employer contribution rates for fiscal year 2016 were 19.3% to 22.8%.





CalPERS – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the PERF is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by public employees during the year, with an additional amount to finance any unfunded accrued liability.

***Net Pension Liability***

The table below shows how the net pension liability (NPL) as of June 30, 2016 is distributed.

| | | |
|---|---|---|
| Governmental activities | $ | 1,355,280 |
| Business-type activities | | 978,958 |
| Fiduciary funds | | 16,583 |
| Component Unit - Treasure Island Development Authority | | 24 |
| Total | $ | 2,348,805 |

As of June 30, 2016, the City's NPL is comprised of the following:

| | Proportionate Share | Share of Net Pension Liability (Asset) |
|---|---|---|
| SFERS Plan | 93.9332% | $ 2,156,049 |
| City CalPERS Miscellaneous Plan | -0.2033% | (13,956) |
| City CalPERS Safety Plan | N/A | 196,837 |
| Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans | 0.0188% | 1,268 |
| Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans | 0.2413% | 16,583 |
| Treasure Island Development Authority CalPERS Miscellaneous Plan | 0.0004% | 24 |
| Total | | $ 2,348,805 |

The City's NPL for each of its cost-sharing plans is measured as a proportionate share of the plans' NPL. The City's NPL of each of its cost-sharing plans is measured as of June 30, 2015, and the total pension liability for each cost-sharing plan used to calculate the NPLs was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The City's proportion of the NPL for the SFERS Plan was based on the City's long-term share of contributions to SFERS relative to the projected contributions of all participating employers, actuarially determined. The City's proportions of the NPL for the CalPERS plans were actuarially determined as of the valuation date.

(Dollars in Thousands)

The City's proportionate share and NPL of each of its cost-sharing plans as of June 30, 2015 and 2014 were as follows:

| | June 30, 2015 (Measurement Date) | | June 30, 2014 | | |
|---|---|---|---|---|---|
| | Proportionate Share | Share of Net Pension Liability (Asset) | Proportionate Share | Share of Net Pension Liability (Asset) | Change (Decrease) |
| SFERS Plan | 95.5032% | $ 2,156,048 | 93.7879% | $ 1,660,365 | $ 495,684 |
| City CalPERS Miscellaneous Plan | -6.2033% | (13,856) | -9.1829% | (11,381) | (2,575) |
| Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans | 0.0196% | 1,288 | 0.0208% | 1,299 | (11) |
| Successor Agency Classic & PEPRA CalPERS Miscellaneous Plans | 0.2413% | 16,563 | 0.2558% | 15,859 | 684 |
| Treasure Island Development Authority CalPERS Miscellaneous Plan | 0.0084% | 24 | 0.0030% | - | 24 |
| Total | | $ 2,156,965 | | $ 1,666,152 | $ 495,816 |

The City's NPL for the CalPERS City Safety Plan (agent plan) is measured as the total pension liability, less the CalPERS Safety Plan's fiduciary net position. The change in the NPL for the City CalPERS Safety Plan is as follows:

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| Balance at June 30, 2014 (VD) | $ 1,087,527 | $ 920,371 | $ 167,156 |
| Change in year: | | | |
| Service cost | 30,987 | - | 30,987 |
| Interest on the total pension liability | 80,057 | - | 80,057 |
| Changes of assumptions | (18,949) | - | (18,949) |
| Difference between expected and actual experience | (14,218) | - | (14,218) |
| Plan to plan resource movement | - | (4) | 4 |
| Contributions from the employer | - | 20,718 | (20,718) |
| Contributions from employees | - | 15,061 | (15,061) |
| Net investment income | - | 20,469 | (20,469) |
| Benefit payments, including refunds of employee contributions | (44,699) | (44,699) | - |
| Administrative expense | | (1,048) | 1,048 |
| Net changes during measurement period | 32,178 | 10,497 | 21,681 |
| Balance at June 30, 2015 (MD) | $ 1,119,705 | $ 930,868 | $ 188,837 |





***Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions***

For the year ended June 30, 2016, the City recognized pension expense including amortization of deferred outflows/inflows related to pension items as follows:

| | Primary Government | | | Component Unit | |
|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Fiduciary Funds | Treasure Island Development Authority | Total |
| SFERS Plan | $ 56,971 | $ 49,528 | $ - | $ - | $ 106,499 |
| City CalPERS Miscellaneous Plan | (428) | - | - | - | (428) |
| City CalPERS Safety Plan | 13,168 | - | - | - | 13,168 |
| Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans | (108) | - | - | - | (108) |
| Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans | - | - | 1,681 | - | 1,681 |
| Treasure Island District Authority CalPERS Miscellaneous Plan | - | - | - | 7 | 7 |
| Total pension expense | $ 69,602 | $ 49,528 | $ 1,681 | $ 7 | $ 120,818 |

At June 30, 2016, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | SFERS Plan | | CalPERS Miscellaneous Plans | | City CalPERS Safety Plan | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | $ 488,343 | $ - | $ 1,143 | $ - | $ 29,629 | $ - | $ 521,115 | $ - |
| Change in assumptions | 162,656 | 41,307 | - | 838 | - | 15,310 | 162,600 | 57,245 |
| Difference between expected and actual experience | - | 148,729 | 87 | - | - | 10,912 | 87 | 159,649 |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 3,331 | 7,696 | 1,384 | 12,234 | - | - | 4,805 | 19,897 |
| Net difference between projected and actual earnings on plan investments | - | 540,340 | - | 518 | - | 6,305 | - | 546,751 |
| Total | $ 685,401 | $ 738,553 | $ 2,794 | $ 13,234 | $ 29,620 | $ 34,807 | $ 688,497 | $ 798,194 |

At June 30, 2016, the City reported $521.1 million as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ending June 30 | Deferred Outflows/ (Inflows) of Resources |
|---|---|
| 2017 | $ (246,969) |
| 2018 | (246,965) |
| 2019 | (246,049) |
| 2020 | 151,691 |
| Total | $ (588,292) |

(Dollars in Thousands)

***Actuarial Assumptions***

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the July 1, 2014 actuarial valuation.

| | SFERS Plan Actuarial Assumptions | | CalPERS Miscellaneous and Safety Plans |
|---|---|---|---|
| Valuation date | June 30, 2014 updated to June 30, 2015 | | June 30, 2014 updated to June 30, 2015 |
| Measurement date | June 30, 2015 | | June 30, 2015 |
| Actuarial cost method | Entry-age normal cost method | | Entry-age normal cost method |
| Investment rate of return | 7.50%, net of pension plan investment expenses | | 7.65%, net of pension plan investment expense, including inflation |
| Municipal bond yield | 4.31% as of June 30, 2014<br>3.85% as of June 30, 2015<br>Bond Buyer 20-Bond GO Index, July 2, 2014 and July 2, 2015 | | |
| Inflation | 3.25% | | 2.75% |
| Projected salary increases | 3.83% plus merit component based on employee classification and years of service | | Varies by Entry Age and Service |
| Discount rate | 7.46% as of June 30, 2015 | | 7.65% as of June 30, 2015 |
| Basic COLA | Old Miscellaneous and All New Plans | 2.00% | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |
| | Old Police and Fire: | | |
| | Pre 7/1/75 Retirements | 3.00% | |
| | Chapters A8.595 and A8.596 | 4.00% | |
| | Chapters A8.559 and A8.585 | 5.00% | |

Mortality rates for SFERS active members were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for SFERS healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020. Refer to SFERS's July 1, 2014 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System website.

The actuarial assumptions used in the SFERS June 30, 2014 valuation were based upon the results of an experience study for the period July 1, 2004 through June 30, 2009.

For CalPERS, the mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the CalPERS June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

GASB Statement No. 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The CalPERS discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

***Discount Rates***

SFERS – The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.58% as of June 30, 2014 and 7.46% as of June 30, 2015.





The discount rate used to measure SFERS's total pension liability as of June 30, 2015 was 7.46%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability. The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of the actuarial liability in the valuation do not anticipate any Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For a Supplemental COLA to be granted, the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System, the Retirement System developed an assumption as of June 30, 2015, of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for members with a 2.00% basic COLA for sample years.

| Year Ending June 30 | Assumption |
|---|---|
| 2016 | 0.000% |
| 2021 | 0.345% |
| 2026 | 0.375% |
| 2031 | 0.375% |
| 2036+ | 0.375% |

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2076 when only a portion of the projected benefit payments are expected to be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.86% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2015 is 7.46%.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---|---|---|
| Global equity | 40.0% | 5.1% |
| Fixed income | 20.0% | 1.2% |
| Private equity | 18.0% | 7.6% |
| Real assets | 17.0% | 4.1% |
| Hedge Funds/Absolute Return | 5.0% | 3.5% |

CalPERS - The discount rate used to measure each of the CalPERS Miscellaneous Plans and the Safety Plan total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB Statement No. 68 section.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.



CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Asset Class | Target Allocation | Real Return Years 1 - 10 [1] | Real Return Years 11+ [2] |
|---|---|---|---|
| Global equity | 51.0% | 5.25% | 5.71% |
| Global fixed income | 19.0% | 0.99% | 2.43% |
| Inflation sensitive | 6.0% | 0.45% | 3.36% |
| Private equity | 10.0% | 6.83% | 6.95% |
| Real estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | -0.55% | -1.05% |

[1] An expected inflation of 2.5% used for this period.
[2] An expected inflation of 3.0% used for this period.

***Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the City's proportionate share of the NPL for each of the City's cost sharing retirement plans, calculated using the discount rate, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

| Cost-Sharing Pension Plans Proportionate Share of Net Pension Liability | 1% Decrease Share of NPL @ 6.46% | Current Share of NPL @ 7.46% | 1% Increase Share of NPL @ 8.46% |
|---|---|---|---|
| SFERS | $ 4,707,771 | $ 2,156,049 | $ (34,278) |
| | **1% Decrease Share of NPL @ 6.65%** | **Current Share of NPL @ 7.65%** | **1% Increase Share of NPL @ 8.65%** |
| City CalPERS Miscellaneous Plan | $ (11,026) | $ (13,666) | $ (16,375) |
| Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans | 2,340 | 1,289 | 413 |
| Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans | 31,054 | 16,563 | 4,600 |
| Treasure Island District Authority CalPERS Miscellaneous Plans | 35 | 24 | 16 |

The following presents the NPL, calculated using the discount rate of 7.65% in effect as of the measurement date, as well as what the NPL would be if they were calculated using discount rates that are 1.00% lower (6.65%) or 1.00% higher (8.65%) than the rates used, for the City's agent-multiple employer plan:

| Agent Pension Plan | 1% Decrease @ 6.65% | Measurement Date @ 7.65% | 1% Increase @ 8.65% |
|---|---|---|---|
| City CalPERS Safety Plan - Net Pension Liability | $ 347,724 | $ 188,837 | $ 61,895 |

Detailed information about the CalPERS Safety Plan's fiduciary net position is available in a separately issued CalPERS financial report, copies may be obtained from the CalPERS website at www.calpers.ca.gov.

(Dollars in Thousands)

**Deferred Compensation Plan**

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

**Health Service System**

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately $874.6 million in fiscal year 2015-16. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California and the contribution models negotiated with the unions. Included in this amount is $193.6 million to provide postemployment health care benefits for 27,126 retired participants, of which $158.4 million related to City employees. The City's liability for postemployment health care benefits is enumerated below. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 300, San Francisco, CA 94103 or from the City's website.

**(b) Postemployment Health Care Benefits**

***City (excluding the Transportation Authority and the Successor Agency)***

Plan Description – The City maintains a single-employer, defined benefit other postemployment benefits plan, which provides health care benefits to employees, retired employees, and surviving spouses, through the City's Health Service System outlined above. Health care benefits are provided to members of the Health Service System through three plan choices: City Health Plan, Kaiser, and Blue Shield. The City does not issue a separate report on its other postemployment benefit plan.

The City prefunds its OPEB obligations through the Retiree Health Care Trust Fund (RHCTF), an irrevocable trust fund that allows participating employers to prefund certain postemployment benefits other than pensions for their covered employees. The RHCTF is an agent multiple-employer trust and has two participating employers: the City and the San Francisco Community College District (Community College District). From the most recent actuarial valuation reports as of July 1, 2014, there were 29,001 active members, 25,919 retirees and beneficiaries, and 2,843 vested, terminated members for the City. The Community College District had 1,369 active members and 1,041 eligible retirees.

The RHCTF is administered by the City and is presented as an other post-employment benefit trust fund. It is governed by a Retiree Health Care Board of Administration consisting of five trustees: one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees' Retirement System, and two elected by the active and retired members of the City's Health Service System. The RHCTF issues a publicly available financial report consisting of financial statements and required supplementary information for the RHCTF in aggregate. The report may be obtained from City Hall, Room 316, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For the year ended June 30, 2016, the City paid $158.4 million for postemployment





healthcare benefits on behalf of its retirees and contributed $10.5 million to the Retiree Health Care Trust Fund.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefits (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years. The ARC was determined based on the July 1, 2014 actuarial valuation.

The net OPEB obligations are reflected in the statements of net position of the governmental activities, business-type activities, and fiduciary funds. The following table shows the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and changes in the City's net OPEB obligation:

| | |
|---|---|
| Annual required contribution | $ 354,540 |
| Interest on Net OPEB obligation | 89,557 |
| Adjustment to annual required contribution | (117,964) |
| Annual OPEB cost | 326,133 |
| Contribution made | (168,857) |
| Increase in net OPEB obligation | 157,276 |
| Net OPEB obligation - beginning of year | 1,990,158 |
| Net OPEB obligation - end of year | $ 2,147,434 |

The table below shows how the total net OPEB obligation as of June 30, 2016, is distributed.

| | |
|---|---|
| Governmental activities | $ 1,202,888 |
| Business-type activities | 878,690 |
| Fiduciary funds | 65,856 |
| Net OPEB obligation - end of year | $ 2,147,434 |

Eligible fiduciary funds' employees are City employees and thereby eligible for postemployment health benefits. These obligations are reported as other liabilities in the City's fiduciary funds financial statements.

Three-year trend information is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2014 | $ 353,251 | 47.2% | $ 1,723,763 |
| 6/30/2015 | 363,643 | 48.0% | 1,990,158 |
| 6/30/2016 | 326,133 | 51.8% | 2,147,434 |

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over an open thirty-year period. As of July 1, 2014, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 1.1%. The actuarial accrued liability for benefits was $4.26 billion, and the actuarial value of assets was $49.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of $4.21 billion. As of July 1, 2014, the estimated covered payroll (annual payroll of active employees covered by the plan) was $2.62 billion and the ratio of the UAAL to the covered payroll was 160.8%.

(Dollars in Thousands)

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation as of July 1, 2014, the entry age normal cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age at hire) and assumed exit (maximum retirement age). Unfunded liabilities are amortized using the level percentage of payroll over a rolling 30-year period. The actuarial assumptions included a 4.50% investment rate of return on investment; 3.25% inflation rate; 3.75% payroll growth; and actual medical premiums from 2014 through 2017 and grading down to an ultimate trend rate beginning in 2032 of 4.50%.

The San Francisco Retiree Health Care Trust Fund (RHCTF) was established in December 2010 by the Retiree Health Trust Fund Board of the City. The RHCTF was established to receive employer and employee contributions prescribed by the Charter for the purpose of pre-funding certain postretirement health benefits. Proposition B requires employees hired on or after January 10, 2009 to contribute 2% of pay and the employer to contribute 1% of pay. Between January 10, 2009 and the establishment of the RHCTF, contributions were set aside and deposited into the RHCTF when it was established. Proposition C also requires all employees hired on or before January 9, 2009 to contribute 0.25% of pay to the RHCTF commencing July 1, 2016, increasing annually by 0.25% to a maximum of 1.0% of pay. The employer is required to contribute an equal amount. The RHCTF is currently invested in short-term fixed income securities.

The Charter amendment passed by voters as Proposition A on November 5, 2013 prohibits withdrawals from the RHCTF until sufficient funds are set-aside to pay for all future retiree health care costs as determined by an actuarial study. Limited withdrawals prior to accumulating sufficient funds will be permitted only if annually budgeted retiree health care costs rise above 10% of payroll expenses, and will be limited to no more than 10% of the RHCTF balance. Proposition A allows for revisions to these funding limitations and requirements only upon the recommendation of the Controller and an external actuary and if approved by the RHCTF Board, two-thirds of the Board of Supervisors, and the Mayor.

***San Francisco County Transportation Authority***

The Transportation Authority maintains a separate single-employer defined benefit OPEB plan and did not have a net OPEB obligation as of June 30, 2016. The Transportation Authority's most recent actuarial valuation was performed as of June 30, 2015, covering the year ended June 30, 2016. The Transportation Authority's OPEB plan is for retiree healthcare benefits and was 57.8% funded and the unfunded actuarial accrued liability was $0.9 million. As of June 30, 2015, the estimated covered payroll was $3.9 million and the ratio of the UAAL was 22.2%. Details of the Transportation Authority's OPEB plan may be found in its financial statements for the year ended June 30, 2016. Financial statements





for the Transportation Authority can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103 or the Transportation Authority's website.

For the year ended June 30, 2016, the Transportation Authority's annual OPEB expense of $200.7 was greater than the ARC. Three-year trend information is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2014 | $ 138.4 | 100% | $ - |
| 6/30/2015 | 138.4 | 100% | - |
| 6/30/2016 | 200.7 | 103% | (5.8) |

***Successor Agency***

Effective February 1, 2012, upon the operation of law to dissolve the former Agency, the Successor Agency assumed the former Agency's postemployment healthcare plan. The Successor Agency sponsors a single-employer defined benefit plan providing other postemployment benefits (OPEB) to employees who retire directly from the former Agency and/or the Successor Agency. The Successor Agency is a contracting agency under the Public Employees' Medical and Hospital Care Act (PEMHCA) healthcare plan, which is administered by CalPERS. The Successor Agency pays monthly retiree medical benefit contributions to PEMHCA. Premiums in excess of the above Successor Agency contributions are paid by the retirees. Benefits provisions are established and may be amended by the Successor Agency.

The Successor Agency participates in the California Employers' Retiree Benefit Trust (CERBT) Fund. CERBT is administered by CalPERS and is an agent multiple-employer trust. Copies of CalPERS' financial report may be obtained from CalPERS website at www.calpers.ca.gov or from CalPERS at 400 Q Street, Sacramento, California 95811.

Funding Policy – The contribution requirements of the plan members and the Successor Agency are established by and may be amended by the Successor Agency. The Successor Agency intends to fund plan benefits through the CERBT by contributing at least 100% of the annual required contribution.

The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. During the year ended June 30, 2016, the Successor Agency contributed $1.2 million to this plan.

Annual Other Postemployment Benefit Cost and Net Obligation – The Successor Agency's annual OPEB cost (expense) is calculated based on the ARC of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Annual OPEB Cost (AOC) equals the plan's ARC, adjusted for historical differences between the ARC and amounts actually contributed.

(Dollars in Thousands)

The following table shows the components of the Successor Agency's annual OPEB cost for the year ended June 30, 2016, and the changes in the net OPEB obligation:

| | | |
|---|---|---|
| Annual required contribution | $ | 813 |
| Interest on Net OPEB obligation | | 58 |
| Adjustment to annual required contribution | | (75) |
| Annual OPEB cost | | 796 |
| Contribution made | | (1,199) |
| Decrease in net OPEB obligation | | (403) |
| Net OPEB obligation - beginning of year | | 833 |
| Net OPEB obligation - end of year | $ | 430 |

Three-year trend information is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2014 | $ 912 | 139% | $ 867 |
| 6/30/2015 | 918 | 104% | 833 |
| 6/30/2016 | 796 | 151% | 430 |

<u>Funded Status and Funding Progress</u> – The funded status of the plan of the Successor Agency as of July 1, 2015, the plan's most recent actuarial valuation date, was as follows:

| | | |
|---|---|---|
| Actuarial accrued liability (AAL) | $ | 10,996 |
| Actuarial value of plan assets | | 2,833 |
| Unfunded actuarial accrued liability (UAAL) | $ | 8,163 |
| Funded ratio (actuarial value of plan assets/AAL) | | 25.8% |
| Covered payroll (active plan members) | $ | 4,261 |
| UAAL as a percentage of covered payroll | | 191.6% |

<u>Actuarial Methods and Assumptions</u> – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The ARC for the year ended June 30, 2016 and the funding status of the plan was determined based on the July 1, 2015 actuarial valuation using the entry age normal actuarial cost method. Actuarial assumptions include (a) investment return and discount rate of 7.0%; (b) medical costs trend increases of 4%; (c) inflation rate of 2.75%; (d) payroll growth of 2.75%; and (e) 2014 CalPERS mortality for miscellaneous employees. The Successor Agency's initial and residual UAAL is being amortized as a level dollar amount over closed 30 years and open 22 years, respectively.





(10) FUND EQUITY

(a) Governmental Fund Balance

Fund balances for all the major and nonmajor governmental funds as of June 30, 2016, were distributed as follows:

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **Nonspendable** | | | |
| Imprest Cash, Prepaids, and Deposits | $ 522 | $ 82 | $ 604 |
| **Restricted** | | | |
| Rainy Day | 120,106 | 43,131 | 163,237 |
| Public Protection | | | |
| Police | - | 19,107 | 19,107 |
| Sheriff | - | 1,203 | 1,203 |
| Other Public Protection | - | 15,257 | 15,257 |
| Public Works, Transportation & Commerce | - | 201,781 | 201,781 |
| Human Welfare & Neighborhood Development | - | 226,631 | 226,631 |
| Affordable Housing | - | 256,361 | 256,361 |
| Community Health | - | 25,683 | 25,683 |
| Culture & Recreation | - | 129,394 | 129,394 |
| General Administration & Finance | - | 20,400 | 20,400 |
| Capital Projects | - | 383,257 | 383,257 |
| Debt Service | - | 120,521 | 120,521 |
| Total Restricted | 120,106 | 1,443,956 | 1,564,062 |
| **Committed** | | | |
| Budget Stabilization | 178,434 | - | 178,434 |
| Recreation and Parks Expenditure Savings | 8,736 | - | 8,736 |
| Total Committed | 187,170 | - | 187,170 |
| **Assigned** | | | |
| Public Protection | | | |
| Police | 8,071 | 857 | 8,928 |
| Sheriff | 4,349 | 2,156 | 6,505 |
| Other Public Protection | 16,923 | - | 16,923 |
| Public Works, Transportation & Commerce | 65,614 | 34,248 | 99,862 |
| Human Welfare & Neighborhood Development | 52,727 | 5,060 | 57,787 |
| Affordable Housing | 22,498 | - | 22,498 |
| Community Health | 64,943 | - | 64,943 |
| Culture & Recreation | 15,750 | 11,866 | 27,616 |
| General Administration & Finance | 64,329 | 1,898 | 66,227 |
| General City Responsibilities | 64,676 | - | 64,676 |
| Capital Projects | 125,107 | - | 125,107 |
| Litigation and Contingencies | 145,449 | - | 145,449 |
| Subsequent Year's Budget | 248,238 | - | 248,238 |
| Total Assigned | 876,567 | 56,085 | 945,652 |
| Unassigned | 241,767 | (103,811) | 137,956 |
| Total | $ 1,429,162 | $ 1,406,312 | $ 2,835,474 |

**(b) General Fund Stabilization and Other Reserves**

***Rainy Day Reserve***

The City maintains a "Rainy Day" or economic stabilization reserve under Charter Section 9.113.5, with separate accounts for the benefit of the City (the "City Reserve") and the San Francisco Unified School District (the "School Reserve"). In any year when the City projects that total General Fund revenues for the upcoming budget year are going to be more than 5 percent higher than the General Fund revenues for the current year, the City automatically deposits one-half of the "excess revenues" in the Rainy Day Reserve. Seventy-five percent of the deposit is placed in the City Reserve and twenty-five percent is placed in the School Reserve. The total amount of money in the Rainy Day Reserve may not exceed ten percent of the City's actual total General Fund revenues. The City may spend money from the City Reserve for any lawful governmental purpose, but only in years when the City projects that total General Fund revenues for the upcoming year will be less than the current year's total General Fund revenues, i.e., years when the City expects to take in less money than it had taken in for the current year. In those years, the City may spend up to half the money in the City Reserve, but no more than is necessary to bring the City's total available General Fund revenues up to the level of the current year. The School District may withdraw up to half the money in the School Reserve when it expects to collect less money per student than the previous fiscal year and would have to lay off a significant number of employees. The School District's Board can override those limits and withdraw any amount in the School Reserve by a two-thirds vote. The City does not expect to routinely spend money from the Rainy Day Reserve after evaluating its recent General Fund revenues trends and its most recent update to the Five-Year Financial Plan covering fiscal years 2015-16 through 2019-20.

***Budget Stabilization Reserve***

The City sets aside as an additional reserve 75 percent of (1) real estate transfer taxes in excess of the average collected over the previous five years, (2) proceeds from the sale of land and capital assets, and (3) ending unassigned General Fund balances. The City will be able to spend those funds in years in which revenues decline or grow by less than two percent, after using the amount legally available from the Rainy Day Reserve. The City, by a resolution of the Board of Supervisors adopted by a two-thirds' vote, may temporarily suspend these provisions following a natural disaster that has caused the Mayor or the Governor to declare an emergency, or for any other purpose. The City does not expect to routinely spend money from the Budget Stabilization Reserve after evaluating its recent General Fund revenues trends and its most recent update to the Five-Year Financial Plan covering fiscal years 2015-16 through 2019-20.

***Recreation and Parks Expenditure Savings Reserve***

The City maintains a Recreation and Parks Expenditure Savings Reserve under Charter Section 16.107, which sets aside and maintains such an amount, together with any interest earned thereon, in the reserve account, and any amount unspent or uncommitted at the end of the fiscal year shall be carried forward to the next fiscal year and, subject to the budgetary and fiscal limitations of the Charter, shall be appropriated then or thereafter for capital and/or facility maintenance improvements to park and recreation facilities and other one-time expenditures of the Park and Recreation Department.

**(c) Encumbrances**

At June 30, 2016, encumbrances recorded in the General Fund and nonmajor governmental funds were $191.0 million and $269.2 million, respectively.

**(d) Restricted Net Position**

At June 30, 2016, the government-wide statement of net position reported restricted net position of $1,331.5 million in governmental activities and $536.5 million in business-type activities, of which $15.7 million and $67.6 million are restricted by enabling legislation in governmental activities and business-type activities, respectively.





The City issued general obligation bonds and certificates of participation for the purpose of rebuilding and improving Laguna Honda Hospital. General obligation bonds were also issued for the purpose of reconstructing and improving waterfront parks and facilities on Port property and for the retrofit and improvement work to ensure a reliable water supply (managed by the Water Enterprise) in an emergency or disaster and for certain street improvements managed by the SFMTA. These capital assets are reported in the City's business-type activities. However, the debt service will be paid with governmental revenues and as such these general obligation bonds and certificates of participation are reported with unrestricted net position in the City's governmental activities. In accordance with GASB guidance, the City reclassified $406.8 million of unrestricted net position of governmental activities, of which $290.1 million reduced net investment in capital assets and $116.7 million reduced net position restricted for capital projects to reflect the total column of the primary government as a whole perspective.

**(e) Deficit Fund Balances and Net Position**

The Environmental Protection Fund, Human Welfare Fund, and Senior Citizens' Program Fund had deficits of $0.1 million, $2.0 million, and $0.3 million, respectively, as of June 30, 2016. The deficits relate to unavailable revenue in various programs which is expected to be collected beyond 60 days of the end of fiscal year 2016.

The Moscone Convention Center Fund had a $101.4 million deficit as of June 30, 2016. The deficit is primarily related to the issuance of commercial paper for construction and will be covered by refinancing commercial paper as long term debt.

The Central Shops and Telecommunications and Information Internal Service Funds had deficits in total net position of $10.8 million and $6.9 million, respectively, as of June 30, 2016 mainly due to the other postemployment benefits liability accrued per GASB Statement No. 45 and the net pension liability and pension-related deferred inflows per GASB Statement No. 68. The operating deficits are expected to be reduced in future years through anticipated rate increases or reductions in the operating expenses. The rates are reviewed and updated annually.

Prior to February 1, 2012, the California Redevelopment Law provided tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area was adopted, the former Agency could only receive tax increment to the extent that it could show on an annual basis that it has incurred indebtedness that must be repaid with tax increment. Due to the nature of the redevelopment financing, the former Agency liabilities exceeded assets. Therefore, the former Agency historically carried a deficit, which was expected to be reduced as future tax increment revenues were received and used to reduce its outstanding long-term debt. This deficit was transferred to the Successor Agency on February 1, 2012. At June 30, 2016, the Successor Agency has a deficit of $377.0 million, which will be eliminated with future redevelopment property tax revenues distributed from the Redevelopment Property Tax Trust Fund administered by the City's Controller.

(Dollars in Thousands)

## (11) UNAVAILABLE RESOURCES IN GOVERNMENTAL FUNDS

The deferred inflows of resources balance in governmental funds as of June 30, 2016 consists of the following unavailable resources:

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| Grant and subvention revenues | $ 56,709 | $ 59,021 | $ 115,730 |
| Property Tax | 55,609 | 12,966 | 68,515 |
| Teeter Plan | 36,006 | - | 36,006 |
| SB 90 | 5,218 | - | 5,218 |
| Advances to Successor Agency | - | 14,802 | 14,802 |
| Franchise tax | 3,130 | - | 3,130 |
| Loans | 6,473 | 75,328 | 81,801 |
| Total | $ 164,267 | $ 161,037 | $ 325,304 |

California Senate Bill 90 (SB90), was adopted in 1972 and added to the State Constitution in 1979. When the Governor or Legislature mandates a new program or higher level of service upon local agencies and school districts, SB90 requires the State to reimburse local agencies and school districts for the cost of these new programs or higher levels of service. The balance in deferred inflows of resources is the value of reimbursement claims submitted to the State which are subject to audit for unallowable costs.

As described in Note 6, under the Teeter Plan the City is allocated secured property tax revenue which has been billed but not collected. Collections which have not occurred within the availability period are included in deferred inflows of resources in the General Fund.

## (12) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The Transportation Authority was created in 1989 by a vote of the San Francisco electorate. The vote approved Proposition B, which imposed a sales tax of one-half of one percent (0.5%), for a period not to exceed 20 years, to fund essential transportation projects. The types of projects to be funded with the proceeds from the sales tax were set forth in the San Francisco County Transportation Expenditure Plan (Plan), which was approved as part of Proposition B. The Transportation Authority was organized pursuant to Sections 131000 et seq. of the Public Utilities Code. Collection of the voter-approved sales tax began on April 1, 1990. The Transportation Authority administers the following programs:

**Sales Tax Program.** On November 4, 2003, the San Francisco voters approved Proposition K with a 74.7% affirmative vote, amending the City Business and Tax Code to extend the county-wide one-half of one percent sales tax, and to replace the 1989 Proposition B Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: 1) Transit; 2) Streets and Traffic Safety (including street resurfacing, and bicycle and pedestrian improvements); 3) Paratransit services for seniors and disabled people; and 4) Transportation System Management/Strategic Initiatives (including funds for neighborhood parking management, transportation/land use coordination, and travel demand management efforts). Major capital projects to be funded by the Proposition K Expenditure Plan include: A) development of the Bus Rapid Transit and Muni Metro Network; B) construction of the Muni Central Subway (Third Street Light Rail Project–Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project (re-envisioned as the Presidio Parkway). Pursuant to the provisions of Division 12.5 of the California Public Utilities Code, the Transportation Authority Board may adopt an updated Expenditure Plan any time after 20 years from the effective date of adoption of the Proposition K Expenditure Plan but no later than the last general election in which the Proposition K Expenditure Plan is in effect. The Sales Tax would continue as long as a new or modified plan is in effect. Under Proposition K legislation, the Transportation Authority





directs the use of the Sales Tax and may spend up to $485.2 million per year and may issue up to $1.88 billion in bonds secured by the Sales Tax.

**Congestion Management Agency Programs.** On November 6, 1990, the Transportation Authority was designated under State law as the Congestion Management Agency (CMA) for the City. Responsibilities resulting from this designation include developing a Congestion Management Program, which provides evidence of the integration of land use, transportation programming and air quality goals; preparing a long-range countywide transportation plan to guide the City's future transportation investment decisions; monitoring and measuring traffic congestion levels in the City; measuring the performance of all modes of transportation; and developing a computerized travel demand forecasting model and supporting databases. As the CMA, the Transportation Authority is responsible for establishing the City's priorities for state and federal transportation funds and works with the Metropolitan Transportation Commission to program those funds to San Francisco projects.

**Transportation Fund for Clean Air (TFCA) Program.** On June 15, 2002, the Transportation Authority was designated to act as the overall program manager for the local guarantee (40%) share of transportation funds available through the TFCA program. Funds from this program, administered by the Bay Area Air Quality Management District come from a $4 vehicle registration fee on automobiles registered in the Bay Area. Through this program, the Transportation Authority recommends projects that benefit air quality by reducing motor vehicle emissions.

**Proposition AA Administrator of County Vehicle Registration Fee Program.** On November 2, 2010, San Francisco voters approved Proposition AA with a 59.6% affirmative vote, authorizing the Transportation Authority to collect an additional $10 annual vehicle registration fee on motor vehicles registered in San Francisco and to use the proceeds to fund transportation projects identified in the Expenditure Plan. Revenue collection began in May 2011. Proposition AA revenues must be used to fund projects from the following three programmatic categories. The percentage allocation of revenues designated for each category over the 30-year Expenditure Plan period is shown in parenthesis for the following category name: 1) Street Repair and Reconstruction (50%); 2) Pedestrian Safety (25%); and 3) Transit Reliability & Mobility Improvements (25%). In December 2012, the Transportation Authority Board approved the first Proposition AA Strategic Plan, including the specific projects that could be funded within the first five years (i.e., Fiscal Years 2012-13 to 2016-17). The Proposition AA program is a pay-as-you-go program.

**Treasure Island Mobility Management Authority (TIMMA).** The Treasure Island Transportation Management Act of 2008 (AB 981) authorizes the creation or designation of a Treasure Island-specific transportation management agency. On April 1, 2014, the City's Board of Supervisors approved a resolution designating the Transportation Authority as the TIMMA to implement the Treasure Island Transportation Implementation Plan in support of the Treasure Island/Yerba Buena Island Development Project. In September 2014, Governor Brown signed Assembly Bill 141, establishing TIMMA as a legal entity distinct from the Transportation Authority to help firewall the Transportation Authority's other functions. The eleven members of the Transportation Authority Board act as the Board of Commissioners for TIMMA. The Transportation Authority financial statements include TIMMA as a blended special revenue component unit.

**Loan Agreement with Treasure Island Development Authority.** In July 2009, the Transportation Authority entered into a loan agreement with the Treasure Island Development Authority (TIDA) for the repayment of project management oversight, engineering and environmental costs for the Yerba Buena Island (YBI) Ramps Improvement Project.