

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. Interest on the Bonds is not excluded from gross income for federal income tax purposes. See "TAX MATTERS."*



**\$72,420,000**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**TAXABLE GENERAL OBLIGATION BONDS**  
**(SOCIAL BONDS – AFFORDABLE HOUSING, 2016)**  
**SERIES 2019A**

**Dated: Date of Delivery**

**Due: June 15, as shown in 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 Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.**

The City and County of San Francisco (the "City") is issuing its Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016), Series 2019A (the "Bonds") under the Government Code of the State of California and the Charter of the City and County of San Francisco (the "Charter"). The Bonds are being issued pursuant to certain resolutions adopted by the Board of Supervisors of the City and duly approved by the Mayor of the City. The issuance of the Bonds has been authorized at elections of the registered voters of the City on November 3, 1992 and November 8, 2016, at which more than two-thirds of the persons voting on Proposition A and Proposition C, respectively, voted to authorize the issuance and sale of the Bonds, as further described under "THE BONDS – Authority for Issuance; Purposes." The proceeds of the Bonds are expected to be used to (i) fund loans that finance the cost of the acquisition, improvement and rehabilitation of at-risk multi-unit residential buildings and to convert such structures to permanent affordable housing, and (ii) pay certain costs related to the issuance of the Bonds. The City is designating the Bonds as "Social Bonds," as the projects planned to be funded with proceeds of the Bonds address the need within the City to preserve affordable housing stock. See "THE BONDS – Authority for Issuance; Purposes" and "SOURCES AND USES OF FUNDS."

The Bonds will be dated and bear interest from their date of delivery until paid in full at the rates shown in the maturity schedule on the inside cover hereof. Interest on the Bonds will be payable on June 15 and December 15 of each year, commencing June 15, 2019. Principal will be paid at maturity as shown on the inside cover. See "THE BONDS – Payment of Interest and Principal." The Bonds will be issued only in fully registered form without coupons, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Individual purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Payments of principal of and interest on the Bonds will be made by the City Treasurer, as paying agent, to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Form and Registration."

**The Bonds will be subject to redemption prior to maturity, as described herein. See "THE BONDS – Redemption."**

**The Board of Supervisors at the time of fixing the general tax levy will fix, and in the manner provided for such general tax levy, levy and collect annually until the Bonds are paid, an ad valorem tax upon the taxable property of the City, without limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds as they become due. See "SECURITY FOR THE BONDS."**

**MATURITY SCHEDULE**

(See Inside Cover)

The Bonds are offered when, as and if issued by the City and accepted by the Underwriters, subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by its City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Stradling, Yocca, Carlson & Rauth, Newport Beach, California. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about February 26, 2019.

**Citigroup**

**Raymond James**

**Loop Capital Markets**

**\$72,420,000**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**TAXABLE GENERAL OBLIGATION BONDS**  
**(SOCIAL BONDS – AFFORDABLE HOUSING, 2016)**  
**SERIES 2019A**

**MATURITY SCHEDULE**  
(Base CUSIP<sup>+</sup> Number: 797646)

**\$16,525,000 Serial Bonds**

Maturity Date (June 15)	Principal Amount	Interest Rate	Price	CUSIP <sup>+</sup> Suffix
2020	\$895,000	2.534%	100.00	4Y9
2021	920,000	2.546	100.00	4Z6
2022	940,000	2.623	100.00	5A0
2023	965,000	2.621	100.00	5B8
2024	990,000	2.821	100.00	5C6
2025	1,020,000	2.952	100.00	5D4
2026	1,050,000	3.052	100.00	5E2
2027	1,080,000	3.202	100.00	5F9
2028	1,115,000	3.302	100.00	5G7
2029	1,155,000	3.352	100.00	5H5
2030	1,190,000	3.502	100.00	5J1
2031	1,235,000	3.552	100.00	5K8
2032	1,275,000	3.602	100.00	5L6
2033	1,325,000	3.652	100.00	5M4
2034	1,370,000	3.702	100.00	5N2

\$7,695,000 3.921% Term Bonds due June 15, 2039 Price 100.00 CUSIP<sup>+</sup> No. 7976465P7

\$20,730,000 4.041% Term Bonds due June 15, 2049 Price 100.00 CUSIP<sup>+</sup> No. 7976465Q5

\$27,470,000 4.321% Term Bonds due June 15, 2058 Price 100.00 CUSIP<sup>+</sup> No. 7976465R3

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

## **NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA (“EEA”)**

THIS OFFICIAL STATEMENT IS NOT A PROSPECTUS FOR THE PURPOSES OF EUROPEAN COMMISSION REGULATION 809/2004 OR EUROPEAN COMMISSION DIRECTIVE 2003/71/EC (AS AMENDED, INCLUDING BY EUROPEAN COMMISSION DIRECTIVE 2010/73/EU, AS APPLICABLE) (THE “PROSPECTUS DIRECTIVE”). IT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3 OF THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN MEMBER STATES OF THE EEA, FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR SUCH OFFERS. THIS OFFICIAL STATEMENT IS ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EEA WHO ARE “QUALIFIED INVESTORS” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE AND ANY RELEVANT IMPLEMENTING MEASURE IN EACH MEMBER STATE OF THE EEA (“QUALIFIED INVESTORS”). THIS OFFICIAL STATEMENT MUST NOT BE ACTED ON OR RELIED ON IN ANY SUCH MEMBER STATE OF THE EEA BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO QUALIFIED INVESTORS IN ANY MEMBER STATE OF THE EEA AND WILL NOT BE ENGAGED IN WITH ANY OTHER PERSONS.

## **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS IN THE UNITED KINGDOM THAT ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE WHO ARE ALSO (I) INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”) OR (II) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS, INCLUDING IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA APPLIES TO THE ISSUER. THIS OFFICIAL STATEMENT AND ITS CONTENTS ARE CONFIDENTIAL AND SHOULD NOT BE DISTRIBUTED, PUBLISHED OR REPRODUCED (IN WHOLE OR IN PART) OR DISCLOSED BY RECIPIENTS TO ANY OTHER PERSONS IN THE UNITED KINGDOM. IN THE UNITED KINGDOM, ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

## **NOTICE TO INVESTORS IN SWITZERLAND**

THE BONDS MAY NOT BE PUBLICLY OFFERED IN SWITZERLAND AND WILL NOT BE LISTED ON THE SIX SWISS EXCHANGE (“SIX”) OR ON ANY OTHER STOCK EXCHANGE OR REGULATED TRADING FACILITY IN SWITZERLAND. THIS OFFICIAL STATEMENT HAS BEEN PREPARED WITHOUT REGARD TO THE DISCLOSURE STANDARDS FOR ISSUANCE PROSPECTUSES UNDER ART. 652A OR ART. 1156 OF THE SWISS CODE OF OBLIGATIONS OR THE DISCLOSURE STANDARDS FOR LISTING PROSPECTUSES UNDER ART. 27 FF. OF THE SIX

LISTING RULES OR THE LISTING RULES OF ANY OTHER STOCK EXCHANGE OR REGULATED TRADING FACILITY IN SWITZERLAND. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS OR THE OFFERING MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

NONE OF THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE OFFERING, THE ISSUER OR THE BONDS HAVE BEEN OR WILL BE FILED WITH OR APPROVED BY ANY SWISS REGULATORY AUTHORITY. IN PARTICULAR, THIS OFFICIAL STATEMENT WILL NOT BE FILED WITH, AND THE OFFER OF THE BONDS WILL NOT BE SUPERVISED BY, THE SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY (“FINMA”), AND THE OFFER OF BONDS HAS NOT BEEN AND WILL NOT BE AUTHORIZED UNDER THE SWISS FEDERAL ACT ON COLLECTIVE INVESTMENT SCHEMES (“CISA”). ACCORDINGLY, INVESTORS DO NOT HAVE THE BENEFIT OF THE SPECIFIC INVESTOR PROTECTION PROVIDED UNDER THE CISA.

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations 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 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchaser or purchasers of the Bonds. 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 fact.

The information set forth herein, other than that provided by the City, has been obtained from sources that are believed to be reliable, but 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 Underwriters (as defined in "UNDERWRITING" herein) have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers and dealer banks at prices lower than the initial public offering prices stated on the inside cover hereof. Such initial public offering prices may be changed from time to time by the Underwriters.

This Official Statement contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. Such risks and uncertainties include, among others, changes in social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, population changes, seismic events and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the expectations of the City with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The issuance and sale of the Bonds 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.

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 Bonds. Various other websites referred to in this Official Statement also are not incorporated herein by such references.



**CITY AND COUNTY OF SAN FRANCISCO**

**MAYOR**

London N. Breed

**BOARD OF SUPERVISORS**

Norman Yee, *Board President, District 7*

Sandra Lee Fewer, *District 1*

Catherine Stefani, *District 2*

Aaron Peskin, *District 3*

Gordon Mar, *District 4*

Vallie Brown, *District 5*

Matt Haney, *District 6*

Rafael Mandelman, *District 8*

Hillary Ronen, *District 9*

Shamann Walton, *District 10*

Ahsha Safai, *District 11*

**CITY ATTORNEY**

Dennis J. Herrera

**CITY TREASURER**

José Cisneros

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Naomi M. Kelly, *City Administrator*

Benjamin Rosenfield, *Controller*

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

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Treasurer of the City and County of San Francisco

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## OFFICIAL STATEMENT

**\$72,420,000**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**TAXABLE GENERAL OBLIGATION BONDS**  
**(SOCIAL BONDS – AFFORDABLE HOUSING, 2016)**  
**SERIES 2019A**

### INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the public offering by the City and County of San Francisco (the “City”) of its City and County of San Francisco Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016), Series 2019A (the “Bonds”). The Board of Supervisors at the time of fixing the general tax levy will fix, and in the manner provided for such general tax levy, levy and collect annually until the Bonds are paid, an ad valorem tax upon the taxable property of the City, without limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds as they become due. See “SECURITY FOR THE BONDS.”

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 with respect to the Bonds, the City has no obligation to update the information in this Official Statement. See “CONTINUING DISCLOSURE” and APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein.

Quotations from and summaries and explanations of the Bonds, the resolutions providing for the issuance and payment of the Bonds, and provisions of the constitution and statutes of the State of California (the “State”), the charter of the City (the “Charter”) and 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 Bonds are available from the City through the Controller’s Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102-4682. Reference is made herein to various other documents, reports, websites, etc., which were either prepared by parties other than the City, or were not prepared, reviewed and approved by the City with a view towards making an offering of public securities, and such materials are therefore not incorporated herein by such references nor deemed a part of this Official Statement.

### THE CITY AND COUNTY OF SAN FRANCISCO

**General.** The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (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. According to the State Department of Finance, the City’s population as of July 1, 2018 was 887,540.

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 technology,

retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising and higher education. The California State Supreme Court is also based in San Francisco.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2017, approximately 25.5 million tourists visited the City, with total direct spending estimated at \$9.1 billion. Direct spending from conventions, trade shows and group meetings generated approximately \$687.4 million in 2017.

The City is also a leading center for financial activity in the State. The headquarters of the Twelfth Federal Reserve District and the Eleventh District Federal Home Loan Bank are located in the City.

The City benefits from a highly skilled, educated and professional labor force. According to the U.S. Department of Commerce Bureau of Economic Analysis, the per-capita personal income of the City for calendar year 2017 was \$119,868. According to the U.S. Department of Labor Bureau of Labor Statistics, the average unemployment rate for calendar year 2018 was 2.4%. The San Francisco Unified School District (“SFUSD”), which is a separate legal entity from the City, operates 14 transitional kindergarten schools, 64 elementary schools serving grades TK-5, 8 schools serving grades TK-8, 13 middle schools serving grades 6-8, 15 high schools serving grades 9-12, 12 early education schools, and 14 active charter schools authorized by SFUSD. 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 Rim traffic. In fiscal year 2017-18, SFO serviced approximately 58 million passengers and handled 561,150 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (“BART,” an 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 (“Muni”), operated by the San Francisco Municipal Transportation Agency (“SFMTA”), 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.

**Government.** San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California, and is the only consolidated city and county in the State. Voters approved the City’s current Charter at the November 1995 election. The City is governed by a Board of Supervisors elected from 11 districts to serve 4-year terms, and a Mayor who serves as chief executive officer, elected citywide to a 4-year term. The City’s original budget for fiscal years 2018-19 and 2019-20 totals \$11.04 billion and \$11.10 billion, respectively. The General Fund portion of each year’s original budget is \$5.51 billion in fiscal year 2018-19 and \$5.52 billion in fiscal year 2019-20, with the balance being allocated to all other funds, including enterprise fund departments, such as SFO, SFMTA, the Port Commission and the San Francisco Public Utilities Commission (“SFPUC”). The City employed 32,749 full-time-equivalent employees at the end of fiscal year 2016-17, of which 2,124 positions were funded from sources other than the City’s General Fund. According to the Controller of the City (the “Controller”), the fiscal year 2018-19 net total assessed valuation of taxable property in the City is approximately \$259.3 billion.

More detailed information about the City's governance, organization and finances may be found in APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017."

## **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 obligations of the City and updated as of January 15, 2019. The following information supplements 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.

### **Partial Federal Government Shutdown**

The City receives substantial federal funds for assistance payments, social service programs and other programs. On December 22, 2018, the United States federal government entered a partial shutdown due to Congressional failure to enact a regular budget or a continuing resolution for the 2019 fiscal year. On January 25, 2019, legislation was enacted to temporarily re-open the federal government until February 15, 2019. On February 14, 2019, legislation was passed approving a spending bill and averting another shutdown. The shutdown resulted in the furlough of certain federal workers and suspension of certain services not exempted by law, and all routine, ongoing operational and administrative activities relating to contract or grant administration (including payment processing) were suspended. During the shutdown, federal discretionary grants that are administered to local governments from unfunded federal agencies were unavailable for reimbursement to local governments.

If federal appropriations, budgets or debt ceiling increases are not enacted on a timely basis in the future, such events could have a material adverse effect on the financial markets and economic conditions in the United States and an adverse impact on the City's finances. The City cannot predict the outcome of future federal budget deliberations and the impact that such budgets or subsequent shutdowns will have on the City's finances and operations. Further, to the extent federal funding for certain services provided to City residents were to become unavailable (e.g., Section 8 assistance) due to another shutdown of certain departments of the federal government, the City may decide, but would not be required, to provide supplemental funding to its residents. The City cannot determine if it would be reimbursed by the federal government for any supplemental funding provided by the City in connection with any future shutdown.

### **Pacific Gas & Electric Bankruptcy Filing**

On January 29, 2019, Pacific Gas & Electric ("PG&E"), the regulated utility providing natural gas and electricity to most of Northern California including the City, filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code. PG&E stated that such filing will not affect electric or natural gas services to any of its customers. A bankruptcy filing by PG&E could cause delays in payments of taxes to the City (estimated to be up to \$90 million annually). The City can give no assurance regarding the effect of a bankruptcy filing by PG&E, including whether such filing could cause a delay in payments of certain taxes to the City.

### **Fiscal Year 2018-19 Six-Month Budget Status Report**

On February 15, 2019, the City's Office of the Controller released the FY 2018-19 Six-Month Budget Status Report (the "Six-Month Budget Report"). The Six-Month Budget Report provides expenditure and revenue information and projections as of December 31, 2018. Highlights of the Six-Month Budget Report include the following:

- The Six-Month Budget Report projects a \$79.8 million improvement in fiscal year 2018-19 General Fund ending balance over projections contained in the City’s Five Year Financial Plan for fiscal years 2019-20 through 2023-24 dated January 4, 2019 (the “Plan”), from \$380.0 million to \$459.8 million.
- Application of this additional fiscal year 2018-19 fund balance would reduce the projected shortfalls in the City’s upcoming two-year budget to \$191.0 million. The Plan projected shortfalls of \$107.4 million in fiscal year 2019-20 and an additional \$163.4 million in fiscal year 2020-21, for a cumulative total of \$270.8 million. These projections in the Plan will be updated by the City in March 2019.

See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – City Budget – Five-Year Financial Plan.”

## THE BONDS

### Authority for Issuance; Purposes

The Bonds will be issued under the Government Code of the State and the Charter. The City authorized the issuance of the Bonds by Resolution No. 34-19 (the “Master Resolution”) and Resolution No. 35-19 (the “Sale Resolution,” and together with the Master Resolution, the “Resolutions”), both adopted by the Board of Supervisors of the City on January 29, 2019, and duly approved by the Mayor of the City on February 1, 2019.

***Proposition A (1992) and Proposition C (2016).*** On November 3, 1992, more than two-thirds of the voters of the City who voted at such election approved Proposition A (“Proposition A (1992)”), establishing the City’s Earthquake Loan Bond Program. Proposition A (1992) authorized the City to incur bonded indebtedness of up to \$350,000,000 to provide loans for the seismic strengthening of unreinforced masonry buildings devoted to affordable housing and market-rate residential, commercial and institutional uses, and to pay necessary administrative costs incidental thereto. Of the \$350,000,000 of general obligation bond authorization, Proposition A (1992) allocated (i) \$150,000,000 to make loans for seismic improvements to affordable housing buildings (as amended, the “Affordable Housing Loan Program”); and (ii) \$200,000,000 to make loans for seismic improvements to market-rate residential, commercial and institutional buildings (as amended, the “Market Rate Loan Program,” and together with the Affordable Housing Loan Program, the “Programs”). The Programs are administered through the Mayor’s Office of Housing and Community Development (“MOHCD”).

While the Resolutions provide that principal and interest payments on the Bonds will be secured by ad valorem taxes levied by the City, Proposition A (1992) also provided that all loan repayments received by the City (the “Loan Repayments”), net of administrative fees, will be used to offset the City’s borrowing costs on general obligation bonds issued under Proposition A (1992), including the Bonds, except for Loan Repayments received after the retirement of all such general obligation bonds which may be used for any lawful purpose. See “SECURITY FOR THE BONDS.”

Under Proposition A (1992), the City has issued to date \$45,315,450 in general obligation bonds to fund loans to private parties under the Affordable Housing Loan Program and \$44,000,000 in general obligation bonds to fund loans to private parties under the Market Rate Loan Program, as further described in the table below:

**General Obligation Bonds (Proposition A (1992))**  
**Original Principal Amount Issued and Currently Outstanding**

<u>Name of Bond Issue</u>	<u>Original Principal Amount Issued</u>	<u>Principal Amount Outstanding</u>
City and County of San Francisco General Obligation Bonds (Seismic Safety Loan Program 1992), Series 1994A	\$35,000,000	\$0
City and County of San Francisco Taxable General Obligation Bonds (Seismic Safety Loan Program 1992), Series 2007A**	30,315,450	20,093,517
City and County of San Francisco Taxable General Obligation Bonds (Seismic Safety Loan Program 1992), Series 2015A	24,000,000	0
Subtotal:	<u>\$89,315,450</u>	<u>\$20,093,517</u>

\*\* The Series 2007A Bonds are secured by a pledge of ad valorem property taxes and loan repayments deposited in accounts established under a separate issuing resolution.

Of the original \$350,000,000 of general bond authorization provided by Proposition A (1992), \$260,684,550 remains unissued and available to be issued by the City.

On November 8, 2016, more than two-thirds of the voters of the City who voted at such election approved Proposition C (“Proposition C (2016),” and collectively with Proposition A (1992), the “Propositions”), which amended Proposition A (1992) to allow as an additional purpose the incurrence of bonded indebtedness to finance the acquisition, improvement, and rehabilitation of at-risk multi-unit residential buildings (defined as a building with three or more units) and to convert such structures to permanent affordable housing, and to perform needed seismic, fire, health, and safety upgrades or other major rehabilitation for habitability. Proposition C (2016) did not amend the requirement that all Loan Repayments received by the City must be used to pay debt service on general obligation bonds, except for Loan Repayments received after the retirement of all general obligation bonds issued under the Propositions, which may be used for any lawful purpose; however, the Resolutions also provide that the City is obligated to levy ad valorem taxes sufficient to pay debt service on the Bonds.

The Bonds will constitute the first series of bonds to be issued from the remaining authorized amount of \$260,684,550 under the Propositions. Upon the issuance of the Bonds, \$188,264,550 in general bond authorization provided by the Propositions will remain authorized but unissued and available to the City. The City currently plans to utilize the bond authorization under the Propositions by 2029, to preserve approximately 1,400 total units of affordable housing. The City cannot guarantee that it will issue any or all such bonds in the future, nor does the City guarantee the timing of such bond issuances and the number of affordable housing units that would benefit from the issuance of such bonds. See “– Projects to be Financed or Refinanced with Bond Proceeds” below.

**Designation as Social Bonds.** The City is designating the Bonds as “Social Bonds.” The projects planned to be funded with proceeds of the Bonds in accordance with the requirements of the Propositions address the need within the City to preserve affordable housing stock. The City has determined that the projects to be financed with the proceeds of the Bonds are “Social Projects” based on the social benefits of addressing affordable housing within the City. The designation of the Bonds as “Social Bonds” is intended to generally comport with The Social Bond Principles promulgated by the International Capital Market Association (“ICMA”), updated as of June 2018. The term “Social Bonds” is neither defined in nor related to provisions in the Resolutions. Owners of the Bonds do not have any security other than as provided in the Resolutions and described under “SECURITY FOR THE BONDS,” nor do such owners of the Bonds assume

any specific project risk related to any of the projects funded thereby. “Social Projects” and “Social Bonds” are entirely self-designating labels lacking any objective guidelines or criteria. ICMA is a European-based entity with some members from the United States. The City assumes no obligation to ensure that the projects financed with proceeds of the Bonds comply with any legal or other standards or principles that may relate to “Social Projects” or that the Bonds comply with any legal or other standards or principles that may relate to “Social Bonds.” The designation of the Bonds as Social Bonds does not entitle the holders of such obligations to any special treatment under the Internal Revenue Code of 1986, as amended.

***Projects to be Financed or Refinanced with Bond Proceeds.*** In furtherance of the purposes authorized under the Propositions, the City plans to use the proceeds of bonds (including the Bonds) to provide loans to finance or refinance the acquisition and rehabilitation of affordable housing units, and the seismic retrofitting and preservation of affordable housing units. Eligible projects to be funded include smaller sites (generally buildings with 5-25 apartments), larger multi-unit and mixed-use residential buildings, and single-room occupancy hotels. The City does not plan to use proceeds of bonds issued under the Propositions to fund new construction projects or the acquisition without rehabilitation of affordable housing units.

Projects funded through below-market loans will have permanent affordability restrictions, and projects funded through market-rate loans will prohibit landlords from passing on to tenants the costs of certain capital improvements to the property (i.e., capital improvement pass-throughs). Further, in order for a project to be financed or refinanced through bond proceeds, MOHCD has established maximum average monthly rent and annual household income levels for tenants, at 80% of the Area Median Income (“AMI”), and capped at 120% of AMI.

The City currently has identified approximately 30 projects, with an estimated total of 325 affordable housing units, eligible for funding using proceeds of the Bonds. These projects are intended to benefit priority and at-risk populations consisting of seniors, persons with disabilities, low-income households, and those at risk of eviction pursuant to the Ellis Act, a State law that allows landlords to evict residential tenants in order to leave the rental business. The City may substitute other authorized projects eligible for funding under the Propositions.

***Project Evaluation.*** The Programs will be administered by the MOHCD, and the projects to be financed or refinanced with proceeds from bonds issued under the Propositions (including the Bonds) will be evaluated and monitored by the MOHCD. The mission of the MOHCD is to provide financing for the development, rehabilitation and purchase of affordable housing in San Francisco. MOHCD also guides and coordinates the City’s housing policy. MOHCD administers a variety of programs to finance the development of affordable housing by non-profit and for profit developers, provides financial and educational assistance to first-time homebuyers, and finances housing rehabilitation costs for low-income homeowners. MOHCD is also responsible for monitoring and ensuring the long-term affordability and physical viability of the City’s stock of affordable housing. The MOHCD’s funding decisions are based on priorities and strategies outlined in a Consolidated Plan, which is a planning document for San Francisco’s community development and affordable housing activities, developed through city-wide public input, especially from residents and stakeholders of low-income communities.

***Bond Oversight.*** The Administrative Code of the City (the “Administrative Code”) and the Propositions provide that, to the extent permitted by law, 0.1% of the gross proceeds of all proposed bonds, including the Bonds, be deposited by the Controller and used to fund the costs of the City’s independent citizens’ general obligation bond oversight committee. The committee was created by the adoption by the voters in 2002 of Proposition F (adopted by the voters March 5, 2002), which established the committee to review and oversee the delivery of general obligation bond-funded projects. A year later, the voters passed Proposition C, which authorized the committee to review and give input on the work of the City services auditor, including the City’s whistleblower program. The committee has nine members appointed by the Mayor, Board of Supervisors, Controller and the Civil Grand Jury. The purpose of the committee is to inform



the public concerning the expenditure of general obligation bond proceeds in accordance with the voter authorization.

### **Form and Registration**

The Bonds will be issued in the principal amounts set forth on the inside cover hereof, in the denomination of \$5,000 each or any integral multiple thereof, and will be dated their date of delivery. The Bonds will be issued in fully registered form, without coupons. The Bonds will be initially registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company (“DTC”), which is required to remit payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX E – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

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

Interest on the Bonds will be payable on each June 15 and December 15 to maturity or prior redemption, commencing June 15, 2019, at the interest rates shown on the inside cover hereof. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The City Treasurer will act as paying agent and registrar with respect to the Bonds. The interest on the Bonds will be payable in lawful money of the United States to the person whose name appears on the Bond registration books of the City Treasurer as the owner thereof as of the close of business on the last day of the month immediately preceding an interest payment date (the “Record Date”), whether or not such day is a business day. Each Bond authenticated on or before May 31, 2019 will bear interest from the date of delivery. Every other Bond will bear interest from the interest payment date next preceding its date of authentication unless it is authenticated as of a day during the period from the Record Date next preceding any interest payment date to the interest payment date, inclusive, in which event it will bear interest from such interest payment date; provided, that if, at the time of authentication of any Bond, interest is then in default on the Bonds, such Bond will bear interest from the interest payment date to which interest has previously been paid or made available for payment on the Bonds.

The Bonds will mature on the dates shown on the inside cover page hereof. The Bonds will be subject to redemption prior to maturity, as described below. See “– Redemption” below. The principal of the Bonds will be payable in lawful money of the United States to the owner thereof upon the surrender thereof at maturity or earlier redemption at the office of the City Treasurer.

### **Redemption**

#### ***Optional Redemption of the Bonds***

The Bonds maturing on or before June 15, 2029 will not be subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after June 15, 2030 will be subject to optional redemption prior to their respective stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part on any date, on or after June 15, 2029, at the redemption price equal to the principal amount of the Bonds redeemed, together with accrued interest to the date fixed for redemption (the “Redemption Date”), without premium.

#### ***Mandatory Redemption***

The Bonds maturing on June 15, 2039 will be subject to mandatory sinking fund redemption prior to their stated maturity date, on each June 15, as shown in the table below, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption Date (June 15)	Sinking Fund Payment Principal Amount
2035	\$1,425,000
2036	1,480,000
2037	1,535,000
2038	1,595,000
2039 <sup>†</sup>	1,660,000

<sup>†</sup> Maturity

The Bonds maturing on June 15, 2049 will be subject to mandatory sinking fund redemption prior to their stated maturity date, on each June 15, as shown in the table below, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption Date (June 15)	Sinking Fund Payment Principal Amount
2040	\$1,725,000
2041	1,795,000
2042	1,865,000
2043	1,940,000
2044	2,020,000
2045	2,100,000
2046	2,185,000
2047	2,275,000
2048	2,365,000
2049 <sup>†</sup>	2,460,000

<sup>†</sup> Maturity

The Bonds maturing on June 15, 2058 will be subject to mandatory sinking fund redemption prior to their stated maturity date, on each June 15, as shown in the table below, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption Date (June 15)	Sinking Fund Payment Principal Amount
2050	\$2,560,000
2051	2,670,000
2052	2,790,000
2053	2,910,000
2054	3,035,000
2055	3,165,000
2056	3,300,000
2057	3,445,000
2058 <sup>†</sup>	3,595,000

<sup>†</sup> Maturity

The principal amount of each mandatory sinking fund payment of any maturity will be reduced as specified by the City Treasurer, in \$5,000 increments, by the amount of any Bond of that maturity optionally redeemed prior to the mandatory sinking fund payment date.

### ***Selection of Bonds for Redemption***

Subject to the following two paragraphs, if less than all of the outstanding Bonds of a maturity are to be redeemed, the Bonds or portions of Bonds of such maturity to be redeemed will be selected by the City Treasurer, in authorized denominations of \$5,000 or integral multiples of that amount, from among Bonds of that maturity not previously called for redemption, by lot, in any manner which the City Treasurer deems fair.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds will be made in accordance with the operational arrangements of DTC then in effect.

It is the City's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, the City can provide no assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis as discussed above, then the Bonds will be selected for redemption, in accordance with DTC procedures, by lot. The City can provide no assurance as to how DTC or any other parties will allocate redemption payments.

### ***Notice of Redemption***

The date on which Bonds that are called for redemption are to be presented for redemption is called the "Redemption Date." The City Treasurer will mail, or cause to be mailed, notice of any redemption of Bonds, postage prepaid, to the respective registered owners at the addresses appearing on the bond registration books not less than twenty (20) nor more than sixty (60) days prior to the Redemption Date. The notice of redemption will (a) state the Redemption Date; (b) state the redemption price; (c) state the maturity dates of the Bonds to be redeemed and, if less than all of any such maturity is called for redemption, the distinctive numbers of the Bonds of such maturity to be redeemed, and in the case of any Bonds to be redeemed in part only, the respective portions of the principal amount to be redeemed; (d) state the CUSIP number, if any, of each Bond to be redeemed; (e) require that such Bonds be surrendered by the owners at the office of the City Treasurer or his or her agent; and (f) give notice that interest on such Bond or portion of Bond to be redeemed will cease to accrue after the Redemption Date. Notice of optional redemption may be conditional upon receipt of funds or other event specified in the notice of redemption as further described under "– Conditional Notice; Right to Rescind Notice of Optional Redemption."

The actual receipt by the owner of any Bond of notice of such redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in such notice so mailed, will not affect the validity of the proceedings for the redemption of such Bonds or the cessation of accrual of interest on such Bonds on the Redemption Date.

Notice of redemption also will be given, or caused to be given by the City Treasurer, by (i) registered or certified mail, postage prepaid, (ii) confirmed facsimile transmission, (iii) overnight delivery service, or (iv) to the extent acceptable to the intended recipient, email or similar electronic means, to (a) all organizations registered with the Securities and Exchange Commission as securities depositories and (b) such other services or organizations as may be required in accordance with the Continuing Disclosure Certificate. See

“CONTINUING DISCLOSURE” and APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein.

The notice or notices required for redemption will be given by the City Treasurer or any agent appointed by the City. A certificate of the City Treasurer or such other appointed agent of the City that notice of redemption has been given to the owner of any Bond to be redeemed in accordance with the Resolutions will be conclusive against all parties.

#### ***Effect of Notice of Redemption***

When notice of optional redemption has been given as described above, and when the amount necessary for the redemption of the Bonds called for redemption (principal, premium, if any and accrued interest to the Redemption Date) is set aside for that purpose in the redemption account for the Bonds (the “Series 2019A Redemption Account”) or the Series 2019A Bond Subaccount (as defined under “SECURITY FOR THE BONDS – Flow of Funds Under the Resolutions”) established under the Resolutions, the Bonds designated for redemption will become due and payable on the Redemption Date, and upon presentation and surrender of said Bonds at the place specified in the notice of redemption, those Bonds will be redeemed and paid at said redemption price out of the Series 2019A Redemption Account. No interest will accrue on such Bonds called for redemption after the Redemption Date and the registered owners of such Bonds will look for payment of such Bonds only to the Series 2019A Redemption Account. All Bonds redeemed will be cancelled immediately by the City Treasurer and will not be reissued. Moneys held in the Series 2019A Redemption Account will be invested by the City Treasurer pursuant to the City’s policies and guidelines for investment of moneys in the General Fund of the City. See APPENDIX C – “CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY.”

#### ***Conditional Notice; Right to Rescind Notice of Optional Redemption***

Any notice of optional redemption may provide that such redemption is conditioned upon: (i) deposit in the Series 2019A Redemption Account of sufficient moneys to redeem the Bonds called for optional redemption on the anticipated Redemption Date, or (ii) the occurrence of any other event specified in the notice of redemption. In the event that such conditional notice of optional redemption has been given and on the scheduled Redemption Date (i) sufficient moneys to redeem the Bonds called for optional redemption have not been deposited in the Series 2019A Redemption Account, or (ii) any other event specified in the notice of redemption did not occur, then such Bonds for which notice of conditional optional redemption was given will not be redeemed and will remain Outstanding for all purposes and the redemption not occurring will not constitute a default under the Resolutions.

In addition, the City may rescind any optional redemption and notice thereof for any reason on any date prior to any Redemption Date by causing written notice of the rescission to be given to the Registered Owner of all Bonds so called for redemption. Notice of such rescission of redemption will be given in the same manner notice of redemption was originally given. The actual receipt by the Registered Owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice so mailed will not affect the validity of the rescission.

#### **Project Account**

***Project Account.*** The Master Resolution establishes a project account designated as the “General Obligation Bonds (Prop A, 1992/Prop C, 2016) Project Account” (the “Project Account”). The Project Account will be maintained by the City Treasurer as a separate account, segregated and distinct from all other accounts. The City Treasurer may establish such accounts and subaccounts within the Project Account as may be necessary or convenient in connection with the administration of the Programs or the bonds issued under the Master Resolution.

All of the proceeds of the sale of bonds issued under the Master Resolution (excluding any premium and accrued interest received thereon, unless otherwise determined by the Director of Public Finance) will be deposited by the City Treasurer to the credit of the Project Account and will be applied exclusively to the objects and purposes specified in the Propositions. When such objects and purposes have been accomplished, any moneys remaining in such account will be transferred to the Bond Account (as defined in “SECURITY FOR THE BONDS – Flow of Funds Under the Resolutions”) and applied to the scheduled payment of the principal of and interest on any series of bonds issued under the Master Resolution. Amounts in the Project Account may be applied to the payment of costs of issuance of bonds issued under the Master Resolution, including, without limitation, bond and financial printing expenses, mailing and publication expenses, rating agency fees, and the fees and expenses of paying agents, registrars, financial consultants, bond counsel and disclosure counsel.

***Series 2019A Project Subaccount.*** The Sale Resolution provides that there will be established with the City Treasurer a special subaccount in the Project Account to be designated the “General Obligation Bonds, Taxable Series 2019A Project Subaccount” (the “Series 2019A Project Subaccount”), to be held separate and apart from all other accounts of the City. All interest earned on amounts on deposit in the Series 2019A Project Subaccount will be retained in the Series 2019A Project Subaccount. Amounts in the Series 2019A Project Subaccount will be expended for the purposes approved by the voters in the Proposition.

Amounts in the Series 2019A Project Subaccount may be invested in any investment of the City in which moneys in the General Fund of the City are invested. The City Treasurer may (i) commingle any of the moneys held in the Series 2019A Project Subaccount with other City moneys or (ii) deposit amounts credited to the Series 2019A Project Subaccount into a separate fund or funds for investment purposes only; provided, that all of the moneys held in the Series 2019A Project Subaccount (including interest earnings) will be accounted for separately notwithstanding any such comingling or separate deposit by the City Treasurer. See APPENDIX C – “CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY.”

A portion of the proceeds of the Bonds will be used to pay certain costs related to the issuance of the Bonds. Up to 0.1% of the proceeds of the Bonds is required to be appropriated to fund the Citizens’ General Obligation Bond Oversight Committee, created to oversee various general obligation bond programs of the City. See “Authority for Issuance; Purposes” above.

## **Defeasance**

Payment of all or any portion of the Bonds may be provided for prior to such Bonds’ respective stated maturities by irrevocably depositing with the City Treasurer (or any commercial bank or trust company designated by the City Treasurer to act as escrow agent with respect thereto), in a separate account not commingled with other moneys or securities held by the Treasurer or such escrow agent:

(a) an amount of cash equal to the principal amount of all of such Bonds or a portion thereof, and all unpaid interest thereon to maturity, except that in the case of Bonds which are to be redeemed prior to such Bonds’ respective stated maturities and in respect of which notice of such redemption will have been given as described above or an irrevocable election to give such notice will have been made by the City, the amount to be deposited will be the principal amount thereof, all unpaid interest thereon to the Redemption Date, and any premium due on such Redemption Date; or

(b) Defeasance Securities (as defined below) not subject to call, except as described in the definition below, maturing and paying interest at such times and in such amounts, together with interest earnings and cash, if required, as will, without reinvestment, as certified by an independent certified public accountant, be fully sufficient to pay the principal and all unpaid interest to maturity, or to the Redemption Date, as the case may be, and any premium due on the Bonds to be paid or redeemed, as such principal and interest come due; provided, that, in the case of the Bonds which are to be redeemed prior to maturity, notice of such redemption

will be given as described above or an irrevocable election to give such notice will have been made by the City; then, all obligations of the City with respect to said outstanding Bonds will cease and terminate, except only the obligation of the City to pay or cause to be paid from the funds deposited as described in paragraph (a) and this paragraph (b), to the owners of said Bonds all sums due with respect thereto, and provided further, that the City will have received an opinion of nationally recognized bond counsel that provision for the payment of said Bonds has been made as required by the Resolutions.

As used in this section, the following terms have the meanings given below:

“Defeasance Securities” means any of the following which at the time are legal investments under the laws of the State of California for the moneys proposed to be invested therein: (1) United States Obligations (as defined below); and (2) pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee or paying agent has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or United States Obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund or the redemption account) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated (without regard to any numerical modifier, plus or minus sign or other modifier), at the time of original deposit to the escrow fund, by any two Rating Agencies (as defined below) not lower than the rating then maintained by such Rating Agencies on such United States Obligations.

“United States Obligations” means (i) direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including without limitation, the interest component of Resolution Funding Corporation (REFCORP) bonds that have been stripped by request to the Federal Reserve Bank of New York in book-entry form or (ii) any security issued by an agency or instrumentality of the United States of America that is selected by the Director of Public Finance that results in the escrow fund being rated by any two Rating Agencies, at the time of the initial deposit to the escrow fund and upon any substitution or subsequent deposit to the escrow fund, not lower than the rating then maintained by the respective Rating Agency on United States Obligations described in (i) herein.

“Rating Agencies” means Moody’s Investors Service, Inc., Fitch Ratings, and S&P Global Ratings, or any other nationally-recognized bond rating agency that is the successor to any of the foregoing rating agencies or that is otherwise established after the date of adoption of the Resolutions.

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## SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds in connection with the Bonds:

### Sources

Principal Amount of Bonds	<u>\$72,420,000</u>
<b>Total Sources of Funds</b>	<u><b>\$72,420,000</b></u>

### Uses

Deposit to Series 2019A Project Subaccount <sup>(1)</sup>	\$71,604,050
Underwriters' Discount	205,519
Oversight Committee <sup>(2)</sup>	72,420
Costs of Issuance <sup>(3)</sup>	<u>538,011</u>
<b>Total Uses of Funds</b>	<u><b>\$72,420,000</b></u>

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<sup>(1)</sup> Of the total Series 2019A Project Subaccount deposit, \$71,461,128 will be used to pay Project costs and \$142,922 (representing 0.2% of the Series 2019A Project Subaccount for Project costs) will be used to pay the City's Office of the Controller's audit fee.

<sup>(2)</sup> See "THE BONDS – Authority for Issuance; Purposes – Bond Oversight."

<sup>(3)</sup> Includes fees for services of rating agencies, Co-Municipal Advisors, Co-Bond Counsel, Disclosure Counsel, costs to the City, printing costs, other miscellaneous costs associated with the issuance of the Bonds, and rounding amounts.

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## DEBT SERVICE SCHEDULE

The scheduled debt service payable with respect to the Bonds is as follows:

### City and County of San Francisco Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016) Series 2019A

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>	<u>Fiscal Year Total</u>
6/15/2019	–	\$863,892.22	\$863,892.22	\$863,892.22
12/15/2019	–	1,426,611.00	1,426,611.00	–
6/15/2020	\$895,000	1,426,611.00	2,321,611.00	3,748,222.00
12/15/2020	–	1,415,271.35	1,415,271.35	–
6/15/2021	920,000	1,415,271.35	2,335,271.35	3,750,542.70
12/15/2021	–	1,403,559.75	1,403,559.75	–
6/15/2022	940,000	1,403,559.75	2,343,559.75	3,747,119.50
12/15/2022	–	1,391,231.65	1,391,231.65	–
6/15/2023	965,000	1,391,231.65	2,356,231.65	3,747,463.30
12/15/2023	–	1,378,585.33	1,378,585.33	–
6/15/2024	990,000	1,378,585.33	2,368,585.33	3,747,170.66
12/15/2024	–	1,364,621.38	1,364,621.38	–
6/15/2025	1,020,000	1,364,621.38	2,384,621.38	3,749,242.76
12/15/2025	–	1,349,566.18	1,349,566.18	–
6/15/2026	1,050,000	1,349,566.18	2,399,566.18	3,749,132.36
12/15/2026	–	1,333,543.18	1,333,543.18	–
6/15/2027	1,080,000	1,333,543.18	2,413,543.18	3,747,086.36
12/15/2027	–	1,316,252.38	1,316,252.38	–
6/15/2028	1,115,000	1,316,252.38	2,431,252.38	3,747,504.76
12/15/2028	–	1,297,843.73	1,297,843.73	–
6/15/2029	1,155,000	1,297,843.73	2,452,843.73	3,750,687.46
12/15/2029	–	1,278,485.93	1,278,485.93	–
6/15/2030	1,190,000	1,278,485.93	2,468,485.93	3,746,971.86
12/15/2030	–	1,257,649.03	1,257,649.03	–
6/15/2031	1,235,000	1,257,649.03	2,492,649.03	3,750,298.06
12/15/2031	–	1,235,715.43	1,235,715.43	–
6/15/2032	1,275,000	1,235,715.43	2,510,715.43	3,746,430.86
12/15/2032	–	1,212,752.68	1,212,752.68	–
6/15/2033	1,325,000	1,212,752.68	2,537,752.68	3,750,505.36
12/15/2033	–	1,188,558.18	1,188,558.18	–
6/15/2034	1,370,000	1,188,558.18	2,558,558.18	3,747,116.36
12/15/2034	–	1,163,199.48	1,163,199.48	–
6/15/2035	1,425,000	1,163,199.48	2,588,199.48	3,751,398.96
12/15/2035	–	1,135,262.35	1,135,262.35	–
6/15/2036	1,480,000	1,135,262.35	2,615,262.35	3,750,524.70
12/15/2036	–	1,106,246.95	1,106,246.95	–
6/15/2037	1,535,000	1,106,246.95	2,641,246.95	3,747,493.90
12/15/2037	–	1,076,153.28	1,076,153.28	–
6/15/2038	1,595,000	1,076,153.28	2,671,153.28	3,747,306.56
12/15/2038	–	1,044,883.30	1,044,883.30	–
6/15/2039	1,660,000	1,044,883.30	2,704,883.30	3,749,766.60
12/15/2039	–	1,012,339.00	1,012,339.00	–



<b>Payment Date</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Principal and Interest</b>	<b>Fiscal Year Total</b>
6/15/2040	1,725,000	1,012,339.00	2,737,339.00	3,749,678.00
12/15/2040	–	977,485.38	977,485.38	–
6/15/2041	1,795,000	977,485.38	2,772,485.38	3,749,970.76
12/15/2041	–	941,217.40	941,217.40	–
6/15/2042	1,865,000	941,217.40	2,806,217.40	3,747,434.80
12/15/2042	–	903,535.08	903,535.08	–
6/15/2043	1,940,000	903,535.08	2,843,535.08	3,747,070.16
12/15/2043	–	864,337.38	864,337.38	–
6/15/2044	2,020,000	864,337.38	2,884,337.38	3,748,674.76
12/15/2044	–	823,523.28	823,523.28	–
6/15/2045	2,100,000	823,523.28	2,923,523.28	3,747,046.56
12/15/2045	–	781,092.78	781,092.78	–
6/15/2046	2,185,000	781,092.78	2,966,092.78	3,747,185.56
12/15/2046	–	736,944.85	736,944.85	–
6/15/2047	2,275,000	736,944.85	3,011,944.85	3,748,889.70
12/15/2047	–	690,978.48	690,978.48	–
6/15/2048	2,365,000	690,978.48	3,055,978.48	3,746,956.96
12/15/2048	–	643,193.65	643,193.65	–
6/15/2049	2,460,000	643,193.65	3,103,193.65	3,746,387.30
12/15/2049	–	593,489.35	593,489.35	–
6/15/2050	2,560,000	593,489.35	3,153,489.35	3,746,978.70
12/15/2050	–	538,180.55	538,180.55	–
6/15/2051	2,670,000	538,180.55	3,208,180.55	3,746,361.10
12/15/2051	–	480,495.20	480,495.20	–
6/15/2052	2,790,000	480,495.20	3,270,495.20	3,750,990.40
12/15/2052	–	420,217.25	420,217.25	–
6/15/2053	2,910,000	420,217.25	3,330,217.25	3,750,434.50
12/15/2053	–	357,346.70	357,346.70	–
6/15/2054	3,035,000	357,346.70	3,392,346.70	3,749,693.40
12/15/2054	–	291,775.53	291,775.53	–
6/15/2055	3,165,000	291,775.53	3,456,775.53	3,748,551.06
12/15/2055	–	223,395.70	223,395.70	–
6/15/2056	3,300,000	223,395.70	3,523,395.70	3,746,791.40
12/15/2056	–	152,099.20	152,099.20	–
6/15/2057	3,445,000	152,099.20	3,597,099.20	3,749,198.40
12/15/2057	–	77,669.98	77,669.98	–
6/15/2058	3,595,000	77,669.98	3,672,669.98	3,750,339.96
<b>Total</b>	<b>\$72,420,000</b>	<b>\$74,634,510.78</b>	<b>\$147,054,510.78</b>	<b>\$147,054,510.78</b>

## SECURITY FOR THE BONDS

### General

Pursuant to the Resolutions, for the purpose of paying the principal of and interest on the Bonds, the Board of Supervisors annually will fix, levy and collect until the Bonds are paid, or until there is a sum set apart for that purpose in the Treasury of the City sufficient to meet all sums coming due for payment of principal of and interest on the Bonds, an ad valorem tax sufficient to pay the annual principal of and interest on the Bonds as the same become due. In fixing such tax levy for each fiscal year, the Board of Supervisors will take into account amounts then on deposit in the Program Revenues Subaccount (as defined under “Flow of Funds Under the Resolutions”) and amounts then on deposit in the Tax Revenues Subaccount (as defined under “Flow of Funds Under the Resolutions”), if such amounts will be available to pay debt service on the Bonds. Said tax will be in addition to all other taxes levied for City purposes, will be collected at the time and in the same manner as other taxes of the City are collected, and will be used only for the payment of the Bonds and the interest thereon. Under the framework of the constitutional provisions and statutes applicable to California general obligation bonds, including the Bonds, taxes levied to pay debt service on the Bonds may not be used for any other purpose and are not available to support general City operations. See “Property Taxation” below.

Pursuant to Section 53515 of the California Government Code, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the ad valorem taxes levied for the Bonds. See “Statutory Lien on Taxes (Senate Bill 222)” below.

The Propositions require that all Loan Repayments received by the City will be used to pay debt service on general obligation bonds issued under the Propositions (including the Bonds), except for Loan Repayments received after the retirement of all general obligation bonds issued under the Propositions which may be used for any lawful purpose. See “THE BONDS – Authority for Issuance; Purposes” and “Flow of Funds Under the Resolutions – Loan Repayments” below.

Pursuant to the Resolutions, the City will pledge the Bond Account (as defined under “Flow of Funds Under the Resolutions”) and all subaccounts and amounts on deposit therein for the payment of the principal of and interest on bonds issued under the Master Resolution (including the Bonds) when and as the same become due. See “Pledge” below.

### Flow of Funds Under the Resolutions

***Bond Account.*** The Master Resolution provides that there will be established with the City Treasurer a special account to be designated as the “General Obligation Bonds (Prop A, 1992/Prop C, 2016) Bond Account” (the “Bond Account”). The Bond Account and all subaccounts therein will be administered by the City Treasurer with all disbursements of funds therefrom subject to authorization of the Controller. The Bond Account will be kept separate and apart from all other accounts, and each subaccount therein will be kept separate and apart from all other subaccounts. Pursuant to the applicable sale resolution, the Controller may establish such additional accounts and subaccounts within the Bond Account or with any agent, including but not limited to any paying agent or fiscal agent, as may be necessary or convenient in connection with the administration of any series of bonds issued under the Master Resolution, to provide for the payment of principal and interest on such series of bonds.

The City Treasurer will deposit in the Bond Account from the proceeds of sale of bonds issued pursuant to the Master Resolution, any moneys received on account of original issue premium and interest accrued on bonds issued under the Master Resolution to the date of payment of the purchase price thereof, and such other moneys, if any, as may be specified in the applicable sale resolution. So long as any of the bonds issued under the Master Resolution are outstanding, moneys in the Bond Account will be used and applied by the City Treasurer solely for the purpose of paying the principal of and interest on such bonds as such principal

and interest become due and payable, or for purchase of such bonds if permitted by the applicable sale resolution; provided, however, that when all of the principal of and interest on such bonds have been paid, any moneys then remaining in said Bond Account will be transferred to the City for any legally permitted purpose. The Board of Supervisors will take such actions annually as are necessary or appropriate to cause the debt service on the bonds issued under the Master Resolution due in any fiscal year to be included in the budget for such fiscal year and to make the necessary appropriations therefor.

Pursuant to the Master Resolution, all ad valorem taxes collected by the City for the payment of debt service on the Bonds as described herein will be deposited in a special subaccount within the Bond Account to be designated as the “Tax Revenues Subaccount.”

*Series 2019A Bond Subaccount.* The Sale Resolution provides that there will be established with the City Treasurer a special subaccount in the Bond Account to be designated as the “General Obligation Bonds, Taxable Series 2019A Bond Subaccount” (the “Series 2019A Bond Subaccount”), to be held separate and apart from all other accounts of the City.

The Sale Resolution provides that (i) on or prior to the date on which any payment of principal of or interest on the Bonds is due, including any Bonds subject to mandatory redemption on said date, the City Treasurer will allocate to and deposit in the Series 2019A Bond Subaccount, first from amounts held in the Program Revenues Subaccount of the Bond Account, until such subaccount is exhausted, and second, from amounts held in the Tax Revenues Subaccount of the Bond Account, an aggregate amount which, when added to any available moneys contained in the Series 2019A Bond Subaccount, is sufficient to pay principal of and interest on the Bonds on such date, and (ii) on or prior to the date on which any Bonds are to be redeemed at the option of the City, the City Treasurer may allocate to and deposit in the Series 2019A Redemption Account, from amounts held in the Bond Account, an amount which, when added to any available moneys contained in the Series 2019A Redemption Account, is sufficient to pay principal, interest and premium, if any, with respect to such Bonds on such date. The City Treasurer may make such other provision for the payment of principal of and interest and any redemption premium on the Bonds as is necessary or convenient to permit the optional redemption of the Bonds.

Amounts in the Series 2019A Bond Subaccount may be invested in any investment of the City in which moneys in the General Fund of the City are invested. The City Treasurer may (i) commingle any of the moneys held in the Series 2019A Bond Subaccount with other City moneys or (ii) deposit amounts credited to the Series 2019A Bond Subaccount into a separate fund or funds for investment purposes only; provided, that all of the moneys held in the Series 2019A Bond Subaccount will be accounted for separately notwithstanding any such commingling or separate deposit by the City Treasurer. See APPENDIX C – “CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY.” All interest earned on amounts on deposit in the Series 2019A Bond Subaccount will be retained in the Series 2019A Bond Subaccount.

*Loan Repayments.* For the purpose of paying the principal of and interest on bonds issued under the Master Resolution (including the Bonds), the City will collect, until all such bonds are paid, or until there is a sum set apart for that purpose in the treasury of the City sufficient to meet all sums coming due for payment of principal of and interest on such bonds, all Loan Repayments. All Loan Repayments collected by the City will be deposited in a special subaccount to be designated as the “Program Revenues Subaccount,” which will be a subaccount within the Bond Account.

**So long as any bonds issued under the Master Resolution are outstanding, moneys in the Program Revenues Subaccount will be used and applied by the City Treasurer solely for the purpose of paying the principal of and interest on such bonds as such principal and interest will become due and payable, or for purchase of bonds if permitted by the applicable sale resolution;** provided, however, that when all of the principal of and interest on such bonds have been paid, any moneys then remaining in said Program Revenues Subaccount will be transferred to the City for any legally permitted purpose. The City

Treasurer will utilize available moneys on deposit in the Program Revenues Subaccount to pay principal and interest on bonds issued under the Master Resolution (including the Bonds) before using moneys on deposit in the Tax Revenues Subaccount for such purpose.

*Interest.* On or before June 15 and December 15 in each year that any of the bonds issued under the Master Resolution are outstanding (or, for any series of bonds bearing interest at variable rates, on such other dates as may be provided by the applicable sale resolution), the City Treasurer will set aside in the Bond Account and the appropriate subaccounts therein relating to each series of the bonds an amount which, when added to the amount contained in the Bond Account and subaccounts therein on that date, if any, will be equal to the aggregate amount of the interest becoming due and payable on each series of such bonds outstanding on such interest payment date.

*Principal.* On or before June 15 in each year that any of the bonds issued under the Master Resolution are outstanding, the City Treasurer will set aside in the Bond Account and the appropriate subaccounts therein relating to each series of such bonds an amount which will be equal to the principal on each series of such bonds outstanding that will become due and payable on said June 15, including those bonds subject to mandatory redemption on such date pursuant to the provisions of the applicable sale resolution.

All moneys in the Bond Account will be used and withdrawn by the City Treasurer solely for the purpose of paying the principal of and interest on each series of bonds issued under the Master Resolution as the same become due and payable. On June 15 and December 15 in each year that any such bond is outstanding, the City Treasurer will allocate, transfer and apply to the various subaccounts in the Bond Account created pursuant to the applicable sale resolution, on such date on which payment of principal or interest on any series of bonds is due, from moneys on deposit in the Bond Account, an amount equal to the amount of principal of, premium, if any, or interest due on said date with respect to each series of the bonds then outstanding. Unless other provision is made pursuant to the Master Resolution for the payment of any bond, all amounts held in the various subaccounts of the Bond Account created pursuant to a sale resolution will be used and applied by the City Treasurer to pay principal of, premium, if any, and interest due on the series of the bonds to which such subaccount relates, as and when due.

### **Pledge**

Pursuant to the Resolutions, the City will pledge the Bond Account and all subaccounts and amounts on deposit therein for the payment of the principal of and interest on bonds issued under the Master Resolution (including the Bonds) when and as the same become due, including the principal of any term bonds required to be paid upon the mandatory sinking fund redemption thereof. In addition, the payment of such principal and interest will be secured by the statutory lien of California Government Code Section 53515, to the extent applicable to the amounts of ad valorem taxes on deposit in the Bond Account. Each and every series of bonds issued under the Master Resolution will be equally and ratably secured by this pledge, the foregoing statutory lien, and the taxes collected as described above.

### **Statutory Lien on Taxes (Senate Bill 222)**

Pursuant to Section 53515 of the California Government Code, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the ad valorem taxes levied for the Bonds. Section 53515 of the California Government Code provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time such bonds are executed and delivered. Section 53515 of the California Government Code further provides that the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will immediately attach to the revenues and be effective, binding and enforceable against the local agency, its successor, transferees and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing or further act. See "CERTAIN RISK FACTORS – Limitation on Remedies; Bankruptcy."

In addition to the ad valorem taxes levied for the Bonds, the Bonds are payable from Loan Repayments collected by the City.

### **Property Taxation**

**General.** The City levies property taxes for general operating purposes as well as for the payment of voter-approved general obligation bonds. Taxes levied to pay debt service for general obligation bonds may only be applied for that purpose. 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. Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the City. At the start of fiscal year 2018-19, the total net assessed valuation of taxable property within the City was approximately \$259.3 billion. For additional information on the property taxation system, assessed values and appeals to assessed values, see APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Property Taxation.”

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

Of the \$259.3 billion total net assessed valuation of taxable property within the City, \$244.9 billion (94.4%) represents secured valuations and \$14.4 billion (5.6%) represents unsecured valuations. Proposition 13 limits to 2% per year any increase in the assessed value of property, unless it is sold or the structure is improved. The total net assessed valuation of taxable property therefore does not generally reflect the current market value of taxable property within the City and is in the aggregate substantially less than current market value. For this same reason, the total net assessed valuation of taxable property lags behind changes in market value and may continue to increase even without an increase in aggregate market values of property.

Under Article XIII A of the State Constitution added by Proposition 13 in 1978, property must be reassessed to full cash value at the time of sale. Taxpayers can appeal the Assessor’s determination of their property’s assessed value, and the appeals may be retroactive and for multiple years. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with counties’ property assessments.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in assessment appeals as the economy rebounds. 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. Historical information on refunds of prior years’ property taxes from the discretionary General Fund appeals reserve fund are listed in Table A-6 of APPENDIX A attached hereto.

***Tax Levy and Collection Process.*** Generally, property taxes levied by the City on real property becomes 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.

***Teeter Plan.*** In October 1993, the Board of Supervisors of the City passed a resolution that adopted the Alternative Method of Tax Apportionment (the “Teeter Plan”). The Teeter Plan method authorizes the City Controller to allocate to the City’s taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City’s General Fund retains such amounts. 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. Information on this Reserve is as shown on Table A-7 in APPENDIX A attached hereto.

***Taxation of 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 2018-19 valuation of property assessed by the State Board of Equalization is \$3.7 billion. See “RECENT DEVELOPMENTS – Pacific Gas & Electric Bankruptcy Filing.”

## **CERTAIN RISK FACTORS**

### **Factors Affecting Property Tax Security for the Bonds**

The annual property tax rate for repayment of the Bonds will be based on the total assessed value of taxable property in the City and the scheduled debt service on the Bonds in each year, less any other lawfully available funds applied by the City for repayment of the Bonds. Fluctuations in the annual debt service on the

Bonds, the assessed value of taxable property in the City, and the availability of such other funds in any year, may cause the annual property tax rate applicable to the Bonds to fluctuate. Issuance by the City of additional authorized bonds payable from *ad valorem* property taxes may cause the overall property tax rate to increase.

Discussed below are certain factors that may affect the City's ability to levy and collect sufficient taxes to pay scheduled debt service on the Bonds each year. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" for additional information on these factors.

***Total Assessed Value of Taxable Property in the City.*** The greater the assessed value of taxable property in the City, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on bonds. The net total assessed valuation of taxable property in the City in fiscal year 2018-19 is approximately \$259.3 billion. During economic downturns, declining market values of real estate, increased foreclosures, and increases in requests submitted to the Assessor and the Assessment Appeals Board for reductions in assessed value have generally caused a reduction in the assessed value of some properties in the City. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Property Taxation – Assessed Valuations, Tax Rates and Tax Delinquencies."

Natural and economic forces can affect the assessed value of taxable property in the City. The City is located in a seismically active region, and damage from an earthquake in or near the City could cause moderate to extensive or total damage to taxable property. See "Seismic Risks" below. Other natural or man-made disasters, such as flood and sea level rise (see "Climate Change, Risk of Sea Level Rise and Flooding Damage" below), fire, toxic dumping or acts of terrorism, could also cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the Bay Area's economy generally, can also affect assessed values, particularly as these forces might reverberate in the residential housing and commercial property markets. In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

***Concentration of Taxable Property Ownership.*** The more property (by assessed value) owned by any single assessee, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. As of July 1, 2018, no single assessee owned more than 0.52% of the total taxable assessed value in the City. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Property Taxation – Tax Levy and Collection."

***Property Tax Rates.*** One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax. The total tax rate per \$100 of assessed value (including the basic countywide 1% rate required by statute) is discussed further in APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Property Taxation – Assessed Valuations, Tax Rates and Tax Delinquencies."

***Debt Burden on Owners of Taxable Property in the City.*** Another measure of the debt burden on local taxpayers is total debt as a percentage of taxable property value. Issuance of general obligation bonds by the City is limited under Section 9.106 of the Charter to 3.00% of the assessed value of all taxable real and personal property located within the City's boundaries. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's gross general obligation debt limit for fiscal year 2018-19 is approximately \$7.8 billion, based on a net total assessed valuation of approximately \$259.3 billion. As of January 15, 2019, the City had outstanding approximately \$2.456 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.95% of the net assessed valuation for fiscal year 2018-19. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Capital Financing and Bonds."

***Additional Debt; Authorized but Unissued Bonds.*** Issuance of additional authorized bonds can cause the overall property tax rate to increase. As of January 15, 2019, the City had voter approval to issue up to \$1.17 billion in additional aggregate principal amount of new bonds payable from *ad valorem* property taxes. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Capital Financing and Bonds – General Obligation Bonds.” In addition, the City expects that it will propose further bond measures to the voters from time to time to help meet its capital needs. The City’s most recent adopted 10-year capital plan identifies \$35.2 billion of capital needs for all City departments. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Capital Financing and Bonds – Capital Plan.”

***Limitations on Development.*** Construction and development in the City could be limited by governmental or legal limits on growth and/or challenges in the approval of certain residential and commercial projects. For example, San Francisco voters passed Proposition M in November 1986 which created an annual limit on the construction of new office space throughout the City (i.e., 950,000 square feet per year). Proposition M amended the Office Development Annual Limit Program (the “Annual Limit Program”) under the City’s Planning Code, which Annual Limit Program governs the approval of all development projects that contain more than 25,000 gross square feet of office space. The central provision of the Annual Limit Program is a “metering limit” designed to restrict the amount of office space authorized in a given year. No office project subject to the metering limit can be entitled without receiving an allocation under the Annual Limit Program. In doing so, the Annual Limit Program aims to ensure a manageable rate of new development and to guard against typical “boom and bust” cycles, among other goals.

### **City Long-Term Financial 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 (see, for example, “Seismic Risks” and “Climate Change, Risk of Sea Level Rise and Flooding Damage” below). 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 10-year capital plan. The City’s most recent adopted 10-year capital plan sets forth \$35.2 billion of capital needs for all City departments. However identified funding resources are below those necessary to maintain and enhance the City’s physical infrastructure. As a result, over \$4.6 billion in capital needs are deferred from the capital plan’s 10-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.

In addition, the City faces long-term challenges with respect to the management of pension and post-employment retirement obligations. The City has taken major 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 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 its operating budget for future economic downturns, these measures may not be sufficient. Economic stabilization reserves have grown significantly during the last seven fiscal years. As of June 30, 2018, the unaudited, estimated balance for such



reserves is approximately \$472.6 million, which is approximately 9.5% of discretionary General Fund revenues, and is below adopted target levels of 10% of discretionary General Fund revenues. However, the City expects that meeting the 10% adopted target level of reserves will not eliminate the need to cut expenditures in a recession to balance the City's budget.

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 FISCAL YEAR ENDED JUNE 30, 2017.”

## **Seismic Risks**

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

**California Earthquake Probabilities Study.** In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Survey, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more quakes of about magnitude 6.7 (the magnitude of the 1994 Northridge earthquake) or larger will occur in the San Francisco Bay Area before the year 2045. In addition, the U.S.G.S. released a report in April 2017 entitled The HayWired Earthquake Scenario, which estimates that property damage and direct business disruption losses from a magnitude 7.0 earthquake on the Hayward Fault would be more than \$82 billion (in 2016 dollars). Most of the losses are expected to be attributable to shaking damage, liquefaction, and landslides (in that order). Eighty percent of shaking damage is expected to be caused by the magnitude 7.0 mainshock, with the rest of the damage resulting from aftershocks occurring over a 2-year period thereafter. Such earthquakes could be very destructive. In addition to the potential damage to 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.

**Vulnerability Study of the Northern Waterfront Seawall.** In early 2016, the Port Commission of the City commissioned an earthquake vulnerability study of the Northern Waterfront Seawall. The three-mile Seawall was constructed over 100 years ago and sits on reclaimed land, rendering it vulnerable to seismic risk. The Seawall provides flood and wave protection to downtown San Francisco, and stabilizes hundreds of acres of filled land. Preliminary findings of the study indicate that a strong earthquake may cause most of the Seawall to settle and move outward toward the Bay, which would significantly increase earthquake damage and disruption along the waterfront. The 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. In November 2018, the voters of the City approved Proposition A, authorizing the City to issue \$425 million in bonds for the purpose of funding repairs and improvements to the Embarcadero Seawall and Embarcadero infrastructure and utilities for earthquake and

flood safety. See “Climate Change, Risk of Sea Level Rise and Flooding Damage” below and APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Capital Financing and Bonds – General Obligation Bonds.”

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

On January 24, 2019, Mayor London N. Breed issued an executive directive instructing City departments to work with community stakeholders, develop regulations to address geotechnical and engineering issues, clarify emergency response and safety inspection roles, and establish a Disaster Recovery Task Force for citywide recovery planning, including a comprehensive recovery plan for the financial district and surrounding neighborhoods by the end of the year.

The City obtains commercial insurance only in certain limited circumstances, including when required by bond or lease financing transactions and for other limited purposes. The City does not maintain commercial earthquake coverage, with certain minor exceptions. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Litigation and Risk Management.”

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

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

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

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

Adapting to sea level rise is a key component of the City's policies. The City and its enterprise departments have been preparing for future sea level rise for many years and have issued a number of public reports. For example, in March 2016, the City released a report entitled "Sea Level Rise Action Plan," identifying geographic zones at risk of sea level rise and providing a framework for adaptation strategies to confront these risks. That study shows an upper range of end-of-century projections for permanent sea level rise, including the effects of temporary flooding due to a 100-year storm, of up to 108 inches above the 2015 average high tide. To implement this Plan, the Mayor's Sea Level Rise Coordinating Committee, co-chaired by the Planning Department and the Port of San Francisco, joined a number of other public agencies to create "Adapt SF," which is now drafting a Citywide Sea Level Rise Vulnerability Assessment, a Citywide Sea Level Rise Risk Assessment, a Sea Level Rise Adaptation Plan, public maps and tools to communicate sea level rise impacts and implementation of near-term adaptation projects. The City's Sea Level Rise Action Plan states that one key missing piece of information is an understanding of the effects of climate change on precipitation. Certain City departments are engaging a consultant team to model future storm events, quantify how climate change impacts extreme storms, and prepare an action plan for addressing climate change for use by the City departments. The consultants' study is expected to be completed in 2019.

In April 2017, the Working Group of the California Ocean Protection Council Science Advisory Team (in collaboration with several state agencies, including the California Natural Resource Agency, the Governor's Office of Planning and Research, and the California Energy Commission) published a report, that was formally adopted in March 2018, entitled "Rising Seas in California: An Update on Sea Level Rise Science" (the "Sea Level Rise Report") to provide a new synthesis of the state of science regarding sea level rise. The Sea Level Rise Report provides the basis for State guidance to state and local agencies for incorporating sea level rise into design, planning, permitting, construction, investment and other decisions. Among many findings, the Sea Level Rise Report indicates that the effects of sea level rise are already being felt in coastal California with more extensive coastal flooding during storms, exacerbated tidal flooding, and increased coastal erosion. In addition, the report notes that the rate of ice sheet loss from Greenland and Antarctic ice sheets poses a particular risk of sea level rise for the California coastline.

The City has already incorporated site specific adaption plans in the conditions of approval for certain large waterfront development projects, such as the Candlestick/Hunters Point Shipyard, Treasure Island, Pier 70 and Mission Rock projects. Also, the City has started the process of planning to fortify the Port's seawall from sea level rise, including an initial investment of about \$8 million during fiscal year 2017-18 and consideration of financing options. The City expects short term upgrades to cost over \$500 million and long term upgrades to cost more than \$5 billion.

Portions of the San Francisco Bay Area, including the City, are built on fill that was placed over saturated silty clay known as "Bay Mud." This Bay Mud is soft and compressible, and the consolidation of the Bay Mud under the weight of the existing fill is ongoing. A report issued in March 2018 by researchers at UC Berkeley and the University of Arizona suggests that flooding risk from climate change could be exacerbated in the San Francisco Bay Area due to the sinking or settling of the ground surface, known as subsidence. The study claims that the risk of subsidence is more significant for certain parts of the City built on fill.

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

of those strategies and whether the City will be required to take additional adaptive mitigation measures. If necessary, such additional measures could require significant capital resources.

In September 2017, the City filed a lawsuit against the five largest investor-owned oil companies seeking to have the companies pay into an equitable abatement fund to help fund investment in sea level rise adaptation infrastructure. In July 2018, the United States District Court, Northern District of California denied the plaintiffs' motion for remand to state court, and then dismissed the lawsuit. The City appealed these decisions to the United States Court of Appeals for the Ninth Circuit, which is pending. While the City believes that its claims are meritorious, the City can give no assurance regarding whether it will be successful and obtain the requested relief from the courts, or contributions to the abatement fund from the defendant oil companies.

In November 2018, the voters of the City approved Proposition A, authorizing the City to issue \$425 million in bonds for the purpose of funding repairs and improvements to the Embarcadero Seawall and Embarcadero infrastructure and utilities for earthquake and flood safety. Proposition A is intended to fund the first of three repair and construction phases for the Embarcadero Seawall, which spans the northern shoreline of San Francisco from Fisherman's Wharf to China Basin. The City has not yet issued bonds under this authorization. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Capital Financing and Bonds – General Obligation Bonds."

## **Cybersecurity**

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

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

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

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

### **Limitation on Remedies; Bankruptcy**

**General.** The rights of the owners of the Bonds are subject to limitations on legal remedies against the City, including applicable bankruptcy or similar laws affecting the enforcement of creditors' rights generally, now or hereafter in effect. Bankruptcy proceedings, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise, and consequently may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the City were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the parties to the proceedings may be prohibited from taking any action to collect any amount from the City (including ad valorem tax revenues or Loan Repayments) or to enforce any obligation of the City, without the bankruptcy court's permission. In such a proceeding, as part of its plan of adjustment in bankruptcy, the City may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable. In addition, in such a proceeding, as part of such a plan, the City may be able to eliminate the obligation of the City to raise taxes if necessary to pay the Bonds. There also may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the Bonds. Moreover, regardless of any specific adverse determinations in any City bankruptcy proceeding, the fact of a City bankruptcy proceeding, could have an adverse effect on the liquidity and market price of the Bonds.

As stated above, if the City were to go into bankruptcy, the bankruptcy petition would be filed under Chapter 9 of the Bankruptcy Code. Chapter 9 provides that it does not limit or impair the power of a state to control, by legislation or otherwise, a municipality of or in such state in the exercise of the political or governmental powers of such municipality, including expenditures for such exercise. For purposes of the language of Chapter 9, the City is a municipality. State law provides that the ad valorem taxes levied to pay the principal and interest on the Bonds shall be used for the payment of principal and interest of the City's general obligation bonds and for no other purpose. If this restriction on the expenditure of such ad valorem taxes is respected in a bankruptcy case, then the ad valorem tax revenue could not be used by the City for any purpose other than to make payments on the Bonds. It is possible, however, that a bankruptcy court could conclude that the restriction should not be respected.

**Statutory Lien.** Pursuant to Section 53515 of the California Government Code (which became effective on January 1, 2016, as part of Senate Bill 222), the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the ad valorem taxes levied for the Bonds. Section 53515 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. See "SECURITY FOR THE BONDS." Although a statutory lien would not be automatically terminated by the filing of a Chapter 9 bankruptcy petition by the City, the automatic stay provisions of the Bankruptcy Code would apply and payments that become due and owing on the Bonds during the pendency of the Chapter 9 proceeding could be delayed (unless the Bonds are determined to be secured by a pledge of "special revenues" within the meaning of the Bankruptcy Code and the pledged taxes are applied to pay the Bonds in a manner consistent with the Bankruptcy Code).

***Special Revenues.*** If the tax revenues or the Loan Repayments that are pledged to the payment of the Bonds (see “SECURITY FOR THE BONDS”) are determined to be “special revenues” within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged ad valorem revenues or Loan Repayments that are collected after the date of the bankruptcy filing should not be subject to the automatic stay. “Special revenues” are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. The City has specifically pledged the taxes and Loan Repayments for payment of the Bonds. Additionally, the ad valorem taxes levied for payment of the Bonds are permitted under the State Constitution only where the applicable bond proposition is approved by at least two-thirds of the votes cast. State law prohibits the use of the tax proceeds for any purpose other than payment of the bonds and the bond proceeds can only be used to fund the acquisition or improvement of real property and other capital expenditures included in the proposition so such tax revenues appear to fit the definition of special revenues. However, there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of ad valorem tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise.

In addition, even if the ad valorem tax revenues or the Loan Repayments are determined to be “special revenues,” the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, a bankruptcy court could determine that the City is entitled to use the ad valorem tax revenues or Loan Repayments to pay necessary operating expenses of the City before the remaining revenues are paid to the owners of the Bonds.

***Possession of Revenues; Remedies.*** If the City goes into bankruptcy and has possession of tax revenues or Loan Repayments (whether collected before or after commencement of the bankruptcy), and if the City does not voluntarily pay such tax revenues or Loan Repayments to the owners of the Bonds, it is not entirely clear what procedures the owners of the Bonds would have to follow to attempt to obtain possession of such tax revenues or Loan Repayments, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful.

## **Other Events**

Seismic events, wildfires, tsunamis, and other natural or man-made events may adversely impact persons and property within San Francisco, and damage City infrastructure and adversely impact the City’s ability to provide municipal services. For example, in August 2013, a massive wildfire in Tuolumne County and the Stanislaus National Forest burned over 257,135 acres (the “Rim Fire”), which area included portions of the City’s Hetch Hetchy Project. The Hetch Hetchy Project is comprised of dams (including O’Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir which supplies 85% of San Francisco’s drinking water), hydroelectric generation and transmission facilities and water transmission facilities. SFPUC is currently conducting an overall conditions assessment of all dams in its system. Hetch Hetchy facilities affected by the Rim Fire included two power generating stations and the southern edge of the Hetch Hetchy Reservoir. There was no impact to drinking water quality. The City’s hydroelectric power generation system was interrupted by the fire, forcing the San Francisco Public Utilities Commission to spend approximately \$1.6 million buying power on the open market and using existing banked energy with PG&E. The Rim Fire inflicted approximately \$40 million in damage to parts of the City’s water and power infrastructure located in the region. Certain portions of the Hetch Hetchy Project such as Mountain Tunnel, an 18.9-mile water conveyance facility, are old and deteriorating, and outages at critical points of the project could disrupt water delivery to significant portions of the region and/or cause significant costs and liabilities to the City. SFPUC’s adopted fiscal year 2019-28 capital plan includes approximately \$211 million for improvements to Mountain Tunnel to mitigate these vulnerabilities.

In September 2010, a PG&E high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. PG&E owns, operates and maintains numerous gas transmission and distribution pipelines throughout the City.

With certain exceptions, the City believes that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., “self-insurance”). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing transactions and for other limited purposes. The City does not maintain commercial earthquake coverage, with certain minor exceptions. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Litigation and Risk Management.”

## **TAX MATTERS**

The interest on the Bonds is not intended by the City to be excluded from gross income for federal income tax purposes. However, in the opinion of Jones Hall, A Professional Law Corporation (“Co-Bond Counsel”), San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, interest on the Bonds is exempt from personal income taxation imposed by the State of California. The proposed form of opinion of Co-Bond Counsel with respect to the Bonds to be delivered on the date of issuance of the Bonds is set forth in APPENDIX F.

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

## **OTHER LEGAL MATTERS**

Certain legal matters incident to the authorization, issuance and sale of the Bonds and with regard to the tax status of the interest on the Bonds (see “TAX MATTERS” herein) are subject to the legal opinions of Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel to the City. The signed legal opinions of Co-Bond Counsel, dated and premised on facts existing and law in effect as of the date of original delivery of the Bonds, will be delivered to the initial purchaser of the Bonds at the time of original delivery of the Bonds.

The proposed form of the legal opinion of Co-Bond Counsel is set forth in APPENDIX F hereto. The opinions will speak only as of their date, and subsequent distributions of them by recirculation of this Official Statement or otherwise will create no implication that Co-Bond Counsel have reviewed or express any opinion concerning any of the matters referred to in the respective opinions subsequent to their date. In rendering their opinions, Co-Bond Counsel will rely upon certificates and representations of facts to be contained in the transcript of proceedings for the Bonds, which Co-Bond Counsel will not have independently verified.

Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel.

Hawkins Delafield & Wood LLP 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 Bonds, Disclosure Counsel will deliver a letter to the City and the Underwriters which advises the City and the Underwriters, subject to the assumptions, exclusions, qualifications and limitations set forth therein, that no facts came to attention of such firm which caused them to believe that the Preliminary Official Statement, as of its date, and the Official Statement as of its date and as of the date of delivery of the Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Bonds, or other person or party other than the City, will be entitled to or may rely on such letter or Hawkins Delafield & Wood LLP's having acted in the role of disclosure counsel to the City.

Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling, Yocca, Carlson & Rauth, Newport Beach, California.

### **PROFESSIONALS INVOLVED IN THE OFFERING**

Ross Financial, San Francisco, California and Sperry Capital Inc., Sausalito, California, have served as Co-Municipal Advisors to the City with respect to the sale of the Bonds. The Co-Municipal Advisors have participated with responsible City officials and staff in conferences and meetings where information contained in this Official Statement was reviewed and assisted the City in other matters relating to the planning, structuring, and sale of the Bonds. The Co-Municipal Advisors have neither independently verified any of the data contained herein nor conducted an independent 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, Co-Bond Counsel, Disclosure Counsel and Underwriters' Counsel will all receive compensation for services rendered in connection with the Bonds contingent upon the sale and delivery of the Bonds. The City Treasurer is acting as paying agent and registrar with respect to the Bonds.

### **ABSENCE OF LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds, the ability of the City to levy the ad valorem tax required to pay debt service on the Bonds, 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 Bonds and other documents and certificates in connection therewith. The City will furnish to the initial purchaser of the Bonds a certificate of the City as to the foregoing as of the time of the original delivery of the Bonds.

### **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds 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 2017-18, which is due not later than March 27, 2019, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Electronic Municipal Market Access System ("EMMA") of the Municipal Securities Rulemaking Board. The notices of enumerated events will be filed by the City with EMMA. 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 purchaser of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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.sf.gov/controller](http://www.sf.gov/controller).



## RATINGS

Moody's Investors Service, Inc. ("Moody's"), S&P Global Ratings ("S&P"), and Fitch Ratings ("Fitch"), have assigned municipal bond ratings of "Aaa," "AAA," and "AA+," respectively, to the Bonds. Certain information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Bonds. 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.moody.com](http://www.moody.com); S&P, at [www.spratings.com](http://www.spratings.com); and Fitch, at [www.fitchratings.com](http://www.fitchratings.com). The information presented on the website of each rating agency is not incorporated by reference as part of this Official Statement. 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 or marketability of the Bonds. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

## UNDERWRITING

The City has entered into a purchase contract with Citigroup Global Markets Inc., on behalf of itself and Loop Capital Markets and Raymond James & Associates (collectively, the "Underwriters") pursuant to which the Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at the purchase price of \$72,214,480.96 (being the principal amount of the Bonds of \$72,420,000 and less an Underwriters' discount of \$205,519.04). The Underwriters are obligated under the purchase contract to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriters to certain dealers and others at yields lower than the public offering yield indicated on the inside cover page hereof, and such public offering yield may be changed, from time to time, by the Underwriters.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a Division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

## 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 contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. This Official Statement is not to be construed as a contract or agreement between the City and the initial purchaser or owners and beneficial owners of any of the Bonds.



**APPENDIX A**

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

**This Appendix contains information that is current as of January 15, 2019.**

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

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in this Appendix A which are hosted on the City’s website. A wide variety of other information, including financial information, concerning the City is available from the City’s publications, websites and its departments. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded and is not a part of or incorporated into this Appendix A and should not be considered in making a decision to buy the bonds. 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 make an informed investment decision.

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## **CITY GOVERNMENT**

### **City Charter**

San Francisco is constituted as a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the "State") and is the only consolidated city and county in the State. In addition to its powers under its charter in respect of municipal affairs granted under the State Constitution, San Francisco generally can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted by territorial government to the City. New City charters were adopted by the voters on May 26, 1898, effective January 8, 1900, and on March 26, 1931, effective January 8, 1932. In November 1995, 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 TK-12) ("SFUSD") and the San Francisco Community College District (post-secondary) ("SFCCD"). Each is a separate legal entity with a separately elected governing board.

Under its original charter, the City committed to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. In 1927, the City dedicated 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 ("PUC") (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 annually significant General Fund transfers.

The Charter distributes governing authority among the Mayor, the Board of Supervisors, the various other elected officers, the City Controller and other appointed officers, and the boards and commissions that oversee the various City departments. 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

Mayor London Breed is the 45th Mayor of San Francisco and the first African-American woman to serve in such capacity in the City’s history. Mayor Breed won the June 4, 2018 special election to fulfill the remaining term of the late Mayor Edwin Lee. Mayor Breed will serve until January 2020. Prior to her election, Mayor Breed served as Acting Mayor, leading San Francisco following the sudden passing of Mayor Lee. Mayor Breed served as a member of the Board of Supervisors for six years, including the last three years as President of the Board.

## Board of Supervisors

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

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO		
Board of Supervisors		
Name	First Elected or Appointed	Current Term Expires
Sandra Lee Fewer, <i>District 1</i>	2017	2021
Catherine Stefani, <i>District 2</i>	2018	2023
Aaron Peskin, <i>District 3</i>	2017	2021
Gordon Mar, <i>District 4</i>	2019	2023
Vallie Brown, <i>District 5</i>	2017	2021
Matt Haney, <i>District 6</i>	2019	2023
Norman Yee, Board President, <i>District 7</i>	2017	2021
Rafael Mandelman, <i>District 8</i>	2018	2023
Hillary Ronen, <i>District 9</i>	2017	2021
Shamann Walton, <i>District 10</i>	2019	2023
Ahsha Safai, <i>District 11</i>	2017	2021

## Other Elected and Appointed City Officers

Dennis J. Herrera was re-elected to a four-year term as City Attorney in November 2015. The City Attorney represents the City in all 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 re-elected to a four-year term as Assessor-Recorder of the City in November 2018. 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 Gavin 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. Mr. Rosenfield was reappointed by then-Mayor Mark Farrell to a new 10-year term as Controller in 2017, and his nomination was confirmed by the Board of Supervisors on May 1, 2018.

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 as a project manager in the Controller's Office.

Naomi M. Kelly was appointed to a five-year term as City Administrator by then-Mayor Lee in February of 2012, following her brief role as Acting City Administrator. Ms. Kelly was re-appointed for a second five-year term on February 8, 2017. As City Administrator, Ms. Kelly has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. Ms. Kelly oversees the General Services Agency consisting of 25 departments, divisions, and programs that include the Public Works Department, Department of Technology, Office of Contract Administration/Purchasing, Real Estate, County Clerk, Fleet Management, Convention Facilities, Animal Care and Control, Medical Examiner, and Treasure Island. Prior to her City Administrator position, Ms. Kelly was appointed City Purchaser and Director of the Office of Contract Administration by Mayor Newsom. She previously served as Special Assistant in the Mayor's Office of Neighborhood Services, and the Office of Policy and Legislative Affairs, under Mayor Brown. She also served as the City's Executive Director of the Taxicab Commission. Ms. Kelly, a native San Franciscan, is the first woman and African American to serve as City Administrator of the City. She received her undergraduate and law degrees, respectively, from New York University and the University of San Francisco. Ms. Kelly is a member of the California State Bar.



## **CITY BUDGET**

### **Overview**

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, and funds such departments and enterprise through its annual budget process. On July 24, 2018, the City adopted its two-year budget. The City's fiscal year 2018-19 adopted budget appropriates annual revenues, fund balance, transfers and reserves of approximately \$11.04 billion, of which the City's General Fund accounts for approximately \$5.51 billion. In fiscal year 2019-20 appropriated revenues, fund balance, transfers and reserves total approximately \$11.10 billion, of which \$5.52 billion represents the General Fund budget. For a further discussion of the fiscal years 2018-19 and 2019-20 adopted budgets, see "City Budget Adopted for Fiscal Years 2018-19 and 2019-20" herein.

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

### **Budget Process**

The City's fiscal year commences on July 1 and ends on June 30. The City's budget process for each fiscal year begins in the middle of the preceding fiscal year as departments prepare their budgets and seek any required approvals from the applicable City board or commission. Departmental budgets are consolidated by the City Controller, and then transmitted to the Mayor no later than the first working day of March. By the first working day of May, the Mayor is required to submit a proposed budget to the Board of Supervisors for certain specified departments, based on criteria set forth in the Administrative Code. On or before the first working day of June, the Mayor is required to submit a proposed budget, including all departments, to the Board of Supervisors.

Under the Charter, following the submission of the Mayor's proposed budget, the City Controller must provide an opinion to the Board of Supervisors regarding the economic assumptions underlying the revenue estimates and the reasonableness of such estimates and revisions in the proposed budget (the City Controller's "Revenue Letter"). The City Controller may also recommend reserves that are considered prudent given the proposed resources and expenditures contained in the Mayor's proposed budget. The City Controller's current Revenue Letter can be viewed online at [www.sfcontroller.org](http://www.sfcontroller.org). The Revenue Letter and other information from 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 fiscal year.

The Annual Appropriation Ordinance becomes effective with or without the Mayor's signature after 10 days; however, the Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire 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.

### **Two-Year Budgetary Cycle**

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

1. Fixed two-year budgets are approved by the Board of Supervisors for five departments: The Airport, Child Support Services, the Port, the PUC and MTA. All other departments prepared balanced, rolling two-year budgets.
2. 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, the Budget Analyst for the Board of Supervisors and Controller's Office on January 4, 2019, for fiscal year 2019-20 through fiscal year 2023-24. See "Five Year Financial Plan" section below.
3. The Controller's Office proposes to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt and financial measures in the case of disaster recovery and 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 fiscal year.
4. The City is required to submit labor agreements for all public employee unions by May 15.

## **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 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 2017-18 Nine Month Report (the "Nine Month Report"), on May 11, 2018. 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 12, 2018 the Controller released the Discussion of the Mayor's fiscal year 2018-19 and fiscal year 2019-20 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](http://www.sfcontroller.org). The information from said website is not incorporated herein by reference. The six-month budget status report for fiscal year 2018-19 is expected to be published in February 2019.

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

The General Fund portions of the fiscal year 2018-19 and 2019-20 Original Budgets total \$5.51 billion and \$5.52 billion, respectively, including appropriations, reserves, and transfers out. These amounts do not include expenditures of the enterprise fund departments such as the Airport, the MTA, the PUC, 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 2015-16 and 2016-17 and the Original Budgets for fiscal years 2017-18, 2018-19, and 2019-20. 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 2016-17 was issued on December 29, 2017. The fiscal year 2016-17 CAFR reported that as of June 30, 2017, the General Fund balance available for appropriation in subsequent years was \$545.9 million (see Table A-4), of which \$183.3 million was assumed in the fiscal year 2017-18 Original Budget and \$288.2 million was assumed in the fiscal year 2018-19 Original Budget. This represents a \$110.7 million increase in available fund balance over the \$435 million available as of June 30, 2016 and resulted primarily from greater-than-budgeted additional tax

revenue, particularly property, business and transfer tax revenues, partially offset by under performance in sales, hotel and parking tax revenues in fiscal year 2016-17.

The City transitioned to a new financial management software system at the start of fiscal year 2017-18. Due to this conversion, the City expects to complete its fiscal year 2017-18 CAFR in March 2019. Unaudited fiscal year 2017-18 expenditures are not expected to vary materially from the projections published in the City's Nine Month Report, issued on May 11, 2018. Figures for fiscal year 2017-18 presented in this Official Statement are estimated and may change in the audited financial statements.

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TABLE A-2

**CITY AND COUNTY OF SAN FRANCISCO**  
**Budgeted General Fund Revenues and Appropriations for**  
**Fiscal Years 2015-16 through 2019-20**  
**(000s)**

	2015-16 Final Revised Budget	2016-17 Final Revised Budget	2017-18 Original Budget <sup>2</sup>	2018-19 Original Budget <sup>3</sup>	2019-20 Original Budget
Prior-Year Budgetary Fund Balance & Reserves	\$1,236,090	\$178,109	\$187,182	\$250,121	\$224,857
<b><u>Budgeted Revenues</u></b>					
Property Taxes	\$1,291,000	\$1,412,000	\$1,557,000	\$1,728,000	\$1,743,000
Business Taxes	634,460	669,450	750,820	879,380	914,710
Other Local Taxes	1,062,535	1,117,245	1,112,570	1,053,390	1,058,420
Licenses, Permits and Franchises	27,163	28,876	29,964	30,833	31,015
Fines, Forfeitures and Penalties	4,550	4,580	4,579	3,125	3,156
Interest and Investment Earnings	10,680	13,970	18,180	27,270	27,540
Rents and Concessions	15,432	16,140	14,088	14,769	15,016
Grants and Subventions	900,997	959,099	1,019,167	1,051,643	1,062,592
Charges for Services	219,628	236,102	242,817	261,294	247,781
Other	31,084	61,334	39,959	41,050	41,356
<b>Total Budgeted Revenues</b>	<b>\$4,197,529</b>	<b>\$4,518,796</b>	<b>\$4,789,144</b>	<b>\$5,090,754</b>	<b>\$5,144,586</b>
Bond Proceeds & Repayment of Loans	\$918	\$881	\$110	\$87	-
<b><u>Expenditure Appropriations</u></b>					
Public Protection	\$1,211,007	\$1,266,148	\$1,331,196	\$1,403,620	\$1,453,652
Public Works, Transportation & Commerce	138,288	166,295	170,949	183,703	170,150
Human Welfare & Neighborhood Development	892,069	978,126	995,230	1,053,814	1,083,329
Community Health	751,416	763,496	884,393	943,631	893,763
Culture and Recreation	125,253	139,473	162,622	165,784	166,575
General Administration & Finance	235,647	252,998	358,588	391,900	418,497
General City Responsibilities <sup>1</sup>	113,672	134,153	152,390	183,159	188,171
<b>Total Expenditure Appropriations</b>	<b>\$3,467,352</b>	<b>\$3,700,689</b>	<b>\$4,055,368</b>	<b>\$4,325,611</b>	<b>\$4,374,137</b>
Budgetary reserves and designations, net	\$9,907	\$9,868	\$58,730	\$21,410	\$14,200
Transfers In	\$235,416	\$246,779	\$171,122	\$170,671	\$153,213
Transfers Out	(962,511)	(857,528)	(1,033,460)	(1,164,612)	(1,134,320)
<b>Net Transfers In/Out</b>	<b>(\$727,095)</b>	<b>(\$610,749)</b>	<b>(\$862,338)</b>	<b>(\$993,941)</b>	<b>(\$981,107)</b>
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	\$1,230,182	\$376,480	\$0	\$0	\$0
Variance of Actual vs. Budget	296,673	249,475			
<b>Total Actual Budgetary Fund Balance</b>	<b>\$1,526,855</b>	<b>\$625,955</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

<sup>2</sup> Fiscal year 2017-18 Final Revised Budget will be available upon release of the fiscal year 2017-18 CAFR.

<sup>3</sup> Fiscal year 2018-19 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, 2017 was \$1.9 billion (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$4.5 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, 2013 through June 30, 2017.

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TABLE A-3

**CITY AND COUNTY OF SAN FRANCISCO**  
**Summary of Audited General Fund Balances**  
**Fiscal Years 2012-13 through 2016-17**  
**(000s)**

	2012-13	2013-14	2014-15	2015-16	2016-17 <sup>1</sup>
Restricted for rainy day (Economic Stabilization account) <sup>2</sup>	\$23,329	\$60,289	\$71,904	\$74,986	\$78,336
Restricted for rainy day (One-time Spending account) <sup>2</sup>	3,010	22,905	43,065	45,120	47,353
Committed for budget stabilization (citywide)	121,580	132,264	132,264	178,434	323,204
Committed for Recreation & Parks expenditure savings reserve	15,907	12,862	10,551	8,736	4,403
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	\$74,815	\$92,269	\$137,641	\$190,965	\$244,158
Assigned for appropriation carryforward	112,327	159,345	201,192	293,921	434,223
Assigned for budget savings incentive program (Citywide)	24,819	32,088	33,939	58,907	67,450
Assigned for salaries and benefits	6,338	10,040	20,155	18,203	23,051
<b>Total Fund Balance Not Available for Appropriation</b>	<b>\$382,125</b>	<b>\$522,062</b>	<b>\$650,711</b>	<b>\$869,272</b>	<b>\$1,222,178</b>
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies	\$30,254	\$79,223	\$131,970	\$145,443	\$136,080
Assigned for General reserve	21,818	-	-	-	-
Assigned for subsequent year's budget	122,689	135,938	180,179	172,128	183,326
Unassigned for General Reserve	-	45,748	62,579	76,913	95,156
Unassigned - Budgeted for use second budget year	111,604	137,075	194,082	191,202	288,185
Unassigned - Contingency for second budget year	-	-	-	60,000	60,000
Unassigned - Available for future appropriation	6,147	21,656	16,569	11,872	14,409
<b>Total Fund Balance Available for Appropriation</b>	<b>\$292,512</b>	<b>\$419,640</b>	<b>\$585,379</b>	<b>\$657,558</b>	<b>\$777,156</b>
<b>Total Fund Balance, Budget Basis</b>	<b>\$674,637</b>	<b>\$941,702</b>	<b>\$1,236,090</b>	<b>\$1,526,830</b>	<b>\$1,999,334</b>
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$674,637	\$941,702	\$1,236,090	\$1,526,830	\$1,999,334
Unrealized gain or loss on investments	(1,140)	935	1,141	343	(1,197)
Nonspendable fund balance	23,854	24,022	24,786	522	525
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(38,210)	(37,303)	(37,303)	(36,008)	(38,469)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(93,910)	(66,415)	(50,406)	(56,709)	(83,757)
Deferred Amounts on Loan Receivables	(20,067)	(21,670)	(23,212)	-	-
Pre-paid lease revenue	(4,293)	(5,709)	(5,900)	(5,816)	(5,733)
<b>Total Fund Balance, GAAP Basis</b>	<b>\$540,871</b>	<b>\$835,562</b>	<b>\$1,145,196</b>	<b>\$1,429,162</b>	<b>\$1,870,703</b>

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

<sup>1</sup> Fiscal year 2017-18 will be available upon release of the fiscal year 2017-18 CAFR.

<sup>2</sup> Additional information in City Budget - Rainy Day Reserves.

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, 2017 are included herein as Appendix B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2017.” Prior years audited financial statements can be obtained from the City Controller’s website. Information from the City Controller’s website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

**CITY AND COUNTY OF SAN FRANCISCO**  
**Audited Statement of Revenues, Expenditures and Changes in General Fund Balances**  
**Fiscal Years 2012-13 through 2016-17<sup>1</sup>**  
**(000s)**

	2012-13	2013-14	2014-15	2015-16	2016-17 <sup>2</sup>
<b>Revenues:</b>					
Property Taxes	\$1,122,008	\$1,178,277	\$1,272,623	\$1,393,574	\$1,478,671
Business Taxes <sup>3</sup>	479,627	562,896	609,614	659,086	700,536
Other Local Taxes	756,346	922,205	1,085,381	1,054,109	1,203,587
Licenses, Permits and Franchises	26,273	26,975	27,789	27,909	29,336
Fines, Forfeitures and Penalties	6,226	5,281	6,369	8,985	2,734
Interest and Investment Income	2,125	7,866	7,867	9,613	14,439
Rents and Concessions	35,273	25,501	24,339	46,553	15,352
Intergovernmental	720,625	827,750	854,464	900,820	932,576
Charges for Services	164,391	180,850	215,036	233,976	220,877
Other	14,142	9,760	9,162	22,291	38,679
<b>Total Revenues</b>	<b>\$3,327,036</b>	<b>\$3,747,361</b>	<b>\$4,112,644</b>	<b>\$4,356,916</b>	<b>\$4,636,787</b>
<b>Expenditures:</b>					
Public Protection	\$1,057,451	\$1,096,839	\$1,148,405	\$1,204,666	\$1,257,948
Public Works, Transportation & Commerce	68,014	78,249	87,452	136,762	166,285
Human Welfare and Neighborhood Development	660,657	720,787	786,362	853,924	956,478
Community Health	634,701	668,701	650,741	666,138	600,067
Culture and Recreation	105,870	113,019	119,278	124,515	139,368
General Administration & Finance	186,342	190,335	208,695	223,844	238,064
General City Responsibilities	81,657	86,968	98,620	114,663	121,444
<b>Total Expenditures</b>	<b>\$2,794,692</b>	<b>\$2,954,898</b>	<b>\$3,099,553</b>	<b>\$3,324,512</b>	<b>\$3,479,654</b>
Excess of Revenues over Expenditures	\$532,344	\$792,463	\$1,013,091	\$1,032,404	\$1,157,133
<b>Other Financing Sources (Uses):</b>					
Transfers In	\$195,272	\$216,449	\$164,712	\$209,494	\$140,272
Transfers Out	(646,912)	(720,806)	(873,741)	(962,343)	(857,629)
Other Financing Sources	4,442	6,585	5,572	4,411	1,765
Other Financing Uses	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(\$447,198)</b>	<b>(\$497,772)</b>	<b>(\$703,457)</b>	<b>(\$748,438)</b>	<b>(\$715,592)</b>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$85,146	\$294,691	\$309,634	\$283,966	\$441,541
<b>Total Fund Balance at Beginning of Year</b>	<b>\$455,725</b>	<b>\$540,871</b>	<b>\$835,562</b>	<b>\$1,145,196</b>	<b>\$1,429,162</b>
<b>Total Fund Balance at End of Year -- GAAP Basis<sup>4</sup></b>	<b>\$540,871</b>	<b>\$835,562</b>	<b>\$1,145,196</b>	<b>\$1,429,162</b>	<b>\$1,870,703</b>
<b>Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End</b>					
-- GAAP Basis	\$135,795	\$178,066	\$234,273	\$249,238	\$273,827
-- Budget Basis	\$240,410	\$294,669	\$390,830	\$435,202	\$545,920

<sup>1</sup> 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).

<sup>2</sup> Fiscal year 2017-18 will be available upon release of the fiscal year 2017-18 CAFR.

<sup>3</sup> Does not include business taxes allocated to special revenue fund for the Community Challenge Grant program.

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

<sup>4</sup> 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 City to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Plan be adopted every two years. The City currently updates the Plan annually.

On January 4, 2019, the Mayor, Budget Analyst for the Board of Supervisors, and the Controller’s Office issued the Plan for fiscal years 2019-20 through 2023-24, which projects cumulative annual shortfalls of \$107.4 million, \$163.4 million, \$362.9 million, \$519.9 million, and \$643.9 million for fiscal years 2019-20 through 2023-24, respectively.

The Plan projects growth in General Fund revenues over the forecast period of 14%, primarily composed of growth in local tax sources. The revenue growth is offset by projected expenditure increases of 25% over the same period, primarily composed of growth in employee wages and health care costs, citywide operating expenses, and Charter mandated baselines and reserves. The City currently projects growth in General Fund sources of \$758.7 million over the Plan period, and expenditure growth of \$1.4 billion. Growth in salaries and benefits accounts for 43% or \$598.4 million of the cumulative shortfall. Growth in citywide operating costs accounts for 28.6% or \$400.6 million of the cumulative shortfall. Growth in Charter-mandated baselines and reserves accounts for 17% or \$238.9 million of the cumulative shortfall. Growth in individual department costs account for 11.7% or \$164.87 million of the cumulative shortfall. These figures incorporate the following key assumptions:

- **Changes in Employer Contribution Rates to City Retirement System:** Employer contribution rates are projected to increase during the first two years of the Plan and decline modestly in the final three years. This reflects the November 2018 decision of the San Francisco Retirement Board to lower the discount rate from 7.5% to 7.4%. The Plan does not assume any changes to existing funding policy, amortizes the 2018 supplemental COLA over five years per current policy, and assumes fiscal year 2018-19 investment returns at the 7.5% level.
- **Continued Increases in Wages and Health Care Costs:** The Plan assumes inflationary increases for most miscellaneous employees of 2.85% in fiscal year 2019-20, 3.08% in fiscal year 2020-21, 2.99% in fiscal year 2021-22, 3.03% in fiscal year 2022-23, and 3.01% in fiscal year 2023-24, as projected by the California Department of Finance and Moody’s. For police officers and firefighters, the Plan assumes the cost of all negotiated terms, including wage rate increases of 3% in fiscal years 2019-20 and 2020-21, and increases of CPI, as above, thereafter. Final negotiated increases will increase or decrease projected shortfalls. The Plan assumes the employer share of health and dental insurance costs for active employees will increase by approximately 6% per year. For retiree health benefits, the Plan assumes the City will continue its pay-as-you-go practice of funding amounts currently due for retirees. The growth in the retiree obligation has been estimated based on projected cost increases of approximately 6% per year.
- **Voter Adopted Revenue and Spending Requirements:** This Plan reflects the outcome of several local measures from 2018 elections, including voter adoption of a gross receipts tax on cannabis (November Proposition D) and the dedication of a portion of hotel tax revenue to arts and cultural organizations (November Proposition E). The Plan does not assume changes related to voter-approved measures to create dedicated gross receipts taxes on the lease of commercial space to

support child care and education (June Proposition C) or additional gross receipts and payroll taxes on certain large businesses dedicated to housing and homeless services (November Proposition C). With the exception of a portion of proceeds from the June 2018 measure, from which 15% is allocated to the General Fund, revenue from these two measures is dedicated to specific purposes and subject to legal risk, as discussed below. Given current legal risks, revenue from these measures will be collected but will not be made available for appropriation.

- **Property Tax Shifts:** On November 29, 2018, the Controller’s Office issued a memo notifying policymakers of a material update to current year revenue projections due to the reallocation of property tax revenue in the County’s Educational Revenue Augmentation Fund (ERAF). The Controller estimates the City will recognize approximately \$415.0 million in excess ERAF property tax revenue in the current year, of which \$208.0 million is attributable to fiscal year 2017-18 and \$207.0 million to fiscal year 2018-19. Under Charter provisions adopted by the voters, approximately \$78.0 million must be allocated to various baselines and approximately \$156.0 million to Rainy Day Reserves, leaving approximately \$181.0 million available for any purpose. Beginning in January 2019 the Board of Supervisors will consider proposed supplemental appropriations to spend these funds.
- **In-Home Supportive Services (IHSS) Cost Shift:** IHSS is an entitlement program which provides homecare services to 22,000 elderly and disabled San Franciscans and is funded by federal, state, and county sources. Due to changes in the fiscal year 2017-18 enacted State budget, significant costs for this program were shifted from the state to counties. Cost increases are projected to grow from \$56.0 million in fiscal year 2019-20 to \$111.5 million in fiscal year 2023-24, due to the combined effects of a locally-approved minimum wage increase as well as the State’s schedule of increasing cost shifts.

Beyond the IHSS Cost Shift, the Plan does not assume significant changes in funding at the state or federal levels. Although proposals that would have significant negative impact on the City budget have been discussed at both levels, it is unclear which will ultimately be adopted and what the specific impacts will be.

While the projected shortfalls reflect the difference in projected revenues and expenditures over the next five years if current service levels and policies continue, the 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 Plan does not assume an economic downturn due to the difficulty of predicting recessions; however, the City has historically not experienced more than six consecutive years of economic expansion, and the current economic expansion has lasted over nine years.

### **City Budget Adopted for Fiscal Years 2018-19 and 2019-20**

On July 31, 2018, Mayor Breed signed the Consolidated Budget and Annual Appropriation Ordinance (the “Original Budget”) for the fiscal years ending June 30, 2019 and June 30, 2020. This is the seventh two-year budget for the entire City. The adopted budget closed the \$38 million and \$99 million General Fund shortfalls for fiscal years 2018-19 and 2019-20 identified in the City’s March 31, 2018 update to the Five-Year Financial Plan through a combination of increased revenue and expenditure savings.

The Original Budget for fiscal year 2018-19 and fiscal year 2019-20 totals \$11.04 billion and \$11.10 billion respectively, representing a year over year increase of \$920 million in fiscal year 2018-19 and a year over year increase of \$59 million in fiscal year 2019-20. The General Fund portion of each year's budget is \$5.51 billion in fiscal year 2018-19 and \$5.52 billion in fiscal year 2019-20 representing year over year increases of \$364 million and \$11 million, respectively. There are 31,220 funded full-time positions in the fiscal year 2018-19 Original Budget and 31,579 in the fiscal year 2019-20 Original Budget representing year-over-year increases of 385 and 359 positions, respectively.

### **Other Budget Updates**

On June 12, 2018, the Controller's Office issued the Controller's Discussion of the Mayor's fiscal year 2018-19 and fiscal year 2019-20 Proposed Budget ("Revenue Letter"). The report found that the revenue assumptions in the proposed and now-adopted budget are reasonable, voter-required baseline and set-aside requirements are met or exceeded, and that code-mandated reserves are funded and maintained at required levels.

The letter also certified that the Original Budget for fiscal years 2018-19 and 2019-20 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses. The policy can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long-term obligations.

### **Impact of Potential Bankruptcy Filing by The Pacific Gas and Electric Company (PG&E)**

Taxes and fees paid by PG&E total approximately \$90 million annually and include property taxes, franchise fees and business taxes, as well as the utility user taxes it remits on behalf of its customers. A bankruptcy filing by PG&E could cause delays in payments of taxes to the City. The City can give no assurance regarding the effect of a bankruptcy filing by PG&E, including whether such filing could cause a delay in payments of taxes to the City.

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

On August 28, 2017, the California Supreme Court in *California Cannabis Coalition v. City of Upland* (August 28, 2017, No. S234148) interpreted Article XIIC, Section 2(b) of the State Constitution, which requires local government proposals imposing general taxes to be submitted to the voters at a general election (i.e. an election at which members of the governing body stand for election). The court concluded such provision did not to apply to tax measures submitted through the citizen initiative process. Under the Upland decision, citizens exercising their right of initiative may now call for general or special taxes on the ballot at a special election (i.e. an election where members of the governing body are not standing for

election). The court did not, however, resolve whether a special tax submitted by voter initiative needs only simple majority voter approval, and not the super-majority (i.e. two-thirds) voter approval required of special taxes placed on the ballot by a governing body. On June 5, 2018 voters of the City passed by majority vote two special taxes submitted through the citizen initiative process: a Commercial Rent Tax for Childcare and Early Education (“June Proposition C”) and a Parcel Tax for the San Francisco Unified School District (“Proposition G” and, together with June Proposition C, the “June Propositions C and G”). In addition, on November 6, 2018 voters passed by a majority vote a special tax submitted through the citizen initiative process: a Homelessness Gross Receipts Tax (“November Proposition C”) for homelessness prevention and services. The estimated annual values of June Propositions C and G are approximately \$146 million and \$50 million, respectively. The estimated annual value of November Proposition C is approximately \$250 million to \$300 million. Proceeds of these measures would need to be appropriated by the Board of Supervisors to be spent. The adopted fiscal year 2018-19 and 2019-20 budget does not appropriate any of these sources. Given current legal risks, the Controller’s Office has not certified these funds as available for appropriation. There is a risk that a court in the future could invalidate the levy and collection of the taxes approved by the propositions on the grounds that they were not approved by a super-majority vote. If a court struck down the propositions, the City could be obligated to refund all, or a portion of any taxes levied and collected for the measures. The City is seeking judicial validation of the propositions under Civil Code section 860 et seq. The City cannot predict the outcome of any litigation to resolve this issue.

### **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 Original Budget for fiscal years 2018-19 and 2019-20, and thus changes in State revenues could have a material impact on the City’s finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor’s Proposed Budget required to be submitted in January; and 2) the “May Revise” to the Governor’s Proposed Budget. The Governor’s Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor’s Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 27, 2018, the Governor signed the Fiscal Year 2018-19 State Budget (the “2018-19 State Budget”), appropriating \$201.4 billion from the State’s General Fund and other State funds. In the 2018-19 State Budget, General Fund appropriations total \$138.7 billion, \$11.6 billion or 9% more than the 2017-18 budget. The State budget agreement focuses on maintaining fiscal prudence by continuing to pay down past budgetary borrowing and state employee pension liabilities and contributing to stabilization reserves. The budget increases funding to K-12 schools through the full implementation of the Local Control Funding Formula and increases funding to community colleges and the university systems. Among many investments to counteract poverty, the budget also includes \$500 million to assist local governments with efforts to address homelessness. Of the \$500 million the City is expected to receive approximately \$30 million, which is assumed in the City’s budget. The State budget also continues to implement the Road Repair and Accountability Act of 2017 (SB1) providing \$55 billion of new transportation infrastructure funding over the next 10 years. The City’s fiscal year 2018-19 budget assumes \$23.0 million of street-related capital funding and \$36.5 million for transit services and repair through the Road Repair and Accountability Act of 2017 (SB1). On November 6, 2018 voters rejected Proposition 6, which would have repealed the gas tax increase and resulted in a loss of these funds.

The final 2018-19 State Budget continues to re-base the In-Home Supportive Services Maintenance-of-Effort "IHSS MOE" agreement negotiated in 2012, as first proposed in the fiscal year 2017-18 budget. The City's budget assumes an additional General Fund cost of \$30.0 million in fiscal year 2018-19 or a total cost of \$67.9 million and an additional \$26.0 million or a total cost of \$86.8 million in fiscal year 2019-20 to support the IHSS program, partially offset by health and welfare realignment subventions.

On January 10, 2019, the Governor proposed the State budget for fiscal year 2019-20 (the "2019-20 Proposed State Budget"). The 2019-20 Proposed State Budget assumes moderate growth in revenues of approximately \$5.24 billion, with projected general fund revenues and transfers available in fiscal year 2019-20 totaling approximately \$147.9 billion and expenditures in such fiscal year totaling approximately \$144.2 billion. As a part of the expenditures for fiscal year 2019-20, the 2019-20 Proposed State Budget allocates approximately \$20.6 billion in discretionary spending, with approximately \$9.7 billion to pay down State liabilities, \$5.1 billion to one-time or temporary program spending and \$3 billion to discretionary reserves. The 2019-20 Proposed State Budget also estimates \$18.5 billion in reserves by the end of fiscal year 2019-20 which includes a balance of \$15.3 billion for the State's budget stabilization account, \$2.3 billion for the State's Constitutional rainy day fund and \$900 million for the State's safety net reserve which may be utilized for CalWORKS and Medi-Cal in the event of a recession.

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

The City is continuing to assess the potential material adverse changes in anticipated federal funding. Currently, these changes include, for example, potential increased costs associated with changes to or termination or replacement of the Affordable Care Act ("ACA"), potential withholding of federal grants or other federal funds flowing to "sanctuary jurisdictions," impact of new census questions related to immigration status, and the potential 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." The federal district court issued a permanent injunction in November 2017, and the case is currently on appeal at the Ninth Circuit. On August 1, 2018, the 9<sup>th</sup> Circuit Court of Appeal upheld the district's court's injunction against the President's Executive Order. 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. The fiscal year 2017-18 and 2018-19 budget created a \$50 million reserve to manage cost and revenue uncertainty related to potential federal and state changes to the administration and funding of the Affordable Care Act. In addition, the City's adopted fiscal year 2018-19 and 2019-20 budgets establish a \$40 million reserve to manage state, federal, and other revenue uncertainty and a \$70 million reserve to manage costs related to local wage and salary contingencies.

The effects of the federal tax reform approved by Congress on December 20, 2017 and effective on January 1, 2018 on San Francisco are not clear at this time. However, the local economy may be affected by the tax law's provisions, including: (1) creation of a \$10,000 cap on the state and local tax deduction, which will increase many residents' total tax liabilities and affect consumer spending; (2) repeal of the individual health insurance mandate under the ACA; (3) reduction in the mortgage interest tax deduction; and (4) reduction of corporate income tax rates.

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. For example, the City issued taxable obligations designated as "Build America Bonds," which BABs were entitled to receive a 35% subsidy payment from the federal government. In 2013, the United States federal government went through a period of sequestration and the 35% subsidy payment was reduced.

In the event Congress and the President fail to enact appropriations, budgets or debt ceiling increases on a timely basis in the future, such events could have a material adverse effect on the financial markets and economic conditions in the United States and an adverse impact on the City's finances. The City cannot predict the outcome of future federal budget deliberations and the impact that such budgets will have on the City's finances and operations.

### **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. See "INVESTMENT OF CITY FUNDS – Investment Policy" herein.

The City maintains an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy, originally adopted on April 13, 2010, 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. 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. The Original Budget for fiscal years 2018-19 and 2019-20 includes General Reserve starting balances of \$127.3 million and \$141.5 million, respectively.

In addition to the operating cash and general reserves, the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget includes \$24.8 million for fiscal year 2018-19 and \$14.9 million in fiscal year 2019-20), and the Litigation Reserve (Original Budget includes \$10.9 million for fiscal year 2018-19 and \$11 million in fiscal year 2019-20). 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**

The City maintains a Rainy Day Reserve. 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 2016-17 revenue exceeded the deposit threshold by \$8.9 million, generating a deposit of \$5.6 million to the City Reserves. The combined balances of the Rainy Day Reserve's Economic Stabilization account and the Budget Stabilization Reserve are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be 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 2016-17 combined ending balance of the One-Time and Economic Stabilization portions of the Reserve was \$125.7 million. The Five-Year Financial Plan assumes a deposit of \$19.5 million in the City's Rainy Day Reserves at fiscal year-end 2017-18 and \$130.0 million at the end of the current fiscal year, resulting in ending reserve balances of \$145.2 million and \$275.2 million, respectively. The Charter stipulates that the City is eligible to withdraw from the Rainy Day Reserves only when revenues decline from the prior year. Given (unaudited) revenue growth in fiscal year 2017-18 and budgeted and projected revenue growth in the current year, the City is not eligible to withdraw from the reserves.

## **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 rolling 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 2016-17 RPTT receipts exceeded the five-year annual average by \$144.4 million and the ending general fund unassigned fund balance was \$57.6 million, triggering a \$57.6 million deposit. However, \$6.7 million of this deposit requirement was offset by the Rainy Day Reserve deposit, resulting in a \$144.8 million deposit to the Budget Stabilization Reserve and a fiscal year 2016-17 ending balance



of \$323.3 million. The City estimates a fiscal year 2017-18 reserve deposit of \$60.0 million given unaudited actual revenue and expenditures, bringing the estimated ending balance to \$383.3 million. The fiscal year 2018-19 and 2019-20 budgets assume no reserve deposits given projected RPTT receipts. Under Board-adopted reserve policies, the City may withdraw from the Reserve only when revenues decline from the prior year. Given (unaudited) revenue growth in fiscal year 2017-18 and budgeted and projected revenue growth in the current year, the City is not eligible to withdraw from the reserves. The Controller's Office determines deposits during year end close 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, or \$498 million given unaudited fiscal year 2017-18 revenues. Projected fiscal year 2018-19 deposits would increase the reserve above this 10% cap. Under the City's current policy, once this threshold is reached, amounts are deposited into a non-recurring expenditure reserve that may be appropriated for capital expenditures, prepayment of future debts or liabilities, or other non-recurring expenditures. Given current estimates the City will deposit \$30.0 million into the non-recurring expenditure reserve. 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. No deposits are required in years when the City is eligible to withdraw.

The City's Five-Year Financial Plan shows the projected reserve balances in the City's maintained reserve categories at the close of fiscal year 2017-18 through fiscal year 2023-24. The information presented in Table 9 of the Five-Year Financial Plan may change in the audited financial statements for fiscal year 2017-18. See "CITY BUDGET – General Fund Results: Audited Financial Statements" herein.

## **THE SUCCESSOR AGENCY**

### **Effect of the Dissolution Act**

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

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

Pursuant to Ordinance No. 215-12 passed by the Board of Supervisors of the City on October 2, 2012 and signed by the Mayor on October 4, 2012, the Board of Supervisors (i) officially gave the following name to the successor of the Former Agency: the "Successor Agency to the Redevelopment Agency of the City and County of San Francisco," (the "Successor Agency") (ii) created the Successor Agency Commission as the

policy body of the Successor Agency, (iii) delegated to the Successor Agency Commission the authority to act to implement the surviving redevelopment projects, the replacement housing obligations and other enforceable obligations and the authority to take actions required by AB 26 and AB 1484 and (iv) established the composition and terms of the members of the Successor Agency Commission.

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, 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. The Successor Agency also issues CFD bonds from time to time to facilitate development in the major approved development projects in accordance with the terms of such enforceable obligations.

## **PROPERTY TAXATION**

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

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

Local property taxation is the responsibility of various City officers. The Assessor computes the value of locally assessed taxable property. After the assessed roll is closed on June 30<sup>th</sup>, the City Controller issues a Certificate of Assessed Valuation in August which certifies the taxable assessed value for that fiscal year. The Controller also compiles a schedule of tax rates including the 1.0% tax authorized by Article XIII A of the State Constitution (and mandated by statute), tax surcharges needed to repay voter-approved general obligation bonds, and tax surcharges imposed by overlapping jurisdictions that have been authorized to levy taxes on property located in the City. The Board of Supervisors approves the schedule of tax rates each year by ordinance adopted no later than the last working day of September. The Treasurer and Tax Collector prepares and mails 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 the SFUSD, County Office of Education (SF COE), SFCCD, 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 (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 and a portion of administrative costs of the agency 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 \$153 million of property tax increment in fiscal year 2017-18, diverting about \$85 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 99.14% for fiscal year 2017-18. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder’s Office, numbered 111 for fiscal year 2017-18 compared to 92 in fiscal year 2016-17. The trustee deeds recorded in fiscal year 2011-12, 2012-13, 2013-14, 2014-15, and fiscal year 2015-16 were 804, 363, 187, 102 and 212 respectively.

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TABLE A-5

**CITY AND COUNTY OF SAN FRANCISCO**  
**Assessed Valuation of Taxable Property**  
**Fiscal Years 2013-14 through 2018-19**  
**(000s)**

Fiscal Year	Net Assessed Valuation (NAV) <sup>1</sup>	% Change from Prior Year	Total Tax Rate per \$100 <sup>2</sup>	Total Tax Levy <sup>3</sup>	Total Tax Collected <sup>3</sup>	% Collected June 30
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.8%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.8%
2015-16	194,392,572	6.9%	1.183	2,290,280	2,268,876	99.1%
2016-17	211,532,524	8.8%	1.179	2,492,789	2,471,486	99.1%
2017-18	234,074,597	10.7%	1.172	2,732,615	2,709,048	99.1%
2018-19	259,329,479 <sup>4</sup>	10.8%	1.163	3,016,002	N/A	N/A

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

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

<sup>3</sup> The Total Tax Levy and Total Tax Collected through fiscal year 2017-18 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported to the State of California (available on the website of the California SCO). Total Tax Levy for fiscal year 2018-19 based upon initial assessed valuations times the secured property tax rate.

<sup>4</sup> Based on initial assessed valuations for fiscal year 2018-19.

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

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

At the start of fiscal year 2018-19, the total net assessed valuation of taxable property within the City was \$259.3 billion. Of this total, \$244.9 billion (94.4%) represents secured valuations and \$14.4 billion (5.6%) represents unsecured valuations. See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in assessment appeals as the economy rebounds. 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, SFCOE, SFCCD, BAAQMD, and BART share proportionately in any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year.

In 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 2013-14 through 2017-18 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 2013-14 through 2017-18**  
**(000s)**

Fiscal Year	Amount Refunded
2013-14	\$25,756
2014-15	16,304
2015-16	16,199
2016-17	33,397
2017-18 <sup>1</sup>	33,613

<sup>1</sup> Unaudited

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

As of July 1, 2018, the Assessor granted 4,719 temporary reductions in property assessed values worth a total of \$278.16 million (equating to a reduction of approximately \$3.25 million in general fund taxes), compared to 7,090 temporary reductions in property assessed values worth a total of \$194.9 million (equating to a reduction of approximately \$2.3 million in general fund taxes) as of July 1, 2017. Of the total reductions, only 697 temporary reductions were granted for residential or commercial properties. The remaining 4,021 reductions were for timeshares. The July 2018 temporary reductions of \$278.16 million represent 0.11% of the fiscal year 2018-19 Net Assessed Valuation of \$259.3 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. For regular, annual secured property tax assessments, the period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of June 30, 2018, the total number of open appeals before the AAB was 1,001, compared to 991 open AAB appeals as of June 30, 2017. As of June 30, 2018, there were 1,636 new applications filed during fiscal year 2017-18, compared to 1,499 new applications filed during the same period (June 30, 2017) of fiscal year 2016-17. Also, the difference between the current assessed value and the taxpayer's opinion of values for all the open appeals is \$13.4 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all the taxpayer's requests, a negative potential total property tax impact of about \$158.3 million would result. The General Fund's portion of that potential \$158.3 million would be approximately \$75.7 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 2017-18 was estimated to produce about \$2.7 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of total property tax revenues (including supplemental and escape property taxes), the City had budgeted to receive \$1.6 billion into the General Fund and \$201.5 million into special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD were estimated to receive about \$176.3 million and \$33.1 million, respectively, and the local ERAF was estimated to receive \$580.0 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency received \$153 million. The remaining portion was 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.

Unaudited General Fund property tax revenues in fiscal year 2017-18 were \$1.66 billion, representing an increase of \$179.9 million (12.1%) over fiscal year 2016-17 actual revenue. Property tax revenue is budgeted at \$1.73 billion for fiscal year 2018-19 representing an increase of \$67.0 million (4.0%) over fiscal year 2017-18 unaudited actual. Fiscal year 2019-20 property tax revenue is budgeted at \$1.74 billion, \$15.0 million (or 0.9%) more than the fiscal year 2018-19 budget. Tables A-2 and A-4 set forth a history of budgeted and actual property tax revenues for fiscal years 2012-13 through 2016-17, and budgeted receipts for fiscal years 2017-18, 2018-19, and fiscal year 2019-20.

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. Additionally, the Teeter Plan was extended to include the allocation and distribution of special taxes levied for City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) in June 2017 (effective fiscal year 2017-18) and for the Bay Restoration Authority Parcel Tax, SFUSD School Facilities Special Tax, SFUSD School Parcel Tax, and City College Parcel Tax in October 2017 (effective fiscal year 2018-19). The Teeter Plan method authorizes the City Controller to allocate to the City’s taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City’s General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan as shown on Table A-7.

TABLE A-7

**CITY AND COUNTY OF SAN FRANCISCO**  
**Teeter Plan**  
**Tax Loss Reserve Fund Balance**  
**Fiscal Years 2013-14 through 2017-18**  
**(000s)**

Year Ended	Amount Funded
2013-14	\$19,654
2014-15	20,569
2015-16	22,882
2016-17	24,882
2017-18 <sup>1</sup>	25,567

<sup>1</sup> Unaudited

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, 2018 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, 2018**

Assessee	Location	Parcel Number	Type	Total Assessed Value <sup>1</sup>	% of Basis of Levy <sup>2</sup>
TRANSBAY TOWER LLC	415 MISSION ST	3720 009	OFFICE	\$1,336,595,294	0.515%
SUTTER BAY HOSPITALS <sup>3</sup>	1101 VAN NESS AVE	0695 006	HOSPITAL	1,182,540,579	0.456
HWA555 OWNERS LLC	555 CALIFORNIA ST	0259 026	OFFICE	1,018,418,547	0.393
ELM PROPERTY VENTURE LLC	101 CALIFORNIA ST	0263 011	OFFICE	984,858,015	0.380
PPF PARAMOUNT ONE MARKET PLAZA OWNER LP	1 MARKET ST	3713 007	OFFICE	834,307,207	0.322
SHR ST FRANCIS LLC	301 - 345 POWELL ST	0307 001	HOTEL	738,069,300	0.285
SFDC 50 FREMONT LLC	50 FREMONT ST	3709 019	OFFICE	689,319,255	0.266
GSW ARENA LLC	300 16TH STREET	8722 021	ENTERTAINMENT COMP	659,966,629	0.254
KR MISSION BAY LLC	1800 OWENS ST	8727 008	OFFICE	558,150,177	0.215
P55 HOTEL OWNER LLC	55 CYRIL MAGNIN ST	0330 026	HOTEL	533,785,362	0.206
				<b>\$8,536,010,365</b>	

<sup>1</sup> Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year.

TAV includes land & improvements, personal property, and fixtures.

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

<sup>3</sup> Nonprofit organization that is exempt from property taxes.

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



## **Taxation of State-Assessed Utility Property**

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2018-19 valuation of property assessed by the State Board of Equalization is \$3.7 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, 0.829% in tax year 2016, 0.71% in tax year 2017, and 0.38% in tax year 2018. The 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 (unaudited) in fiscal year 2017-18 is \$899.1 million (all funds), representing an increase of \$196.8 million (28%) from fiscal year 2016-17. Business tax revenue is budgeted at \$879.4 million in fiscal year 2018-19 representing a decrease of \$19.8 million (-2.2%) over fiscal year 2017-18 unaudited revenue. Business tax revenue is budgeted at \$914.7 million in fiscal year 2019-20

representing an increase of \$35.3 million (4.0%) over fiscal year 2018- 19 budget. As noted above, these figures do not assume gross receipts revenue related to either of the business tax measures approved by voters in 2018.

TABLE A-9

**CITY AND COUNTY OF SAN FRANCISCO**  
**Business Tax Revenues**  
**Fiscal Years 2014-15 through 2019-20**  
**All Funds**  
**(000s)**

Fiscal Year <sup>1</sup>	Revenue	Change	
2014-15	\$611,932	\$48,525	8.6%
2015-16	660,926	48,994	8.0%
2016-17	702,331	41,405	6.3%
2017-18 <i>unaudited</i> <sup>2</sup>	899,143	196,812	28.0%
2018-19 <i>budgeted</i> <sup>3</sup>	881,480	(17,663)	-2.0%
2019-20 <i>budgeted</i> <sup>3</sup>	916,810	35,330	4.0%

<sup>1</sup> Figures for fiscal years 2014-15 through 2016-17 are audited actuals.

Includes 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.

<sup>2</sup> Figure for fiscal year 2017-18 is unaudited.

<sup>3</sup> Figures for fiscal year 2018-19 and 2019-20 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 to the City 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, experienced double-digit growth rates between fiscal years 2013-14 and 2014-15, driving an average annual increase of 28.5% in hotel tax revenue during this period. RevPAR growth began to slow in fiscal year 2015-16 and then declined in fiscal year 2016-17, due mainly to the partial-year closure of the Moscone Convention Center. The Moscone Center re-opened in the second quarter of fiscal year 2017-18, and RevPAR is expected to partially recover. Unaudited hotel tax revenue in fiscal year 2017-18 is projected to be \$385.5 million, an increase of \$10.2 million (2.7%) from fiscal year 2016-17. In fiscal year 2018-19, hotel tax revenue is budgeted to be \$397.9 million, representing growth

of \$12.3 million (3.2%). In fiscal year 2019-20, hotel tax revenue is budgeted to be \$409.8 million, an increase of \$11.9 million (3.0%) from fiscal year 2018-19 budget. Budgeted hotel tax levels reflect the passage of a November 2018 ballot initiative (Proposition E) to shift a portion of hotel tax proceeds from the General Fund to arts and cultural programs effective January 1, 2019.

TABLE A-10

**CITY AND COUNTY OF SAN FRANCISCO**  
**Transient Occupancy Tax Revenues**  
**Fiscal Years 2014-15 through 2019-20**  
**All Funds**  
**(000s)**

Fiscal Year <sup>1</sup>	Tax Rate	Revenue	Change	
2014-15 <sup>2</sup>	14.0%	\$399,364	\$86,226	27.5%
2015-16	14.0%	392,686	(6,678)	-1.7%
2016-17	14.0%	375,291	(17,395)	-4.4%
2017-18 <i>unaudited</i> <sup>3</sup>	14.0%	385,551	10,260	2.7%
2018-19 <i>budgeted</i> <sup>4</sup>	14.0%	397,896	12,345	3.2%
2019-20 <i>budgeted</i> <sup>4</sup>	14.0%	409,840	11,945	3.0%

<sup>1</sup> Figures for fiscal year 2014-15 through fiscal year 2016-17 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds.

<sup>2</sup> Figures in fiscal year 2014-15 are substantially adjusted due to multi-year audit and litigation resolution.

<sup>3</sup> Figure for fiscal year 2017-18 represent unaudited actuals

<sup>4</sup> Figures for fiscal year 2018-19 and 2019-20 are Original Budget amounts. These amounts include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds, as well as the portion of hotel tax revenue dedicated to arts and cultural programming reflecting the passage of Proposition E in November 2018, which takes effect January 1, 2019.

**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 W 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 resulted in an estimated additional \$30.3 million in transfer tax revenue in fiscal year 2017-18.

Unaudited real property transfer tax (“RPTT”) revenue for fiscal year 2017-18 is \$280.4 million, a \$130.1 million (31.7%) decrease from fiscal year 2016-17 revenue. Fiscal year 2018-19 RPTT revenue is budgeted to be \$228.0 million, \$52 million (18.7%) less than unaudited fiscal year 2017-18 revenue primarily due to the assumption that RPTT collections will return to their historic average. For fiscal year 2019-20, RPTT revenue is budgeted to be \$228 million, unchanged from fiscal year 2018-19 budget.

TABLE A-11

**CITY AND COUNTY OF SAN FRANCISCO**  
**Real Property Transfer Tax Receipts**  
**Fiscal Years 2014-15 through 2019-20**  
**(000s)**

Fiscal Year <sup>1</sup>	Revenue	Change	
2014-15	\$314,603	\$52,678	20.1%
2015-16	269,090	(45,513)	-14.5%
2016-17	410,561	141,471	52.6%
2017-18 <i>unaudited</i> <sup>2</sup>	280,416	(130,145)	-31.7%
2018-19 <i>budgeted</i> <sup>3</sup>	228,000	(52,416)	-18.7%
2019-20 <i>budgeted</i> <sup>3</sup>	228,000	-	0.0%

<sup>1</sup> Figures for fiscal year 2014-15 through 2016-17 are audited actuals.

<sup>2</sup> Figures for fiscal year 2017-18 are unaudited actuals.

<sup>3</sup> Figures for fiscal year 2018-19 and 2019-20 are Original Budget amounts.

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

**Sales and Use Tax**

The sales tax rate on retail transactions in the City is 8.50%, of which 1.00% represents the City’s local share. 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. Between fiscal year 2004-05 and the first half of fiscal year 2015-16, the State diverted one-quarter of City’s 1.00% local share of the sales tax 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 1.00% local tax is recorded in the General Fund.

Unaudited local sales tax for fiscal year 2017-18 is \$192.9 million, \$3.4 million (1.8%) more than fiscal year 2016-17. Fiscal year 2018-19 revenue is budgeted to be \$196.9 million, an increase of \$3.9 million (2.0%) from fiscal year 2017-18. Fiscal year 2019-20 revenue is budgeted to be \$198.8 million, an increase of \$2.0 million (1.0%) from fiscal year 2018-19 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, offsetting sustained declines in point of sale purchases.

In June 2018, the United States Supreme Court ruled in favor of South Dakota in the case of *South Dakota v. Wayfair, Inc.*, requiring out-of-state online retailers to collect sales taxes on sales to in-state residents. The impact of this ruling on sales tax revenues in the City remains unknown due to various factors. In California and other states, many large online retailers already collect and remit state and local sales and use taxes, including Wayfair and Amazon. However, out-of-state retailers, who have no physical presence in California and no agreements with affiliates, are not required to collect California sales and use tax. On December 11, 2018, the California Department of Tax and Fee Administration (CDTFA) announced that beginning April 1, 2019, out of state retailers with sales for delivery into California exceeding \$100,000 or with 200 or more separate transactions must collect and remit sales tax. These are the same thresholds in place in South Dakota that were reviewed by the United States Supreme Court in the Wayfair decision. It appears unlikely that Congress will adopt uniform national standards absent substantive issues at the state level, therefore the City expects actions adopted at the state level will remain in effect for the foreseeable future. The adopted budget does not assume revenue changes from this ruling or CDTFA action, however, it is likely to have a modest positive impact in the short term given the demographics and shopping patterns of City residents.

Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2014-15 through 2016-17, unaudited receipts for fiscal year 2017-18, and budgeted receipts for fiscal year 2018-19 and 2019-20. The fiscal year 2014-15 and 2015-16 figures include the imputed impact of the property tax shift made in compensation for the one-quarter sales tax revenue taken by the State's "Triple Flip."

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TABLE A-12

**CITY AND COUNTY OF SAN FRANCISCO**  
**Sales and Use Tax Revenues**  
**Fiscal Years 2014-15 through 2019-20**  
**(000s)**

Fiscal Year <sup>1</sup>	Tax Rate	City Share	Revenue	Change	
2014-15	8.75%	0.75%	140,146	6,441	4.8%
2014-15 adj. <sup>2</sup>	8.75%	1.00%	186,891	9,592	5.4%
2015-16	8.75%	0.75%	167,915	27,769	19.8%
2015-16 adj. <sup>3</sup>	8.75%	1.00%	204,118	17,227	9.2%
2016-17	8.75%	1.00%	189,473	(14,645)	-8.7%
2017-18 <i>unaudited</i> <sup>4</sup>	8.50%	1.00%	192,945	3,472	1.8%
2018-19 <i>budgeted</i> <sup>5</sup>	8.50%	1.00%	196,870	3,925	2.0%
2019-20 <i>budgeted</i> <sup>5</sup>	8.50%	1.00%	198,840	1,970	1.0%

<sup>1</sup> Figures for fiscal year 2014-15 through fiscal year 2016-17 are audited actuals. In November 2012 voters approved Proposition 30, which temporarily increased the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

<sup>2</sup> 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

<sup>3</sup> The 2015-16 adjusted figures include 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

<sup>4</sup> Figures for fiscal year 2017-18 are unaudited.

<sup>5</sup> Figures for fiscal year 2018-19 and 2019-20 are Original Budget amounts.

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.

Unaudited fiscal year 2017-18 Utility User Tax ("UUT") revenues of \$94.5 million represent a decline of \$6.7 million (6.7%) from fiscal year 2016-17. Fiscal year 2018- 19 UUT revenues are budgeted at \$99.1 million, a \$4.6 million (4.9%) increase from the 2017-18 unaudited revenues. Fiscal year 2019-20 revenues are budgeted at \$100.0 million, a \$0.9 million (1.0%) increase from the prior year budget.

## **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. Unaudited access Line Tax revenue for fiscal year 2017-18 of \$51.3 million represents a \$4.7 million (10.2%) increase over fiscal year 2016-17. Fiscal year 2018-19 revenue is budgeted at \$51.9 million, a \$0.6 million (1.2%) increase from fiscal year 2017-18 unaudited revenues. Fiscal year 2019-20 revenue is budgeted at \$53.5 million, a \$1.6 million (3.2%) increase from the prior year. Budgeted amounts in fiscal year 2018-19 assume annual inflationary increases to the access line tax rate as allowed under Business and Tax Regulation Code Section 784.

## **Sugar Sweetened Beverage Tax**

On November 9, 2016 voters adopted Proposition V, a one cent per ounce tax on the distribution of sugary beverages. This measure took effect on January 1, 2018 and raised \$7.9 million in fiscal year 2017-18 (unaudited), \$0.4 million (5.5%) over budget. Fiscal year 2018-19 and 2019-20 revenues are budgeted at a combined \$15.0 million, a slight decline from annualized fiscal year 2017-18 amounts.

## **Parking Tax**

A 25% tax is imposed on the charge for off-street parking spaces. The tax is paid by occupants and remitted monthly to the City by parking facility operators. Historically, parking tax revenue was 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. However, widespread use of ride-sharing services and redevelopment of surface lots and parking garages into office and other uses have led to declines in this source over the past two fiscal years.

Unaudited fiscal year 2017-18 parking tax revenue of \$83.5 million represents a \$0.8 million (0.9%) decrease from fiscal year 2016-17 revenue. Parking tax revenue is budgeted at \$85.5 million in fiscal year 2018-19 and fiscal year 2019-20, a \$2.0 million (2.5%) increase from unaudited fiscal year 2017-18 revenues.

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 2017-18, the (unaudited) General Fund share of 1991 realignment revenue of \$197.9 million represents a \$5.8 million (3.0%) increase from fiscal year 2016-17. The fiscal years 2018-19 and 2019-20 General Fund share of these revenues is budgeted at \$209.1 million and \$215.5 million, a net increase of \$11.2 million (5.6%) and \$6.4 million (3.1%) from the respective prior year, based on projected sales tax and VLF growth payments.

Since fiscal year 2014-15, the State has assumed that under the Affordable Care Act (ACA), counties will realize savings as a result of treating fewer uninsured patients. The State redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund. In fiscal year 2018-19, reductions to the City's allocation are assumed at \$12.0 million. However, they are projected to be offset by the true up payments from the State for fiscal year 2015-16. The fiscal year 2019-20 budget makes the same assumption as fiscal year 2018-19, projecting reductions to the City's allocation that are fully offset by true up payments from fiscal year 2016-17. Future budget adjustments could be necessary depending on final State determinations of ACA savings amounts, which are expected in January 2020 and January 2021 for fiscal year 2017-18 and fiscal year 2018-19, respectively. The fiscal year 2018-19 and 2019-20 realignment budget assumes the redirection of sales tax and VLF growth distributions from health and mental health allocations to social service allocations, consistent with IHSS assumptions enacted in the Governor's 2018-19 budget.

**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. Unaudited fiscal year 2017-18 revenue of \$37.4 million represents a \$2.1 million (5.5%) increase from fiscal year 2016-17 actuals. Based on the State's adopted budget for fiscal year 2018-19, this revenue is budgeted at \$39.0 million in fiscal year 2018-19, a \$1.6 million (4.2%) increase over fiscal year 2017-18, reflecting increased State funding to support implementation of AB109. The fiscal year 2019-20 budget assumes a \$1.2 million (3.1%) increase from the fiscal year 2018-19 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. Unaudited fiscal year 2017-18 revenue of \$104.9 million represents a \$4.4 million (4.4%) increase from fiscal year 2016-17 revenues. In fiscal years 2018-19 and 2019-20, this revenue is budgeted at \$104.7 million and \$106.2 million, respectively, essentially flat in 2018-19 and representing growth of \$1.6 million (1.5%) in fiscal year 2019-20. 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 2016-17 is almost 3% and is expected to decline slightly in fiscal years 2017-18, 2018-19, and 2019-20.

#### **Other Intergovernmental Grants and Subventions**

In addition to those categories listed above, the City received \$626.37 million (unaudited) of funds in fiscal year 2017-18 from grants and subventions from the State and federal governments to fund public health, social services and other programs in the General Fund. This represents a \$3.8 million (0.6%) decrease from fiscal year 2016-17. The fiscal year 2018-19 budget of \$686.7 million is an increase of \$64.1 million (10.3%) over fiscal year 2017-18. The fiscal year 2019-20 budget is \$698.2 million, an increase of \$11.5 million (1.7%) over fiscal year 2018-19.



## 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 \$1.5 billion in fiscal year 2018-19 and \$1.5 billion in fiscal year 2019-20.

### 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 as described in table A-13 below:

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO					
Expenditures by Major Service Area					
Fiscal Years 2015-16 through 2019-20					
(000s)					
Major Service Areas	2015-16 Final Budget	2016-17 Final Budget	2017-18 Original Budget <sup>1</sup>	2018-19 Original Budget	2019-20 Original Budget
Public Protection	\$1,223,981	\$1,298,185	\$1,331,196	\$1,403,620	\$1,453,652
Human Welfare & Neighborhood Development	857,055	176,768	995,230	1,053,814	1,083,329
Community Health	787,554	970,679	884,393	943,631	893,763
General Administration & Finance	286,871	786,218	358,588	391,900	418,497
Culture & Recreation	137,062	158,954	162,622	165,784	166,575
General City Responsibilities	186,068	349,308	152,390	183,159	188,171
Public Works, Transportation & Commerce	161,545	154,344	170,949	183,703	170,150
Total*	\$3,640,137	\$3,894,456	\$4,055,368	\$4,325,611	\$4,374,137

\*Total may not add due to rounding

<sup>1</sup> Fiscal year 2017-18 Final Revised Budget will be available upon release of the fiscal year 2017-18 CAFR.

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 \$485 million, \$255 million and \$193 million of General Fund support respectively in fiscal year 2018-19 and \$514 million, \$265 million, and \$193 million, respectively in fiscal year 2019-20. 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 \$272 million of General Fund support in the fiscal year 2018-19 and \$286 million in fiscal year 2019-20.

The Public Health Department is budgeted to receive \$738 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2018-19 and \$751 million in fiscal year 2019-20.

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 \$68.4 million in both fiscal years 2017-18 and 2018-19.

### **Baselines**

The Charter requires funding for baselines and other voter-mandated funding requirements. The chart below identifies the required and budgeted levels of funding for key baselines and mandates. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending. Table A-14 reflects fiscal year 2018-19 spending requirements at the time the fiscal year 2018-19 and fiscal year 2019-20 budget was finally adopted.

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TABLE A-14

**CITY AND COUNTY OF SAN FRANCISCO**  
**Baselines & Set-Asides**  
**Fiscal Year 2018-19**  
**(millions)**

Baselines & Set-Asides	2018-19 Required Baseline	2018-19 Original Budget
<u>Municipal Transportation Agency (MTA)</u>		
Municipal Railway Baseline	\$244.6	\$244.6
Parking and Traffic Baseline	\$91.7	\$91.7
Population Adjustment	\$50.9	\$50.9
Children's Services	\$176.7	\$182.2
Transitional Aged Youth	\$21.2	\$28.1
Library Preservation	\$83.6	\$83.6
Recreation and Park Maintenance of Effort	\$73.2	\$75.5
Dignity Fund	\$47.1	\$47.1
Street Treet Maintenance Fund	\$19.8	\$19.8
City Services Auditor	\$18.8	\$18.8
Human Services Homeless Care Fund	\$17.6	\$17.6
<u>Public Education Enrichment Funding</u>		
Unified School District	\$74.6	\$74.6
Office of Early Care and Education	\$37.3	\$37.3
Public Education Baseline Services	\$10.6	\$10.6
<u>Property Tax Related Set-Asides</u>		
Municipal Symphony	\$3.2	\$3.2
Children's Fund Set-Aside	\$101.7	\$101.7
Library Preservation Set-Aside	\$63.6	\$63.6
Open Space Set-Aside	\$63.6	\$63.6
<u>Staffing and Service-Driven</u>		
Police Minimum Staffing		Requirement met
<b>Total Baseline Spending</b>	<b>\$1,199.8</b>	<b>\$1,214.6</b>

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 Administrative Code 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 slightly less than half of the City's expenditures, totaling \$5.2 billion in the fiscal year 2018-19 Original Budget (all-funds), and \$5.4 billion in the fiscal year 2019-20 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.3 billion in the fiscal year 2017-18 Original Budget and \$2.4 billion in the fiscal year 2018-19 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 2018-19 and 2019-20 includes 31,220 and 31,579 budgeted and funded 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 tripartite mediation and arbitration panel. The award of the arbitration panel is final and binding. 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 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 (the March 2018 Update projected a \$37.9 million deficit for fiscal year 2018-19). MTA and TWU, along with unions representing MTA service critical employees, agreed to two-year contract extensions with the same wage provisions and term as those contracts covering City employees. The agreement with supervising nurses expires in June 2019.

In May 2018, the City negotiated three-year agreements (for fiscal years 2018-19 through 2020-21) with the Police Officers' Association ("POA") and the Municipal Executives' Association ("MEA") – Police Chiefs. The POA contract was resolved through interest arbitration. The POA and MEA – Police contracts included a wage schedule increase of 3% (July 1, 2018), 3% (July 1, 2019), 2% (July 1, 2020), and 1% (January 1, 2021). The final two increases are subject to a six-month delay if the March 2020 Five-Year Financial Plan update projects a budget deficit of more than \$200 million.

The City also negotiated three-year agreements with the Firefighters Local 798 ("798") and the MEA – Fire Chiefs in May 2018. The 798 contract was a mediated arbitration award. The 798 and MEA – Fire contracts included a wage schedule increase of 3% (July 1, 2018), 3% (July 1, 2019), and 3% (July 1, 2020). The final increase is subject to a six-month delay if the March 2020 Five-Year Financial Plan projects a budget deficit of more than \$200 million.

Also, in May 2018, the City negotiated contract extensions with the Union of American Physicians and Dentists ("UAPD") and SEIU – H-1 Fire Rescue Paramedics. UAPD agreed to a one-year extension with a wage increase of 3% on July 1, 2018. The H-1 Fire Rescue Paramedics agreed to a two-year extension with a wage increase schedule of 3% (July 1, 2018) and 3% (July 1, 2019).

Except for the safety unions, the City will negotiate new contracts with all unions in the Spring of 2019. The MTA will also negotiate new contracts at that time. The MTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units pursuant to Charter Section 8A.104. These contracts are subject to approval by the MTA Board. Table A-15 shows the membership of each operating employee bargaining unit and the date the current labor contract expires.

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TABLE A-15

**CITY AND COUNTY OF SAN FRANCISCO (All Funds)**  
**Employee Organizations as of July 1, 2018**

<b>Organization</b>	<b>City Budgeted Positions</b>	<b>Expiration Date of MOU</b>
Auto Machinist, Lodge 1414	495	30-Jun-19
BrickLayers, Local 3 / Hod Carriers, Local 36	10	30-Jun-19
Building Inspectors Association	93	30-Jun-19
CAIR/CIR (Interns & Residents)	0	30-Jun-21
Carpenters, Local 22	114	30-Jun-19
Carpet, Linoleum & Soft Tile	3	30-Jun-19
Cement Masons, Local 300	45	30-Jun-19
Electrical Workers, Local 6	949	30-Jun-19
Firefighters, Local 798	1,887	30-Jun-21
Glaziers, Local 718	13	30-Jun-19
Hod Carriers, Local 36	8	30-Jun-19
Iron Workers, Local 377	15	30-Jun-19
Laborers, Local 261	1,141	30-Jun-19
Municipal Attorneys Association	470	30-Jun-19
Municipal Exec Assoc - Fire	9	30-Jun-21
Municipal Exec Assoc - Misc	1,390	30-Jun-19
Municipal Exec Assoc - Police	16	30-Jun-21
Operating Engineers, Local 3	65	30-Jun-19
Physician/Dentists, UAPD	204	30-Jun-19
Pile Drivers, Local 34	37	30-Jun-19
Plasterers & Shphnds, Local 66	0	30-Jun-19
Plumbers, Local 38	350	30-Jun-19
Police Officers Association	2,584	30-Jun-21
Prof & Tech Eng, Local 21	6,254	30-Jun-19
Roofers, Local 40	13	30-Jun-19
SEIU 1021, H-1 Paramedics	1	30-Jun-20
SEIU 1021, Misc.	12,547	30-Jun-19
SEIU 1021, Staff & Per Diem RNs	1,720	30-Jun-19
SF City Workers United	133	30-Jun-19
SF Deputy Sheriffs Assn	819	30-Jun-19
SF Probation Off Assoc	153	30-Jun-19
SF Sheriff's Managers and Supv	109	30-Jun-19
SFDA Investigators Assn	45	30-Jun-19
SFIPOA, Op Eng, Local 3	1	30-Jun-19
Sheet Metal Workers, Local 104	41	30-Jun-19
Stationary Engineers, Local 39	694	30-Jun-19
Sup Probation Ofcr, Op Eng 3	32	30-Jun-19
Teamsters, Local 853	174	30-Jun-19
Teamsters, Local 856 Multi-Unit	111	30-Jun-19
Teamsters, Local 856 Spv Nurses	127	30-Jun-19
Theatrical Stage Emp, Local 16	27	30-Jun-19
TWU Local 200	374	30-Jun-19
TWU Local 250-A, AutoServWrkr	141	30-Jun-19
TWU Local 250-A, Misc	110	30-Jun-19
TWU Local 250-A, TranFarelnsp	50	30-Jun-19
TWU Local 250-A, TransitOpr	2,615	30-Jun-19
Unrepresented Employees	89	30-Jun-19
	<b>36,276</b>	<sup>1</sup>

<sup>1</sup> Budgeted positions do not include SFUSD, SFCCD, or Superior Court Personnel.

Budgeted positions include authorized positions that are not currently funded.

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 of SFERS. The Actuary's responsibilities include advising the Retirement Board on actuarial matters and monitoring of actuarial service providers. The Retirement Board retains an independent consulting actuarial firm to prepare the annual valuation reports and other analyses. The independent consulting actuarial firm is currently Cheiron, Inc., a nationally recognized firm selected by the Retirement Board pursuant to a competitive process.

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. This 2014 Determination Letter has no operative expiration date pursuant to Revenue Procedure 2016-37. The IRS does not intend to issue new determination letters except under special exceptions.

### *Membership*

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

The Retirement System estimates that the total active membership as of July 1, 2017 is 41,867, compared to 40,051 at July 1, 2016. Active membership at July 1, 2017 includes 7,381 terminated vested members and 1,039 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 29,127 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table A-16 shows total Retirement System participation (City, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2013 through July 1, 2017.

TABLE A-16

**City and County of San Francisco  
Employees' Retirement System  
July 1, 2013 through July 1, 2017**

As of July 1st	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
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
2017	33,447	7,381	1,039	41,867	29,127	1.148

Sources: SFERS' annual Actuarial Valuation Report dated July 1st.  
See <http://mysfers.org/resources/publications/sfers-actuarial-valuations/>. The information therein is not incorporated by reference in this Official Statement.

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 2018 Retirement Board meeting, the Board voted to lower the assumed long-term investment earnings assumption from 7.50% to 7.40%, maintain the long-term wage inflation assumption at 3.50%, and lower the long-term consumer price inflation assumption from 3.00% to 2.75%. These economic assumptions will be in effect for the July 1, 2018 actuarial valuation. The Board had previously lowered the long-term wage inflation assumption from 3.75% to 3.50% at its November 2017 meeting effective for the July 1, 2017 actuarial valuation. 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 debt obligations should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, [mysfers.org](http://mysfers.org), under Publications. The information on such website is not incorporated herein by reference. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's debt obligations are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents and are therefore subject to change.

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

Fiscal year 2015-16 total City employer contributions were \$496.3 million which included \$215.2 million from the General Fund. Fiscal year 2016-17 total City employer contributions were \$519.1 million which included \$230.1 million from the General Fund. For fiscal year 2017-18, total City employer contributions to the Retirement System are budgeted at \$568.7 million which includes \$265.8 million from the General Fund. These budgeted amounts are based upon the fiscal year 2017-18 employer contribution rate of 23.46% (estimated to be 20.1% after taking into account the 2011 Proposition C cost-sharing provisions). The fiscal year 2018-19 employer contribution rate is 23.31% (estimated to be 19.8% after cost-sharing). The slight decrease in employer contribution rate from 23.46% to 23.31% reflects investment returns better than assumed and the reduction in wage inflation from 3.75% to 3.50% offset by a new Supplemental COLA effective July 1, 2017 and 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 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 2012-13 through 2016-17. Information is shown for all employers in the Retirement System (City, SFUSD, SFCCD and San Francisco Trial Courts). "Actuarial Liability" reflects the actuarial accrued liability of the Retirement System measured for purposes of determining the funding contribution. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The "Market Percent Funded" column is determined by dividing the market value of assets by the actuarial accrued liability. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the actuarial accrued liability. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer contributions received by the Retirement System in the fiscal year ended June 30<sup>th</sup> prior to the July 1<sup>st</sup> valuation date.

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TABLE A-17

**City and County of San Francisco**  
**Employees' Retirement System**  
**Fiscal Years 2012-13 through 2016-17**  
**(000s)**

As of July 1st	Actuarial Liability	Market Value of Assets	Actuarial Value of Assets	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contributions in prior FY	Employer Contribution Rates <sup>1</sup> in prior FY
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	82.6	84.6	849,569	22.80
2017	25,706,090	22,410,350	22,185,244	87.2	86.3	868,653	21.40

<sup>1</sup> Employer contribution rates for fiscal years 2017-18 and 2018-19 are 23.46% and 23.31%, respectively.

Sources: SFERS' audited year-end financial statements and required supplemental information.

SFERS' annual Actuarial Valuation Report dated July 1st.

See <http://mysfers.org/resources/publications/>. The information on such website is not incorporated hereing by reference.

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

As shown in the table above as of July 2017, the Market Percent Funded ratio is higher than the Actuarial Percent Funded ratio in 2017. The Actuarial Percent Funded ratio does not yet fully reflect the net asset gains from the last five fiscal years.

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

*Governmental Accounting Standards Board ("GASB") Disclosures*

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. 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 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 been small, ranging from zero to six basis

points at the last five fiscal year-ends. The third distinct difference is that Total Pension Liability includes a provision for Supplemental COLAS that may be granted in the future, while Actuarial Liability for funding purposes includes only Supplemental COLAS that have been already beengranted.

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

TABLE A-17A

**City and County of San Francisco  
Employees' Retirement System  
GASB 67/68 Disclosures  
Fiscal Years 2012-13 through 2016-17  
(000s)**

As of June 30th	Collective Total Pension Liability (TPL)	Discount Rate	Plan Fiduciary Net Position	Plan Net Position as % of TPL	Collective Net Pension Liability (NPL)	City and County's Proportionate Share of NPL
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
2017	27,403,715	7.50	22,410,350	81.8	4,993,365	4,697,131

Sources: SFERS fiscal year-end GASB 67/68 Reports as of June 30, 2013, 2014, 2015, 2016 and 2017.

Notes: Collective amounts include all employees (City and County, SFUSD, SFCCD, Superior Courts)

The fiscal year 2017 decline in the City’s net pension liability is due to investment return during the fiscal year that exceeded the assumed 7.50%.

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## *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, 2017, see Appendix B: “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017,” page 63.

Annualized investment returns (net of fees and expenses) for the Retirement System for the five years ending June 30, 2017 were 9.98%. For the ten-year and twenty-year periods ending June 30, 2017, annualized investment returns were 5.40% and 7.46% respectively.

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

## *2011 Voter Approved Changes to the Retirement Plan*

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

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 hired on or after November 2, 1976 pay a Charter-mandated employee contribution rate of 7.5% before-cost-sharing. However, after cost-sharing those who earn between \$50,000 and \$100,000 per year pay a fluctuating rate in the range of 3.5% to 11.5 and those who earn \$100,000 or more per year pay a fluctuating rate in

the range of 2.5% to 12.5%. 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 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 SFERS 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, 2017, the audited market value of Retirement System assets was \$22.4 billion. As of December 31, 2018, the unaudited market value of SFERS’ portfolio was \$24.1 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 is summarized in Note 9 to the City's CAFR, as of June 30, 2017, 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 and COBRA benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the San Francisco Health Service System (the "San Francisco Health Service System" or "SFHSS") pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the 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 "SFHSS 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 SFHSS 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 SFHSS 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 SFHSS 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 “Other Post-Employment Benefits Trust Fund”). Thus, the Health Service Trust Fund is not currently affected by GASB Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (“GASB 45”), or GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, 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 is used to determine “the average contribution made by each such County toward the providing of health care plans, exclusive of dental or optical care, for each employee of such County.” Under City Charter Section A8.428, the City is required to contribute to the Health Service Trust Fund an amount equal to such “average contribution” for each City Beneficiary.

In the Memoranda of Understandings negotiated through collective bargaining in June 2014, the 10-County Average was eliminated in the calculation of premiums for active employees represented by most unions and exchanged for a percentage-based employee premium contribution. The long-term impact of the premium contribution model is anticipated to be a reduction in the relative proportion of the projected increases in the City’s contributions for healthcare, stabilization of the medical plan membership and maintenance of competition among plans. The contribution amounts are paid by the City into the Health Service Trust Fund. The 10-County Average is still used as a basis for calculating all retiree premiums. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by SFHSS 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 10-County 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.

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*City Contribution for Retirees*

The City contributes the full employer contribution amount for medical coverage for eligible retirees who were hired on or before January 9, 2009. For retirees who were hired on or after January 10, 2009, there are five coverage / employer contribution classifications based on certain criteria outlined in the table below. In 2019, the provision for retirees who have at least 10 but less than 15 years of Credited Service with the Employers will apply for the first time.

<b>Retiree Medical Coverage / Employer Contribution for Those Hired On or After January 10, 2009</b>	
Years of Credited Service at Retirement	Percentage of Employer Contribution Established in Charter Section A8.428 Subsection (b)(3)
Less than 5 year of Credited Service with the Employers (except for the surviving spouses or surviving domestic partners of active employees who died in the line of duty)	No Retiree Medical Benefits Coverage
At least 5 but less than 10 years of Credited Service with the Employers; or greater than 10 years of Credited Service with the Employers but not eligible to receive benefits under Subsections (a)(4), (b)(5) <b>(A8.428 Subsection (b)(6))</b>	0% - Access to Retiree Medical Benefits Coverage. Including Access to Dependent Coverage
At least 10 but less than 15 years of Credited Service with the Employers <b>(AB.428 Subsection (b)(5))</b>	50%
At least 15 but less than 20 years pf Credited Service with the Employers <b>(AB.428 Subsection (b)(5))</b>	75%
At least 20 years of Credited Service with the Employer; Retired Persons who retired for disability; surviving spouses or surviving domestic partners of active employees who died in the line of duty <b>(AB.428 Subsection (b)(4))</b>	100%

*Health Care Reform*

The following discussion is based on the current status of the Patient Protection and Affordable Care Act (the “ACA”). Many attempts have been made to completely repeal the ACA, however full repeal has been unsuccessful thus far. Two pieces of legislation, passed by Congress in December 2017 and January 2018, respectively, have amended and repealed some of the fiscal requirements of the law.

In December 2017, Congress passed the Tax Cuts and Jobs Act (the “ACT”). The ACT eliminated the ACA’s individual mandate penalty effective beginning after December 31, 2018. This does not end the mandate, rather eliminates the tax penalty for violating the mandate. The ACA mandate that requires employers,

with 50 or more full-time employees, to offer full-time workers ACA-compliant health coverage is still in place. Eligibility for health benefits is offered to employees who are employed, on average, at least 20 hours of service per week. In addition, the employer reporting obligations under the ACA remains unchanged. In January 2018, approximately 50,000 1095 forms were distributed to SFHSS members documenting compliance to this mandate.

The potential impact with the repeal of the individual mandate may: 1) increase uncompensated care costs, which is generally passed onto plan sponsors, employers and other payers, 2) destabilize the individual market leading to more employees and dependents electing high cost, limit duration COBRA benefits instead of buying coverage elsewhere, and 3) limit the opportunity for plan sponsors/employers to leverage the healthcare marketplace as a coverage vehicle for groups such as part-time employees or pre-65 retirees. In addition, the overall cost of health care may increase as a result of changes in risk pools due to the young, healthy population not electing coverage.

On January 22, 2018 Congress approved the delay of three ACA taxes that impact SFHSS rates for medical coverage. The taxes are:

- **Excise Tax on High-cost Employer-sponsored Health Plans**

The Excise Tax on High-cost Employer-sponsored Health Plans (Cadillac Tax) is a 40% excise tax on high-cost coverage health plans. Implementation of the tax has been delayed twice and is now effective in 2022. SFHSS continues to evaluate the future impact of the cost of medical benefits for all coverage tiers and it is expected that the plans for pre-65 retirees will trigger the tax first.

- **Health Insurance Tax (“HIT”)**

The ACA also imposed a tax on health insurance providers, which was passed on to employer sponsored fully-insured plans in the form of higher premiums. A moratorium on this tax was in place for 2017, and the spending bill passed by Congress in January 2018 includes another moratorium for 2019.

- **Medical Device Excise Tax**

The ACA’s medical device excise tax imposes a 2.3 percent tax on sales of medical devices (except certain devices sold at retail). Implementation of the tax is delayed until 2020.

The Patient Centered Outcomes Research Institute (“PCORI”) fee is a provision of the Affordable Care Act and sunsets after the 2018 plan year. Beginning in 2013, the PCORI Fee was assessed at the rate of \$2.00 per enrollee per year to all participants in the Self-Insured medical-only plan. The 2018 plan year PCORI fee is \$2.39 per enrollee per year and was factored into the calculation of medical premium rates and premium equivalents for the 2018 plan year. The final payment for the PCORI fee, due in July 2019, will be approximately \$6,000.

### *State Legislation*

Beginning in 2019, the California Managed Care Organization (MCO) Tax will apply to all managed care plans which include the City’s Blue Shield plans. The MCO tax was enacted by California Senate Bill X2-2 (Hernandez, Chapter 2. Statues 2016) effective for the taxing period spanning July 1, 2016 through June 30, 2019. The average fee is \$1.30 per covered life per month for January 2019 until its sunsets and in 2019 the obligation is expected to be approximately \$0.6 million for the City and County of San Francisco.

### *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*

As mentioned above, 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. In addition, the Proposition requires employees hired on or before January 9, 2009 to contribute 0.25% of compensation into the Retiree Health Care Trust Fund beginning July 1, 2016. The contribution requirement increased to 0.50% effective July 1, 2017, 0.75% effective July 1, 2018 and will cap out at 1.00% on July 1, 2019. The San Francisco Health Service System is in compliance with Proposition C.

#### *Employer Contributions for San Francisco Health Service System Benefits*

For fiscal year 2017-18, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$758.8 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$642.5 million; approximately \$178.5 million of this \$642.5 million amount was for health care benefits for approximately 21,970 retired City employees and their eligible dependents and approximately \$464.0 million was for benefits for approximately 32,597 active City employees and their eligible dependents.

The 2019 aggregate cost of benefits offered by SFHSS to the City increased by 2.47%. This increase is due to several factors including aggressive contracting by SFHSS 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 and implementing a narrow network. Flex-funding allows lower premiums to be set by the City's actuarial consultant, Aon, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. In 2019, the initial estimated aggregate cost of benefits offered by SFHSS to the City, before any negotiations with the plans, show an increase of 7.4%.

#### *Post-Employment Health Care Benefits*

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

#### *GASB 75 Reporting Requirements*

In June 2015, GASB issued Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“GASB 75”). GASB 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEBs. The new standard is effective for periods beginning after June 15, 2017. The City is implementing the provisions of GASB 75 in its audited financial statements for Fiscal Year 2017-18. According to GASB's Summary of GASB 75, GASB 75 will require recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, and new note disclosures and required supplementary information to enhance decision-usefulness and accountability. The GASB 75 Summary also states that the consistency, comparability, and transparency of the information reported will be improved through the following requirements:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return;
- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations;

- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms; and,
- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

*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 difference between the estimated annual required contribution (“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 2016-17 annual OPEB cost was \$401.4 million, of which the City funded \$175.0 million which caused, among other impacts, the City’s long-term liability to increase by \$237.5 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, 2017, included as Appendix B to this Official Statement. Five-year trend information is displayed in Table A-18.

TABLE A-18

<b>CITY AND COUNTY OF SAN FRANCISCO</b>			
<b>Five-year Trend</b>			
<b>Fiscal Years 2012-13 to 2016-17<sup>1</sup></b>			
<b>(000s)</b>			
Fiscal Year	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2012-13	\$418,539	38.3%	\$1,607,130
2013-14	353,251	47.2%	1,793,753
2014-15	363,643	46.0%	1,990,155
2015-16	326,133	51.8%	2,147,434
2016-17	401,402	43.6%	2,384,938

<sup>1</sup> Fiscal year 2017-18 will be available upon release of the fiscal year 2017-18 CAFR.

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. In accordance with GASB 75, the City’s actuarial analysis is updated every two years. As of June 30, 2017, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$187.4 million, an increase of 63% versus the prior year. 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 was 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, 2018 is approximately \$240.1 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 2014-15 to fiscal year 2019-20.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO						
Employee Benefit Costs, All Funds						
Fiscal Years 2014-15 through 2019-20						
(000s)						
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual <sup>1</sup>	Actual <sup>1</sup>	Actual <sup>1</sup>	Unaudited <sup>4</sup>	Budget <sup>5</sup>	Budget <sup>5</sup>
SFERS and PERS Retirement Contributions	\$593,619	\$531,821	\$554,956	\$624,482	\$628,601	\$628,601
Social Security & Medicare	171,877	184,530	196,914	\$214,624	\$215,164	\$215,164
Health - Medical + Dental, active employees <sup>2</sup>	383,218	421,864	459,772	\$497,541	\$508,108	\$508,108
Health - Retiree Medical <sup>2</sup>	146,164	158,939	165,822	\$178,381	\$186,742	\$186,742
Other Benefits <sup>3</sup>	18,439	20,827	21,388	\$24,920	\$21,229	\$21,229
<b>Total Benefit Costs</b>	<b>\$1,313,318</b>	<b>\$1,317,981</b>	<b>\$1,398,852</b>	<b>\$1,539,948</b>	<b>\$1,559,844</b>	<b>\$1,559,844</b>

<sup>1</sup> Fiscal year 2014-15 through fiscal year 2016-17 figures are audited actuals.

<sup>2</sup> Does not include Health Service System administrative costs. Does include flexible benefits that may be used for health insurance.

<sup>3</sup> "Other Benefits" includes unemployment insurance premiums, life insurance and other miscellaneous employee benefits.

<sup>4</sup> Fiscal year 2017-18 figures are unaudited actuals. Final actuals will be available upon release of the fiscal year 2017-18 CAFR.

<sup>5</sup> Figures for fiscal years 2018-19 and 2019-20 are Original Budget amounts.

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

## **INVESTMENT OF CITY FUNDS**

### *Investment Pool*

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

### *Investment Policy*

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

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. A complete copy of the Treasurer’s Investment Policy, dated February 2018, is included as an Appendix to this Official Statement. 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 December 31, 2018, 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.

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TABLE A-20

**City and County of San Francisco  
Investment Portfolio  
Pooled Funds  
As of December 31, 2018**

<b>Type of Investment</b>	<b>Par Value</b>	<b>Book Value</b>	<b>Market Value</b>
U.S. Treasuries	\$975,000,000	\$964,127,970	\$964,105,700
Federal Agencies	5,194,930,000	5,190,379,716	5,160,726,787
State and Local Obligations	140,080,225	141,657,723	139,044,262
Public Time Deposits	35,240,000	35,240,000	35,240,000
Negotiable Certificates of Deposit	1,972,838,000	1,972,838,000	1,973,920,123
Commercial Paper	1,018,000,000	1,001,397,123	1,007,217,121
Medium Term Notes	98,463,000	98,305,050	98,167,851
Money Market Funds	468,669,088	468,669,088	468,669,088
Supranationals	829,478,000	825,556,749	824,120,790
<b>Total</b>	<b>\$10,732,698,313</b>	<b>\$10,698,171,419</b>	<b>\$10,671,211,722</b>

December 2018 Earned Income Yield: 2.346%

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

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TABLE A-21

**City and County of San Francisco  
Investment Maturity Distribution  
Pooled Funds  
As of December 31, 2018**

Maturity in Months			Par Value	Percentage
0	to	1	\$1,003,939,088	9.35%
1	to	2	432,000,000	4.03%
2	to	3	302,338,000	2.82%
3	to	4	532,979,000	4.97%
4	to	5	483,880,000	4.51%
5	to	6	683,200,000	6.37%
6	to	12	2,894,311,000	26.97%
12	to	24	2,073,025,000	19.32%
24	to	36	1,570,451,228	14.63%
36	to	48	506,575,000	4.72%
48	to	60	250,000,000	2.33%
			\$10,732,698,316	100.0%

Weighted Average Maturity: 440 Days

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

*Further Information*

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

Additional information on the City’s investments, investment policies, and risk exposure as of June 30, 2017 are described in Appendix B: “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017,” 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 10-year capital expenditure plan for City-owned facilities and infrastructure. It also created the Capital Planning Committee (“CPC”) and the Capital Planning Program (“CPP”). The CPC, 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 10-year capital plan every other fiscal year for approval by the Board of Supervisors. The Capital Plan is a fiscally constrained long-term finance strategy that prioritizes projects based on a set of funding principles. It provides an assessment of the City's infrastructure and other funding needs over 10 years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2018-2027 Capital Plan was approved by the CPC on February 27, 2017 and was adopted by the Board of Supervisors in April 2017. The Capital Plan contains \$35.2 billion in capital investments over the coming decade for all City departments, including \$5.25 billion in projects for General Fund-supported departments. The Capital Plan proposes \$1.9 billion for General Fund pay-as-you-go capital projects over the next 10 years. The amount for General Fund pay-as-you-go capital projects is assumed to grow to over \$200 million per year by fiscal year 2023-24. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, and fire facilities; improvements to homeless service sites; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the relocation of public health staff and services to improved spaces, among other capital projects. \$2.1 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 \$18.9 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 \$12.3 billion of enterprise fund department capital projects are anticipated to be financed with revenue bonds. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund and other sources.

While significant investments are proposed in the City's adopted Capital Plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$4.6 billion in capital needs including enhancements 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 late Mayor Edwin Lee 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 December 31, 2018, the City had approximately \$2.46 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.

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TABLE A-22

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds Debt Service**  
**As of December 31, 2018<sup>1 2</sup>**

Fiscal Year	Principal	Interest	Annual Debt Service
2018-19 <sup>3</sup>	\$234,965,545	\$52,674,789	\$287,640,334
2019-20	138,676,232	94,565,441	\$233,241,673
2020-21	136,930,457	87,917,066	\$224,847,523
2021-22	143,653,400	81,593,303	\$225,246,703
2022-23	148,110,251	74,875,635	\$222,985,886
2023-24	151,526,206	67,762,310	\$219,288,516
2024-25	153,236,476	60,452,315	\$213,688,791
2025-26	149,411,279	53,210,200	\$202,621,479
2026-27	155,555,840	46,508,996	\$202,064,836
2027-28	161,134,035	39,874,779	\$201,008,814
2028-29	162,221,751	33,430,897	\$195,652,648
2029-30	159,235,095	26,830,558	\$186,065,653
2030-31	121,936,950	20,469,219	\$142,406,169
2031-32	126,050,000	16,033,542	\$142,083,542
2032-33	92,320,000	11,510,799	\$103,830,799
2033-34	68,910,000	8,019,895	\$76,929,895
2034-35	61,250,000	5,464,843	\$66,714,843
2035-36	41,440,000	3,214,795	\$44,654,795
2036-37	29,740,000	2,885,808	\$32,625,808
2037-38	19,730,000	1,403,610	\$21,133,610
<b>TOTAL<sup>4</sup></b>	<b>\$2,456,033,517</b>	<b>\$788,698,800</b>	<b>\$3,244,732,317</b>

<sup>1</sup> This table includes the City's General Obligation Bonds shown in Table A-24 and does not include any overlapping debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

<sup>2</sup> Totals reflect rounding to nearest dollar.

<sup>3</sup> Excludes payments made to date in current fiscal year

<sup>4</sup> Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all 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 was 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. Between March 2007 and November 2011, the City initiated a total amount of \$26,695,228 of borrowing to fund Seismic Safety Loans under this Credit Agreement with the Credit Bank, of which \$20,093,517 remains outstanding. In August 2015, the City issued \$24.0 million in Series 2015A taxable general obligation bonds under the Seismic Safety Loan Program authorization. The full \$24.0 million obligation was redeemed on November 1, 2018 through repayment of the Seismic Safety Loan. On November 8, 2016, voters approved Proposition C, authorizing the use of the remaining \$260,684,000 Seismic Safety Bond Program bond authorization to fund the acquisition, improvement, and rehabilitation of at-risk multi-unit residential buildings in order to convert them into permanent affordable housing. The Series 2019A Bonds will be the first issuance under the 2016 Proposition C authorization.

In February 2008, voters approved Proposition A (the "2008 Parks Proposition") that 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 the 2008 Parks Proposition 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 and final series in the amount of approximately \$8.7 million in January 2016.

In June 2010, voters approved Proposition B (the "2010 ESER Proposition"), 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 the 2010 ESER Proposition 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 \$25.0 million.

In November 2011, voters approved Proposition B (the “2011 Roads & Streets Proposition”), 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 the 2011 Roads & Streets Proposition 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 \$44.1 million.

In November 2012, voters approved Proposition B (the “2012 Parks Proposition”), 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 the 2012 Parks Proposition in the amount of approximately \$71.9 million in June 2013. The City issued the second series of bonds in the amount of \$43.0 million in January 2016. The third series of bonds under the 2012 Parks Proposition authorization was issued in April 2018 in the amount of approximately \$76.7 million.

In June 2014, voters approved Proposition A (the “2014 ESER Proposition”), which authorized the issuance of up to \$400.0 million in general obligation bonds to improve fire, earthquake and emergency response by improving and/or replacing deteriorating cisterns, pipes, and tunnels, and related facilities to ensure firefighters a reliable water supply for incurring indebtedness of fires and disasters; improving and/or replacing neighborhood fire and police stations; replacing certain seismically unsafe police and medical examiner facilities with earthquake-safe buildings and to pay related costs . The City issued the first series of bonds under the 2014 ESER Proposition authorization in the amount of \$100.7 million in October 2014 and the second series of bonds in the amount of \$109.6 million in April 2016. The third and final series was issued in May 2018 in the amount of \$189.7 million.

In November 2014, voters approved Proposition A (the “2014 Transportation Proposition”), which authorized the issuance of up to \$500.0 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 the 2014 Transportation Proposition in the amount of approximately \$67.0 million in June 2015. The second series of bonds under the 2014 Transportation Proposition authorization was issued in April 2018 in the amount of approximately \$174.4 million.

In November 2015, voters approved Proposition A (the “2015 Affordable Housing Proposition”) which authorized the issuance of up to \$310.0 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 the 2015 Affordable Housing Proposition in the amount of approximately \$75.0 million in October 2016. The second series was issued in May 2018 in the amount of \$142.1 million.

In June 2016, voters approved Proposition A (the “2016 Public Health & Safety Proposition”), which authorized the issuance of up to \$350.0 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. The City issued the first series of the bonds under the 2016 Public Health & Safety Proposition authorization in the amount of approximately \$173.1 million in February 2017. The second series was issued in May 2018 in the amount of \$49.9 million.

In November 2018, voters approved Proposition A (“the 2018 Seawall Proposition”), authorizing the issuance of up to \$425.0 million in general obligation bonds to fund repairs and improvement projects along the City’s Embarcadero and Seawall to protect the waterfront, BART and Muni, buildings, historic piers, and roads from earthquakes, flooding, and sea level rise. Bonds have not been issued yet under this authorization.

### Refunding General Obligation Bonds

The Board of Supervisors adopted and the Mayor approved Resolution No. 272-04 in May of 2004 (the “2004 Resolution”). The 2004 Resolution authorized the issuance of \$800.0 million of general obligation refunding bonds from time to time in one or more series for the purpose of refunding all or a portion of the City’s outstanding General Obligation Bonds. On November of 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 \$1.356 billion of 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 following refunding bonds remain currently outstanding, under the Refunding Resolutions, as shown in Table A-23 below.

TABLE A-23

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Refunding Bonds**  
**As of January 15, 2019**

<b>Series Name</b>	<b>Date Issued</b>	<b>Principal Amount Issued</b>	<b>Amount Outstanding</b>
2008-R1	May 2008	\$232,075,000	\$5,110,000
2011-R1	November 2011	339,475,000	176,360,000 <sup>1</sup>
2015-R1	February 2015	293,910,000	248,035,000 <sup>2</sup>

<sup>1</sup> Series 2004-R1 Bonds were refunded by the 2011-R1 Bonds in November 2011

<sup>2</sup> Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.

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 January 15, 2019, the City had authorized and unissued general obligation bond authority of approximately \$1.17 billion, including the most recent \$425.0 million authorization for the 2018 Seawall Proposition.

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TABLE A-24

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds**  
**As of January 15, 2019**

Description of Issue (Date of Authorization)	Series	Issued	Outstanding <sup>1</sup>	Authorized & Unissued <sup>3</sup>
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450 <sup>2</sup>	\$20,093,517	
	2015A	24,000,000	-	\$260,684,550
Clean & Safe Neighborhood Parks (2/5/08)	2010B	24,785,000	2,610,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	48,035,000	
	2016A	8,695,000	7,520,000	--
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	5,525,000	
	2010A	120,890,000	12,735,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	155,825,000	
	2014A	209,955,000	161,730,000	--
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	40,815,000	
	2012A	183,330,000	121,625,000	
	2012E	38,265,000	29,925,000	
	2013B	31,020,000	17,540,000	
	2014C	54,950,000	41,925,000	
	2016C	25,215,000	22,370,000	--
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	49,175,000	
	2013C	129,560,000	73,205,000	
	2016E	44,145,000	39,155,000	--
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	40,680,000	
	2016B	43,220,000	24,400,000	
	2018A	76,710,000	46,485,000	3,100,000
Earthquake Safety and Emergency Response Bond (6/3/14)	2014D	100,670,000	76,780,000	
	2016D	109,595,000	75,465,000	
	2018C	189,735,000	189,735,000	--
Transportation and Road Improvement (11/4/14)	2015B	67,005,000	43,665,000	
	2018B	174,445,000	105,715,000	258,550,000
Affordable Housing Bond (11/3/15)	2016F	75,130,000	50,795,000	
	2018D	142,145,000	142,145,000	92,725,000
Public Health and Safety Bond (6/7/16)	2017A	173,120,000	121,450,000	
	2018E	49,955,000	49,955,000	126,925,000
SUBTOTAL		\$3,018,195,450	\$2,026,528,517	\$741,984,550
<b>General Obligation Refunding Bonds:</b>				
Series 2008-R1 issued 5/29/08		232,075,000	5,110,000	n/a
Series 2011-R1 issued 11/9/12		339,475,000	176,360,000	n/a
Series 2015-R1 issued 2/25/15		293,910,000	248,035,000	n/a
SUBTOTAL		865,460,000	429,505,000	
TOTALS		\$3,883,655,450	\$2,456,033,517	\$741,984,550

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

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

<sup>3</sup> Authorized & Unissued total does not include \$425,000,000 of the 2018 Seawall Proposition A General Obligation Bond authority approved by the voters in November 2018. If the \$425,000,000 authorization is included in this total, the Authorized & Unissued total would be \$1.17 billion.

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 financings expected to result in net savings, and (iii) certain lease financing for capital equipment. The Charter does not require voter approval of lease financing agreements with for-profit corporations or entities. Table A-25 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding long-term lease revenue bonds and certificates of participation as of December 31, 2018.

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TABLE A-25

**CITY AND COUNTY OF SAN FRANCISCO**  
**Lease Revenue Bonds and Certificates of Participation**  
**As of December 31, 2018<sup>1</sup>**

Fiscal Year	Principal	Interest <sup>3</sup>	Annual Payment Obligation
2018-19	\$36,715,000	31,192,156	\$67,907,156
2019-20	48,645,000	60,400,479	\$109,045,479
2020-21	57,065,000	57,858,122	\$114,923,122
2021-22	57,475,000	55,229,005	\$112,704,005
2022-23	60,050,000	52,544,025	\$112,594,025
2023-24	62,250,000	49,734,442	\$111,984,442
2024-25	62,580,000	46,795,478	\$109,375,478
2025-26	63,035,000	43,879,843	\$106,914,843
2026-27	66,010,000	40,815,367	\$106,825,367
2027-28	62,830,000	37,615,118	\$100,445,118
2028-29	68,910,000	34,260,761	\$103,170,761
2029-30	72,335,000	30,884,851	\$103,219,851
2030-31	62,040,000	27,588,665	\$89,628,665
2031-32	51,690,000	24,737,593	\$76,427,593
2032-33	52,545,000	22,446,642	\$74,991,642
2033-34	54,795,000	19,918,261	\$74,713,261
2034-35	45,615,000	17,650,673	\$63,265,673
2035-36	44,865,000	15,599,242	\$60,464,242
2036-37	43,915,000	13,589,230	\$57,504,230
2037-38	45,705,000	11,612,665	\$57,317,665
2038-39	47,555,000	9,553,956	\$57,108,956
2039-40	49,500,000	7,407,472	\$56,907,472
2040-41	51,515,000	5,172,668	\$56,687,668
2041-42	45,550,000	3,007,611	\$48,557,611
2042-43	10,125,000	1,242,000	\$11,367,000
2043-44	8,555,000	818,000	\$9,373,000
2044-45	8,895,000	475,800	\$9,370,800
2045-46	1,470,000	120,000	\$1,590,000
2046-47	1,530,000	61,200	\$1,591,200
<b>TOTAL <sup>2</sup></b>	<b>\$1,343,765,000</b>	<b>\$722,211,324</b>	<b>\$2,065,976,324</b>

<sup>1</sup> Excludes payments made to date in current fiscal year

<sup>2</sup> Totals reflect rounding to nearest dollar.

<sup>3</sup> For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 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 December 31, 2018, the total authorized amount for such financings was \$78.4 million. The total principal amount outstanding as of December 31, 2018 was \$450.0 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 March 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. The City issued refunding lease revenues bonds for the remaining outstanding amounts of the Series 2006 and Series 2007 Open Space Fund lease revenue bonds in August 2018.

In November 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continued the two- and one-half cent per \$100.0 in assessed valuation property tax set-aside and establishes a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorized the issuance of revenue bonds or other evidences of indebtedness. The City issued the first series of lease revenue bonds in the amount of approximately \$34.3 million in March 2009. The City issued refunding lease revenues bonds for the remaining outstanding amounts of the Series 2009A Branch Library Improvement Project lease revenue bonds in August 2018.

### **Commercial Paper Program**

In March of 2009, the Board authorized and the Mayor approved a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "Original CP Program"). 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 original Series 1 and 1-T and Series 2 and 2-T letters of credit issued in 2010 by J.P. Morgan Chase Bank, N.A. and U.S. Bank National Association were scheduled to expire in June of 2016. In May of 2016, the City obtained renewal credit facilities to secure the CP Notes from: (i) State Street Bank and Trust Company (with a maximum principal amount of \$75 million) and (ii) U.S. Bank

National Association (with a maximum principal amount of \$75 million). These credit facilities expire in May of 2021.

In July of 2013, the Board authorized, and the Mayor approved an additional \$100.0 million of Lease Revenue Commercial Paper Certificates of Participation, Series 3 and 3-T and Series 4 and 4-T (the “Second CP Program” and together with the Original CP Program, the “City CP Program”) that increased the total authorization of the City CP Program to \$250.0 million. 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 initially scheduled to expire in February of 2019. In December 2018, the City extended the original letter of credit issued by State Street Bank and Trust Company by three years, expiring in February of 2022.

As of January 15, 2019, the outstanding principal amount of CP Notes is \$30.5 million. The weighted average interest rate for the outstanding CP Notes is approximately 2.12%.

### **Transbay Transit Center Interim Financing**

In May of 2016, the Board authorized, and the Mayor approved the establishment of a not-to-exceed \$260.0 million Lease Revenue Commercial Paper Certificates of Participation (the “Short-Term Certificates”) to meet cash flow needs during the construction of phase one of the Transbay Transit Center (now known as the Salesforce Transit Center). The Short-Term Certificates are expected to be repaid in part from Transbay Transit Center CFD bond proceeds (secured by special taxes) and tax increment. It is anticipated that long-term debt will be issued to retire the Short-Term Certificates, and such long-term debt is also expected to be repaid from such sources.

The Short-Term Certificates consist of \$160.0 million of direct placement revolving certificates with Wells Fargo, expiring in January of 2020 and \$100.0 million of direct placement revolving certificates with Bay Area Toll Authority expiring September 1, 2021.

As of January 15, 2019, the TJPA had drawn a total of \$103.0 million from the Wells Fargo financing facility, at a current interest rate of 3.08%.

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

In October of 2013, the Board authorized, and the Mayor approved the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation (Treasure Island Improvement Project) to finance the cost of additions and improvements to the utility infrastructure at Treasure Island. It is anticipated that a portion of these certificates will be issued in the summer of 2019.

In November 2016, the Board authorized, and the Mayor approved the issuance of not to exceed \$60.5 million of City and County of San Francisco Certificates of Participation (Animal Care and Control Renovation Project) to finance the costs acquisition, construction, and improvement of an animal care and control facility. The City anticipates issuing the certificates in the summer of 2019.

In June of 2017, the Board authorized and the Mayor approved the issuance of not to exceed \$321.8 million of City and County of San Francisco Certificates of Participation (49 South Van Ness Project, formerly referred to as “1500 Mission Project”) to finance a portion of the development costs, including construction and improvement, and related FF&E (furniture, fixture, or other equipment),

technology, and moving costs for the 1500 Mission Street office building. The City anticipates issuing the certificates in the Fall of 2019.

### **Overlapping Debt**

Table A-26 shows bonded debt and long-term obligations as of December 31, 2018 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**  
**As of December 31, 2018**

<u>2018-19 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions):	\$259,329,479,498	
<b><u>DIRECT GENERAL OBLIGATION BOND DEBT</u></b>		
General City Purposes Carried on the Tax Roll	\$2,456,033,517	
<b>GROSS DIRECT DEBT</b>	<u>\$2,456,033,517</u>	
<b><u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u></b>		
San Francisco Finance Corporation, Equipment LRBs Series 2013A	\$450,000	
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1	8,545,000	
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	85,300,000	
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	-	
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	-	
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)	119,130,000	
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)	30,075,000	
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt	16,255,000	
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs	129,550,000	
San Francisco Refunding Certificates of Participation, Series 2010A	95,880,000	
San Francisco COPs, Refunding Series 2011AB (Moscone)	13,825,000	
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)	35,460,000	
San Francisco COPs, Series 2013BC Port Facilities	31,170,000	
San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project)	35,150,000	
San Francisco COPs, Series 2015AB War Memorial Veterans Building Seismic Upgrade and Improvements	125,295,000	
San Francisco Refunding COPs, Series 2015-R1 (City Office Buildings-Multiple Properties Project)	115,140,000	
San Francisco COPs, Series 2016A War Memorial Veterans Building Seismic Upgrade and Improvements	14,305,000	
San Francisco COPs Series 2017A (Hope SF)	27,575,000	
San Francisco COPs Series 2017B (Moscone Convention Center Expansion)	412,355,000	
San Francisco Finance Corporation Refunding Bonds, Emergency Open Space, Series 2018A	34,950,000	
San Francisco Finance Corporation Refunding, Branch Library Improvement, Series 2018B	13,355,000	
<b>LONG-TERM OBLIGATIONS</b>	<u>\$1,343,765,000</u>	
<b>GROSS DIRECT DEBT &amp; LONG-TERM OBLIGATIONS</b>	\$3,799,798,517	
<b><u>OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</u></b>		
Bayshore Hester Assessment District	\$510,000	
San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds (29.27%)	148,123,091	
San Francisco Bay Area Rapid Transit District General Obligation Bonds (34.14%)	276,523,180	
San Francisco Community College District General Obligation Bonds (2001, 2005)	231,675,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds (2011)	27,715,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	859,949,677	
San Francisco Redevelopment Agency Obligations (Special Tax Bonds CFD #4, #6, #7)	182,261,505	
Association of Bay Area Governments Obligations Special Tax Bonds, Series 2004-1, 2006-1, 2006-1	17,985,000	
Special Tax District No. 2009-1 Improvement Area 1, 2 SF Sustainable Financing	2,807,577	
San Francisco Unified School District General Obligation Bonds (2003, 2006, 2011, 2015R, 2016, 2017)	968,915,000	
San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Series 2017A, 2017B	206,930,000	
<b>TOTAL OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</b>	<u>\$2,923,395,030</u> <sup>1</sup>	
<b>GROSS COMBINED TOTAL OBLIGATIONS</b>	\$6,723,193,547 <sup>2</sup>	
<b><u>Ratios to Assessed Valuation:</u></b>		
	<u>Actual Ratio</u>	<u>Charter Req.</u>
Gross Direct Debt (General Obligation Bonds)	0.95%	< 3.00%
Gross Direct Debt & Long-Term Obligations	1.47%	n/a
Gross Combined Total Obligations	2.59%	n/a

<sup>1</sup> Does not include CCSF Lease Revenue Direct Placement Revolving COPs (Transbay Interim Financing).

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

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

Source: Office of Public Finance, City and County of San Francisco, and California Municipal Statistics Inc.

## **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 4.4 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 15,000 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 439 completed units and 66 units currently under construction. An additional 174 units were expected to begin construction in 2018. On Candlestick Point, 306 housing units are now complete which includes a mix of public housing replacement and new, affordable units, with an additional 31 units in construction. In 2016, horizontal infrastructure construction commenced in Candlestick Point to support additional residential and commercial development; designs in the former Candlestick Point site for a mixed-use residential, office, retail, hotel and film and arts center are currently underway.

### **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 404 acres on Treasure Island and 94 acres on adjoining Yerba Buena Island, plus approximately 540 acres of unfilled tidal and submerged lands adjacent to the Islands in San Francisco Bay. Development plans for the islands include up to 8,000 new homes, 2,173 of which will be offered at



below-market rates; up to 500 hotel rooms; an expanded marina; restaurants; 140,000 sf of retail and entertainment venues; 311,000 sf of adaptive reuse of historic structures; and a world-class 300-acre parks and open space system including shoreline access and cultural uses such as a museum. 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 plan includes green building standard, best practices in low-impact development, and sea level rise adaptation strategies.

The first major land transfer from the Navy to the Treasure Island Development Authority (“TIDA”) occurred in May 2015 and included the northern half of Yerba Buena Island and more than half of the area of Treasure Island. This was followed by smaller transfers of additional parcels on Treasure Island in September 2016, August 2017, and September 2018, and a fifth transfer is expected in 2019. The developer, Treasure Island Community Development (“TICD”), received its first land transfer in February 2016. Demolition in these areas is complete, and initial infrastructure and geotechnical improvements are underway. The first phase of development will include extensive horizontal infrastructure improvements (utilities, ferry facilities, roadway improvements, site preparation, etc.) as well as the initial vertical developments. The complete build-out of the project is anticipated to occur over 15 to 20 years.

### **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; 6,500 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 70% complete.

### **Mission Bay Blocks 29-32 – Warriors Multi-purpose Recreation and Entertainment Venue**

The Golden State Warriors, a National Basketball Association team, is developing a multi-purpose 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, 16<sup>th</sup> 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. 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 2019-20 basketball season. Over 5,646 units have been completed with an additional 262 units under construction, along with several new parks. In the past 6 months, a 119-unit affordable housing project and a 250-room hotel have broken ground.

## **Salesforce Transit Center (formerly known as the “Transbay Transit Center”)**

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 Salesforce 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 and includes additional funding sources for the Salesforce Transit Center. The Salesforce Transit Center replaces the former Transbay Terminal at First and Mission Streets with a modern transit hub and includes a future extension of the Caltrain commuter rail line underground 1.3 miles into the Financial District. The Salesforce Transit Center broke ground on August 11, 2010 and opened in August 2018.

The Pelli Clarke Pelli Architects-designed transit center was designed to serve more than 100,000 people per day through 11 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 was designed to embrace the goals of green architecture and sustainability. The heart of the Salesforce Transit Center is Salesforce Park, a 5.4-acre public park atop the facility that serves as a living “green roof” for the transit facility. The Salesforce Transit Center will have a LEED rating of at least Silver due to its sustainable design features and its related facilities, including Salesforce Park. Construction and operation of the Salesforce Transit Center is funded by various public funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, AC Transit and the Successor Agency (OCII) among others.

The 10 acres of property formerly owned by the State surrounding the Salesforce Transit Center is being redeveloped with plans for 3,300 new homes, of which 1,300 will be affordable below-market rate homes, over 2.4 million square feet of new office space, over 9 acres of new parks and open space, and a new retail boulevard on Folsom Street. Of the parcels over which OCII has jurisdiction, four parcels are fully complete, and six parcels are in various stages of pre-development and development. Three of those parcels are currently under construction and will provide over 1,400 housing units within the next year. The sale of various sites has generated more than \$600 million in funding for construction of the Salesforce Transit Center.

In September 2018, construction crews discovered two steel beams with fissures in the ceiling of the third-level bus deck on the eastern side of the Salesforce Transit Center near Fremont Street. After several inspections and out of an abundance of caution, the TJPA temporarily closed the Salesforce Transit Center. Two shoring systems were installed, one at Fremont Street and as a proactive measure, one at First Street, a similarly designed area of the Salesforce Transit Center. Additional inspections and continued monitoring have revealed no additional issues. The City has no indication that there is a regional settling or subsidence issue that contributed to the fissures.

At the TJPA Board meeting on December 13, 2018 LPI, Inc. a specialist in laboratory testing and simulations, presented a preliminary root cause assessment of the girder fissures. The TJPA is evaluating whether the cause of the fissures is related to, among other causes, the design, a defect in materials, fabrication or installation of such girders. An independent Peer Review Panel requested by San Francisco Mayor London Breed and Oakland Mayor Libby Schaaf is undertaking a review of any preliminary findings and the remediation work at First and Fremont Streets, and is overseeing the TJPA’s review of all building-wide shop drawings, inspection reports, design documents, etc. to determine if other reviews or inspections will be necessary before reopening the Salesforce Transit Center.

The Peer Review Panel approved the permanent repair for the fissures near Fremont Street and a reinforcement at First Street. The material procurement process is now underway. Under the oversight of the TJPA and the Peer Review Panel, the TJPA's general contractor began repairs in January 2019, with a final repair schedule to be reported shortly. The TJPA expects the repairs will be made by the general contractor, and that associated costs will be covered by the responsible party.

It is expected that at the next TJPA Board meeting on or about February 14, 2019, the Peer Review Panel will present on the status of their efforts regarding the cause of the fissures in the girders.

While the Salesforce Transit Center remains closed, transit agencies are providing bus service out of the Temporary Terminal at Howard and Main streets.

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

Mission Rock is a mixed-use development at Seawall Lot 337 and Pier 48, Port-owned property comprising approximately 28 acres. The Port's development partner on the project is a partnership between the San Francisco Giants and Tishman Speyer (called Mission Rock Partners). The approved development for Mission Rock includes: approximately 8 acres of new public parks and open spaces, including a 5-acre regional waterfront park; approximately 1,500 new rental housing units, 40 percent of which will be affordable to low- and moderate-income households; 1.0 to 1.4 million square feet of commercial space; 250,000 square feet of restaurant and retail space, approximately 3,000 parking spaces within a dedicated parking structure which will serve patrons of the San Francisco Giants' Ballpark as well as Mission Rock occupants and visitors; and the rehabilitation and reuse of historic Pier 48.

On November 3, 2015, 74% of San Francisco voters approved the Mission Rock Affordable Housing, Parks, Jobs and Historic Preservation Initiative (Proposition D), which authorized increased height limits on the Project Site. Environmental review for the project was successfully completed in October 2017. The Port Commission approved the project's CEQA findings and transaction documents in January 2018 and the Mayor signed legislation approving the project and all associated transaction documents in March 2018. In April 2018, State Lands Commission made determinations required under California statutes regarding the Mission Rock development. Site preparation and ground improvement work is planned for Fall 2019, and full project buildout is anticipated to occur in four phases over 15 to 30 years.

### **Pier 70**

Plans for Pier 70 call for substantial new development, new parks, and adaptive reuse of historic structures, on this 69-acre site. Goals of the plans are to preserve and reuse historic structures, retain ship repair operations, provide new open space, reactivate the site. Achieving these goals requires site remediation and substantial new infrastructure. Some of the planning objectives have already been achieved – including the complete rehabilitation of 6 very significant historic buildings (through a Master Lease with Orton Development, Inc.) and site preparation for the new Crane Cove Park. Rehabilitation of two more historic structures are underway and will be complete in 2020. Construction of Crane Cove Park is underway and anticipated to be opened around the same time.

Located on the largest undeveloped portion of the site, the Port, OEWD, and Brookfield Properties (formerly, Forest City), completed all project approvals in February 2018 for new mixed-use neighborhood on a 28-acre portion of Pier 70 known as the Waterfront Site. Approvals included: passage of Proposition F by San Francisco voters in November 2014 – the Union Iron Works Historic District Housing, Waterfront

Parks, Jobs, and Preservation Initiative – which allowed for an increase in height limits on the Waterfront Site to up to 90 feet; Mayoral signature on legislation approving the project in late 2017; and State Lands Commission action on the project in February 2018. The Special Use District for the neighborhood includes 9 acres of new parks, 1,600 to 3,000 residential units with 30% affordable housing, rehabilitation and reuse of three historic buildings in the Union Iron Works Historic District, almost 500,000 square feet of retail, arts, and light industrial space, and 1.1 to 1.7 million square feet of commercial office. The project is anticipated to be developed in 3 phases over 15 to 25 years. The Brookfield team completed site preparations in 2018 and anticipates beginning Phase 1 infrastructure construction in early 2019. The first buildings at the site are planned to be completed as early as 2021.

### **Moscone Convention Center Expansion Project**

The Moscone Center Expansion Project will add approximately 300,000 square feet and re-purpose 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 re-purposed building support area.

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 forego up to \$2 billion in revenue over the next decade if Moscone were 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 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. On July 6, 2017, the City issued \$412.0 million in Certificates of Participation for the Moscone Convention Center Expansion Project, and there are no plans to issue any subsequent certificates for the expansion project. Project development began in December 2012, with major construction starting in November 2014. The project achieved substantial completion on December 31, 2018.

### **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES**

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City’s general finances and its

ability to raise revenue, or maintain existing revenue sources, in the future. However, *ad valorem* property taxes required to be levied to pay debt service on general obligation bonds was authorized and approved in accordance with all applicable constitutional limitations. A summary of the currently effective limitations is set forth below.

### **Article XIII A of the California Constitution**

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

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

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

### **Article XIII B of the California Constitution**

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

consecutive years exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the following two years. With voter approval, the appropriations limit can be raised for up to four years.

### **Articles XIII C and XIII D of the California Constitution**

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

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

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

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

### **Statutory Limitations**

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other things, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the

local governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

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

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

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

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

### **Proposition 1A**

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

needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

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

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

### **Proposition 22**

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

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

### **Proposition 26**

On November 2, 2010, the voters approved Proposition 26 (“Proposition 26”), revising certain provisions of Articles XIII and XIII of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local



governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

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

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

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

### **Future Initiatives and Changes in Law**

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

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statute governing the issue), and

that local ordinances were without effect. The effect of the McWilliams case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

## **LITIGATION AND RISK MANAGEMENT**

### **Pending Litigation**

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 18 to the City's CAFR as of June 30, 2017. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on its General Fund lease obligations or other debt obligations, nor have an adverse impact on City finances.

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, San Francisco Superior Court No. 16-553758 (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 Salesforce Transit Center, which will be a new regional transit hub located near the Millennium Tower. See "MAJOR ECONOMIC DEVELOPMENT PROJECTS – Salesforce Transit Center (formerly known as the "Transbay Transit Center")."

The TJPA began excavation and construction of the Salesforce Transit Center in 2010, after the Millennium Tower was completed. In brief, the Lehman Lawsuit claims that the construction of the Salesforce Transit Center harmed the Millennium Tower by causing it to settle into the soil more than planned and tilt toward the west/northwest, 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 Salesforce 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. In total, eight lawsuits have been filed against TJPA, and a total of four of those name the City.

In addition to the Lehman Lawsuit, the City is named as a defendant in a lawsuit filed by the owners of a single unit, the Montana Lawsuit, San Francisco Superior Court Case No. 17-558649, and in two lawsuits filed by owners of multiple units, the Ying Lawsuit (Case No. 17-559210) and the Turgeon Lawsuit (Case No. 18-564417). The Montana, Ying and Turgeon Lawsuits contain similar claims as the Lehman Lawsuit. The City continues to evaluate the lawsuits, and the subject matter of the lawsuits, and is engaged in discovery, 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 Risk Management Division which reports to the Office of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial liability insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. The City believes that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

The City's decision to obtain commercial insurance depends on various factors 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 limits. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (i.e. the Airport, MTA, the PUC, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement.

Through coordination between the City Controller and the City Attorney's Office, the City's general liability risk exposure is actuarially determined and is addressed through appropriations in the City's budget and also reflected in the 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 some 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 18 to the City's CAFR.



## APPENDIX B

### COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017

*The City transitioned to a new financial management software system at the start of fiscal year 2017-18, and that transition has led to a delay in the delivery of audited financial statements for the City as compared to prior fiscal years. The City expects to complete its Comprehensive Annual Financial Report for fiscal year 2017-18 in March 2019, after the date of delivery of the Bonds. The City will post the audited financial statements with its Annual Report (as defined under “CONTINUING DISCLOSURE” in the forepart of this Official Statement) on the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board once the audited financial statements are complete.*

*Figures for fiscal year 2017-18 presented in this Official Statement are estimated and may change in the audited financial statements for fiscal year 2017-18.*



# CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report  
Year ended June 30, 2017



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, 2017

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December 29, 2017

The Honorable Acting Mayor London N. Breed  
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, 2017, 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, 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.



**INTRODUCTORY SECTION**

- Controller's Letter of Transmittal
- Certificate of Achievement - Government Finance
  - Officers Association
- City and County of San Francisco Organization Chart
- List of Principal Officials

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 nonmajor 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 2016-17 remained nearly constant at a rate of 3.1%, a drop of 0.3% from the prior fiscal year's rate of 3.4%. In comparison, average unemployment rates for California and the nation for fiscal year 2016-17 stood at 5.1% and 4.7%, respectively. The low unemployment rate is due to continued strength in the labor market as opposed to people dropping out of the labor force. In fiscal year 2016-17, private nonfarm employment in the San Francisco Metropolitan Division grew 3.1% over the prior fiscal year, compared to 2.1% growth for the state overall.

The resident population also continued to grow, reaching a new historical high of 870,887 in 2016 according to the U.S. Census Bureau. This represents a 1.0% increase versus the prior year, and cumulative growth of 102,237 or 13.3% over the last decade.

Key indicators of the City's real estate market have shown marked improvement over the past fiscal year. Commercial rents and median home prices increased to new historical highs. The monthly per square foot rental rates for commercial space grew to \$73.71 in fiscal year 2016-17, a 5.1% increase versus the prior year. The average median home price in the fiscal year grew to an annual high of \$1,156,233, up 2.8% from the previous fiscal year.

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 4,745 housing units completed and 7,101 additional units under construction at the end of the fiscal year. Building permits for nearly 5.5 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. The notes to the budgetary comparison schedule in the required supplementary information section 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 2016-17 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 2017. 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**

The City has seven pension plans, with a substantial majority of full-time employees participating in the San Francisco Employees' Retirement System (SFERS), a defined benefit retirement plan. The City uses two different actuarial valuation studies – one for financial reporting purposes as required by Government Accounting Standard Board and the other for funding purposes to determine the City's actuarially determined contributions to the plan.

*Funding Purposes* – The most recent actuarial valuation report for the SFERS pension plan, dated July 1, 2016, estimates the unfunded actuarial accrued liability at \$3.75 billion, an increase of \$432 million from the previous actuarial valuation dated July 1, 2015. And the valuation report estimates the plan to be 84.6% funded, down from 85.6%.

*Financial Reporting* – As of June 30, 2017, for financial reporting purposes, the City's net pension liability for SFERS is \$5.48 billion, an increase of \$3.32 billion 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 89.9% to 77.6%.

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 started 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, 2017, the Trust Fund had a net position of \$187.4 million, an increase of 63% versus the prior year. Given increasing pay-as-you-go and prefunding contributions and reductions in the benefit level for recently-hired employees, the City expects to fund the Annual Required Contribution (ARC) by fiscal year 2019-20.

#### **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 2016-17 at \$1.87 billion, up \$441.5 million from the prior year.

The General Fund's cash position also reflects a strong improvement in fiscal year 2016-17, rising to a new year-end peak of \$2.14 billion, up \$421.3 million from June 30, 2016.

The General Fund rainy day and budget stabilization reserves grew to \$448.9 million at the end of fiscal years 2016-17, an increase of \$150.4 million compared to prior year.

The majority of fund balance available for appropriation on a budgetary basis totaled \$545.9 million or \$14.4 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 2017-18 and 2018-19.

#### **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 plan 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 is secured against special tax revenues generated by future private developments in the area immediately surrounding the terminal.

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 2019, 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 1,400 blocks, built 3,400 curb ramps, made 40 structural repairs, inspected and repaired more than 525,000 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 2016-17 as part of an approved \$7.4 billion capital plan. Projects in construction include the \$2.3 billion renovation of Terminal 1, a new long-term parking garage, a consolidated administrative campus, an on-Airport hotel and an extension of the AirTrain system. These projects are necessitated by the continued growth in passenger volumes at SFO, which has experienced eight consecutive years of passenger growth, and served a record number of passengers in fiscal year 2016-17. SFO accounts for 91% of international air travel and 69% of all air travel into the Bay Area.

#### **Investing in Affordable Housing**

In November 2015, San Francisco voters approved an Affordable Housing Bond, which authorized the issuance of up to \$310 million to fund the construction, development, acquisition, and preservation of affordable housing, including acquisition, rehabilitation, and preservation of affordable rental apartment buildings, the repair and reconstruction of public housing, and funding for middle-income rental and down payment assistance programs.

#### **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 2016-17, the City was over 94% complete with 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 \$7.0 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.

Cumulatively, over 140,000 San Franciscans have enrolled in new health insurance options since the launch of the Affordable Care Act (ACA) in 2014, including more than 78,000 through the expansion of Medi-Cal and over 62,000 through 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 nearly 13,500 as of July 2017. However, Healthy San Francisco does not account for all uninsured San Franciscans, and the City estimates that 30,000 to 35,000 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.

While not successful to date, efforts in Congress to repeal or replace the ACA could cause a significant loss of healthcare coverage for San Franciscans and a loss of revenue for DPH. The adopted fiscal year

2017-18 budget establishes a \$50 million management reserve to begin preliminary efforts to plan for these future potential losses.

**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.

**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 2017-18. The Seawall Resiliency Project is a major City and Port effort to improve safety and resilience of the historic Embarcadero waterfront. The Project's objective is to plan, design, and implement the most critical improvements over the next decade, and, along with the Waterfront Land Use Plan, provide the framework for ensuring a disaster resilient waterfront by 2040, a major goal of the City's Resilient San Francisco Plan.

**Improving Earthquake Safety and Preparedness and Public Health**

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, constructed a new headquarters for the Medical Examiner's Office, and upgrades to the emergency firefighting water system.

In June 2016, the voters of San Francisco approved a \$350 million Public Health and Safety Bond to provide funds to improve critical public health infrastructure, including neighborhood fire stations as well as community and mental health care facilities. The bond funds will also be used to build a seismically upgraded ambulance deployment center and make improvements to homeless service sites.

**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 \$11 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 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 \$7.96 billion for these benefits, comprised of \$4.21 billion for retiree health obligations and \$3.75 billion for employee pension

**CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER**

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 9.0% 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 Retiree Health Care Trust, 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 year ended June 30, 2016. This was the 35th consecutive year, beginning with the 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**

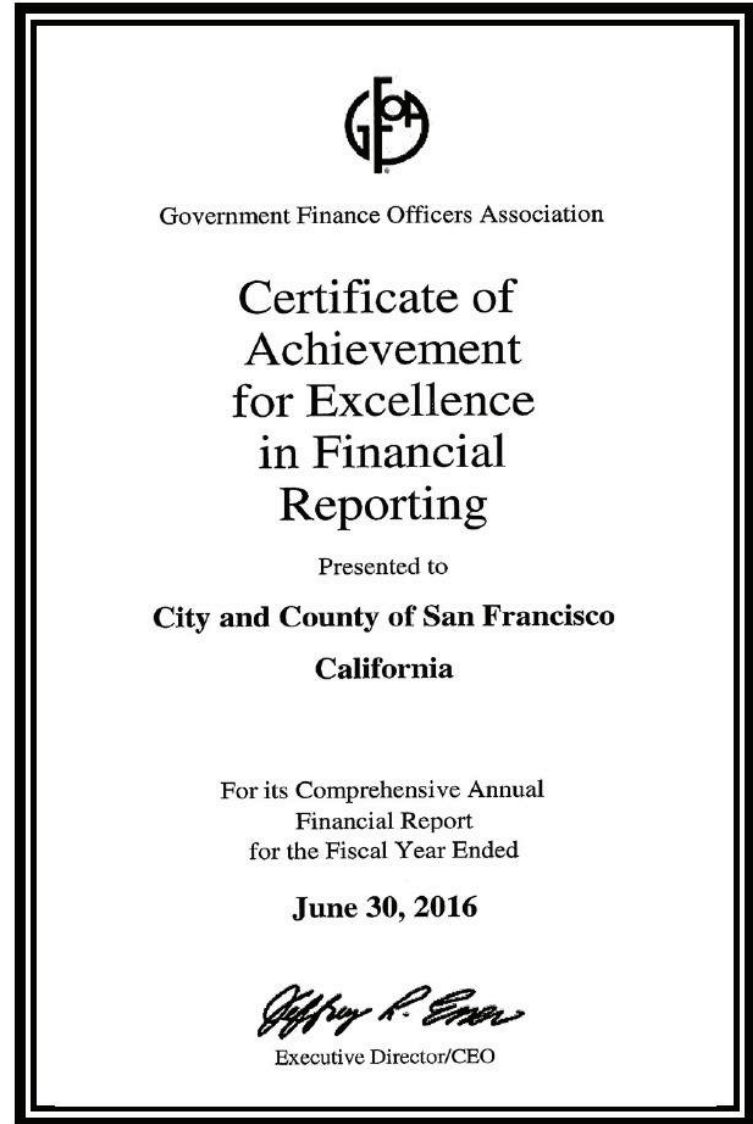
I would like to express my appreciation to the entire staff of the Controller's Office whose professionalism, dedication, and efficiency are responsible for the preparation of this report. I would also like to thank Macias Gini & O'Connell LLP for their invaluable professional support in the preparation 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,



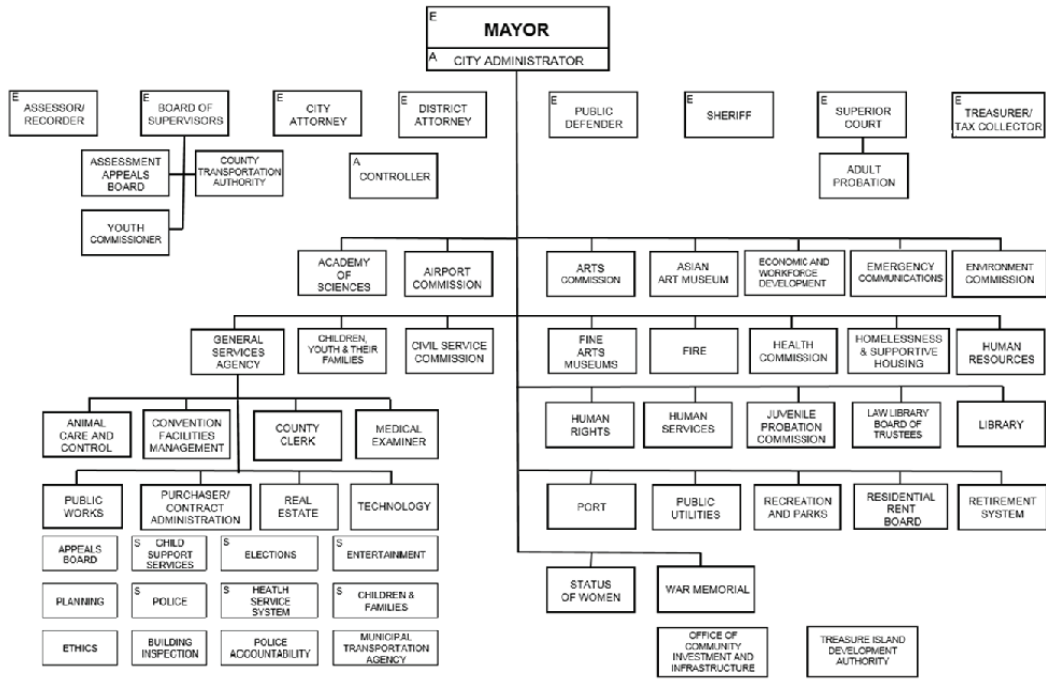
Ben Rosenfield  
Controller

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# City and County of San Francisco Organization Chart

(As of June 30, 2017)



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



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**CITY AND COUNTY OF SAN FRANCISCO**

**List of Principal Officials**  
As of June 30, 2017

**ELECTED OFFICIALS**

Mayor .....	Edwin M. Lee
Board of Supervisors:	
President .....	London Breed
Supervisor .....	Sandra Lee Fewer
Supervisor .....	Mark Farrell
Supervisor .....	Aaron Peskin
Supervisor .....	Katy Tang
Supervisor .....	Jane Kim
Supervisor .....	Norman Yee
Supervisor .....	Jeff Sheehy
Supervisor .....	Hillary Ronen
Supervisor .....	Malia Cohen
Supervisor .....	Ahsha Safai
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 Teri L. Jackson
Treasurer/Tax Collector .....	José Cisneros

**APPOINTED OFFICIALS**

City Administrator .....	Naomi Kelly
Controller .....	Benjamin Rosenfield

**DEPARTMENT DIRECTORS/ADMINISTRATORS**

Airport .....	Ivar C. Satero
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 .....	Joanne Hayes-White



**CITY AND COUNTY OF SAN FRANCISCO**

**List of Principal Officials**  
As of June 30, 2017

**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 .....	Kenneth Bukowski (Interim)
Health Service System .....	Mitchell Griggs (Acting)
Homelessness and Supportive Housing .....	Jeff Kositsky
Human Resources .....	Micki Callahan
Human Rights .....	Sheryl Evans Davis
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 .....	William "Bill" Scott
Police Accountability .....	Paul Henderson (Interim)
Port .....	Elaine Forbes
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 .....	Nadia Sesay (Interim)
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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## FINANCIAL SECTION

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information



### Independent Auditor's Report

Honorable Mayor and 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 discretely presented component unit and remaining fund information, of the City and County of San Francisco (City), as of and for the year ended June 30, 2017, 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	0.8%	5.7%	2.0%
Business-type activities	91.1%	96.5%	74.7%
Aggregate discretely presented component unit and remaining fund information	0.7%	0.4%	10.2%

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 discretely presented component unit and remaining fund information, of the City as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 4 to the basic financial statements, effective July 1, 2016, the City adopted the provisions of Governmental Accounting Standards Board (GASB) 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*. Our opinion is not modified with respect to this matter.

**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, 2016, from which such partial and summarized information was derived.

We have previously audited the City's 2016 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, each major fund, and the aggregate discretely presented component unit and remaining fund information in our report dated November 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 schedules of the City's proportionate share of the net pension liability, the schedules of changes in the net pension liability and related ratios, the schedules of employer contributions – pension plans, the schedules of funding progress and employer contributions – other postemployment healthcare benefits, and the budgetary comparison schedule for the General Fund, 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 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 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining 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 them.

*Macias Gini & O'Connell LLP*

San Francisco, California  
December 29, 2017

**CITY AND COUNTY OF SAN FRANCISCO**

**Management's Discussion and Analysis (Unaudited)**

Year Ended June 30, 2017

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as fiscal year 2015-16 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the fiscal year 2016-17 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 \$7.56 billion (net position). Of this balance, \$8.32 billion represents the City's net investment in capital assets, \$2.08 billion represents restricted net position, and unrestricted net position has a deficit of \$2.84 billion. The City's total net position decreased by \$448.6 million, or 5.6 percent, from the previous fiscal year. Of this amount, total net investment in capital assets and restricted net position increased by \$170.4 million or 2.1 percent and \$328.2 million or 18.7 percent, respectively, and unrestricted net position decreased by \$947.2 million or 49.9 percent.

The City's governmental funds reported total revenues of \$5.97 billion, which is a \$181.6 million or 3.1 percent increase over the prior year. Within this, revenues from property taxes, business taxes, sales and use tax, and real property transfer tax grew by approximately \$138.9 million, \$41.4 million, \$24.3 million, and \$141.5 million, respectively. At the same time, there was a decline in revenues from rents and concessions, intergovernmental sources, hotel room tax, charges for services, and other revenues of \$35.3 million, \$31.4 million, \$17.3 million, \$14.2 million, and \$76.4 million, respectively. Governmental funds expenditures totaled \$5.32 billion for this period, a \$241.2 million or 4.8 percent increase, reflecting increases in demand for governmental services of \$136.1 million, increased debt service of \$31.9 million and increased capital outlay of \$73.2 million.

At the end of the fiscal year, total fund balances for the governmental funds amounted to \$3.40 billion, an increase of \$569.3 million or 20.1 percent from prior year, primarily due to \$122.0 million in proceeds from sale of capital assets which offset the greater increase in expenditures over revenues as well as the slight increase in other financing uses.

The City's total short-term debt decreased by \$41.2 million during fiscal year 2016-17. The City, in partnership with the Metropolitan Transportation Commission, obtained a short term revolving credit facility in an amount not to exceed \$260.0 million; \$100.0 million with MTC and \$160.0 million with Wells Fargo Bank and drew \$49.0 million therefrom for the construction of the Transbay Transit Center. The balance of commercial paper notes payable decreased by \$90.2 million, a \$104.2 million increase in governmental activities offset by a \$194.4 million decrease in business-type activities. The Airport and the Water Enterprise commercial paper notes payable outstanding decreased by \$165.1 million and \$91.0 million respectively through refinancing by the issuance of long-term debt. The City's long-term debt increased by \$1.15 billion. A total of \$248.3 million in general obligation bonds were issued for affordable housing and for construction, seismic strengthening, and betterment of facilities. The Airport issued \$740.1 million revenue bonds for the redevelopment of Terminal 1 and other enhancements. The SFMTA issued \$177.8 million revenue bonds to fund transit and parking upgrades. The Water Enterprise issued \$259.4 million revenue bonds to refund commercial paper used and provide \$20.0 million new money for the City's Water System Improvement Program. The Airport and the Water Enterprise issued revenue refunding bonds for \$147.8 million and \$893.8 million, respectively, for economic gain.

The City implemented the remaining provisions of Governmental Accounting Standards Board (GASB) 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*. These provisions address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68. Statement No. 73 was partially implemented in fiscal year 2015-16. Implementation resulted in a restatement due to change in accounting principle decreasing net position as of July 1, 2016 by \$55.0 million.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
 Year Ended June 30, 2017

**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**

CAFR	Introductory Section	<b>INTRODUCTORY SECTION</b>			
	+				
	Financial Section	<b>Management's Discussion and Analysis (MD&amp;A)</b>			
		<b>Government - wide Financial Statements</b>	<b>Fund Financial Statements</b>		
		Statement of net position	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
			Balance sheet	Statement of net position	Statement of fiduciary net position
		Statement of activities	Statement of revenues, expenditures, and changes in fund balances	Statement of revenues, expenses, and changes in fund net position	Statement of changes in fiduciary net position
				Statement of cash flows	
		Notes to the Financial Statements			
	<b>Required Supplementary Information Other Than MD&amp;A</b>				
Information on individual nonmajor funds and other supplementary information that is not required					
+					
Statistical Section	<b>STATISTICAL SECTION</b>				

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
 Year Ended June 30, 2017

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.

	<b>Government - wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental</b>	<b>Proprietary</b>	<b>Fiduciary</b>
<b>Scope</b>	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
<b>Accounting basis and measurement focus</b>	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
<b>Type of balance information</b>	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
<b>Type of inflow and outflow information</b>	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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
Year Ended June 30, 2017

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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
Year Ended June 30, 2017

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 nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

**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.

The City adopts a rolling two-year budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
Year Ended June 30, 2017

**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.

**Condensed Statement of Net Position**  
(in thousands)

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Assets:</b>						
Current and other assets.....	\$5,097,048	\$4,309,790	\$ 4,903,634	\$ 4,893,995	\$ 10,000,682	\$ 9,203,785
Capital assets.....	5,307,676	5,125,352	16,761,881	15,695,817	22,069,557	20,821,169
Total assets.....	10,404,724	9,435,142	21,665,515	20,589,812	32,070,239	30,024,954
<b>Deferred outflows of resources:</b>	1,311,074	404,560	1,273,096	490,027	2,584,170	894,587
<b>Liabilities:</b>						
Current liabilities.....	1,811,708	1,462,148	1,911,931	2,295,833	3,723,639	3,757,981
Noncurrent liabilities.....	7,967,621	5,938,626	15,143,312	12,462,886	23,110,933	18,401,512
Total liabilities.....	9,779,329	7,400,774	17,055,243	14,758,719	26,834,572	22,159,493
<b>Deferred inflows of resources:</b>	150,058	429,865	111,466	323,284	261,524	753,149
<b>Net position:</b>						
Net investment in capital assets *.....	2,873,927	2,750,782	5,752,069	5,690,741	8,321,778	8,151,422
Restricted *.....	1,473,219	1,331,516	690,592	538,474	2,081,491	1,753,264
Unrestricted (deficit) *.....	(2,560,735)	(2,073,235)	(670,759)	(231,379)	(2,844,956)	(1,897,787)
Total net position.....	\$1,786,411	\$2,009,063	\$ 5,771,902	\$ 5,997,836	\$ 7,558,313	\$ 8,006,899

\* 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 \$7.56 billion at the end of fiscal year 2016-17, a 5.6 percent decrease over the prior year. The City's governmental activities account for \$1.79 billion of this total and \$5.77 billion stem from its business-type activities.

The largest portion of the City's net position is the \$8.32 billion in net investment in capital assets (e.g. land, buildings, and equipment). This reflects a \$170.4 million or 2.1 percent increase over the prior year, and is due to the growth seen in the governmental activities and an overall increase in business-type activities, highlighted by a \$284.8 million increase at SFMTA offset by a decrease of \$167.4 million at the Airport. 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 \$2.08 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 \$2.84 billion, which consists of a \$2.56 billion deficit in governmental activities and \$670.8 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 \$386.5 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, 2017

**Condensed Statement of Activities**  
(in thousands)

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program revenues:						
Charges for services.....	\$ 646,422	\$ 777,182	\$ 3,341,055	\$ 3,230,367	\$ 3,987,477	\$ 4,007,549
Operating grants and contributions.....	1,263,262	1,289,902	270,167	199,623	1,533,429	1,489,525
Capital grants and contributions.....	19,493	24,795	353,046	374,924	372,539	399,719
General revenues:						
Property taxes.....	1,951,696	1,808,917	-	-	1,951,696	1,808,917
Business taxes.....	702,331	660,926	-	-	702,331	660,926
Sales and use tax.....	291,395	270,051	-	-	291,395	270,051
Hotel room tax.....	370,344	387,661	-	-	370,344	387,661
Utility users tax.....	101,203	98,651	-	-	101,203	98,651
Other local taxes.....	542,567	399,882	-	-	542,567	399,882
Interest and investment income.....	35,240	24,048	28,547	28,566	63,787	52,614
Other.....	182,933	59,266	257,419	240,636	440,352	299,902
Total revenues.....	6,106,886	5,801,281	4,250,234	4,074,116	10,357,120	9,875,397
<b>Expenses</b>						
Public protection.....	1,692,224	1,222,549	-	-	1,692,224	1,222,549
Public works, transportation and commerce.....	387,423	418,978	-	-	387,423	418,978
Human welfare and neighborhood development.....	1,543,047	1,233,403	-	-	1,543,047	1,233,403
Community health.....	868,628	747,071	-	-	868,628	747,071
Culture and recreation.....	539,516	311,028	-	-	539,516	311,028
General administration and finance.....	337,209	246,383	-	-	337,209	246,383
General City responsibilities.....	145,247	113,490	-	-	145,247	113,490
Unallocated interest on long-term debt.....	113,264	115,357	-	-	113,264	115,357
Airport.....	-	-	1,122,802	900,621	1,122,802	900,621
Transportation.....	-	-	1,468,586	1,106,420	1,468,586	1,106,420
Port.....	-	-	116,361	91,449	116,361	91,449
Water.....	-	-	572,509	470,254	572,509	470,254
Power.....	-	-	198,621	153,472	198,621	153,472
Hospitals.....	-	-	1,370,154	1,050,618	1,370,154	1,050,618
Sewer.....	-	-	273,077	244,289	273,077	244,289
Total expenses.....	5,626,558	4,408,259	5,124,110	4,017,123	10,750,668	8,425,382
Increase/(decrease) in net position before transfers and extraordinary items.....	480,328	1,393,022	(873,876)	56,993	(393,548)	1,450,015
Transfers.....	(647,942)	(671,173)	647,942	671,173	-	-
Change in net position.....	(167,614)	721,849	(225,934)	728,166	(393,548)	1,450,015
Net position at beginning of year, as previously reported.....	2,009,063	1,287,214	5,997,836	5,278,250	8,006,899	6,565,464
Cumulative effect of accounting change.....	(55,038)	-	-	(8,580)	(55,038)	(8,580)
Net position at beginning of year, as restated.....	1,954,025	1,287,214	5,997,836	5,269,670	7,951,861	6,556,884
Net position at end of year.....	\$ 1,786,411	\$ 2,009,063	\$ 5,771,902	\$ 5,997,836	\$ 7,558,313	\$ 8,006,899

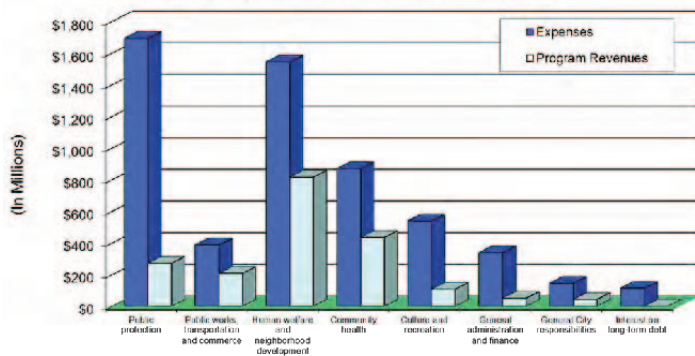
**Analysis of Changes in Net Position**

The City's change in net position decreased by \$1.84 billion in fiscal year 2016-17, due to a \$1.45 billion increase in the prior fiscal year and a \$393.5 million decrease in the current year. The decrease in the change in net position was due to a \$889.5 million decrease from governmental activities and a \$954.1 million decrease from business-type activities.

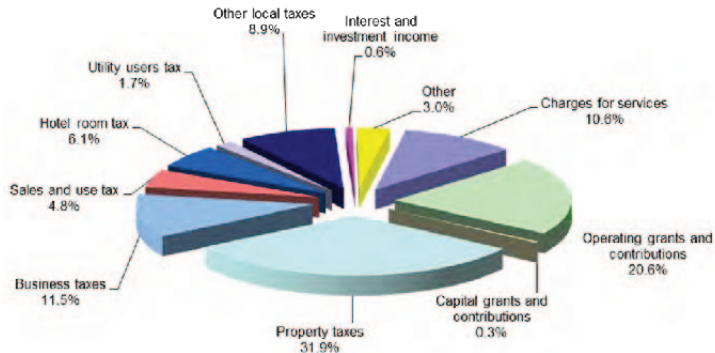
The City's governmental activities experienced a \$305.6 million or 5.3 percent growth in total revenues, offset by increased expenses of \$1.22 billion or 27.6 percent this fiscal year. Business-type activities revenues increased by \$176.1 million or 4.3 percent offset by increased expenses of \$1.11 billion, or 27.6 percent. The net transfer to business-type activities decreased by \$23.2 million. The major component of increased expense Citywide is increased pension expense of \$947.7 million and \$788.2 million for governmental activities and business-type activities, respectively. Discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
 Year Ended June 30, 2017

**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, 2017

**Governmental activities.** Governmental activities decreased the City's total net position by approximately \$222.7 million. Key factors contributing to this change are discussed below.

Overall, total revenues from governmental activities were \$6.11 billion, a \$305.6 million or 5.3 percent increase over the prior year. For the same period, expenses totaled \$5.63 billion before transfers of \$647.9 million.

Property tax revenues increased by \$142.8 million or 7.9 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. An increase in other local taxes of \$142.7 million or 35.7 percent was driven almost entirely by an increase in real property transfer tax due to an increase in transactions in excess of \$10.0 million and the full phase in of a rate increase enacted in November 2016.

Revenues from business and sales and use taxes totaled approximately \$993.7 million, a growth of \$62.7 million over the prior year. Business taxes grew by \$41.4 million due to an increase in the gross receipts portion of the tax and increased business registration fee levels. Sales and use tax increased by \$21.3 million is primarily due to the "triple flip" unwinding in January 2016, 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. The entire 1 percent of Bradley Burns revenue has been allocated as sales tax in 2016-17 as opposed to half of the prior year.

Hotel room tax revenues declined by \$17.3 million, or 4.5 percent, due to the closure of the Moscone Convention Center for renovations and the fact that the City hosted the Super Bowl in the prior year. Hotel room tax revenue growth is a function of changes in occupancy, Average Daily Room Rate (ADR), and room supply. Average revenue per available room, which combines the effects of occupancy and ADR, fell slightly for the first time in six years.

Operating grants and contributions decreased \$26.6 million. This was largely due to decreases in other grants combined with a slight decrease in Federal grants offset by increases from State sources. The amount included an overall \$78.1 million decrease in Public Works, Transportation, and Commerce due to a decrease in local grants for the Presidio Parkway project. This was offset primarily by a \$54.8 million increase in Community Health due to additional State funding.

Total charges for services decreased \$130.8 million, or 16.8 percent. The decrease is due to several one-time events, including \$23.9 million at the Department of Public Health caused by a change in collection of administrative fees as well as higher audit reserves. There was also a decrease of \$39.9 million in housing inclusionary fees owing to a large non-recurring development project in the prior year, a decrease in SOMA Stabilization impact fees of \$17.5 million after a large increase in the prior year, a decrease in community impact fees of \$16.4 million due to fees being reallocated to SFMTA, and a \$27.3 million decrease in revenue from San Francisco Housing Authority following a large amount in the prior year. Other revenues increased by \$123.7 million due mainly to the gain on the sale of property.

Interest and investment income revenue increased by \$11.2 million, or 46.5 percent, due to increased interest rates as well as balances in the City's investment pool, primarily due to an increase in property tax revenues, real property transfer tax revenues, business and sales tax revenues, and other revenues.

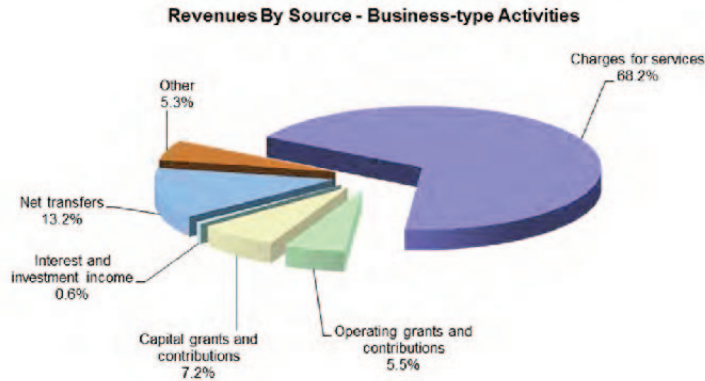
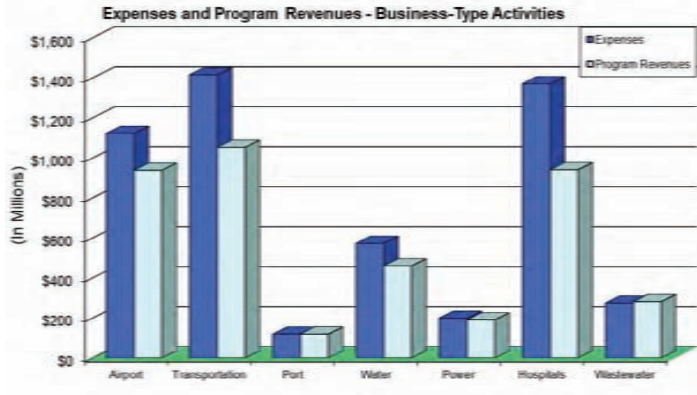
Net transfers from the governmental activities to business-type activities were \$647.9 million, a \$23.2 million decrease or 3.5 percent from the prior year. This was mainly due to a decrease in operating subsidies to SFGH of \$177.4 million offset by increased operating subsidies from the General Fund of \$33.6 million to SFMTA and \$11.0 million to LHH. In addition, the SFMTA received \$28.1 million for road improvement and street safety projects, and \$68.9 million in capital assets related to Sustainable Streets.

The increase of total governmental expenses of \$1.22 billion, or 27.6 percent, was primarily due an increase in pension expense of \$947.7 million, plus salary increases and increases in demand for the government's



**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
 Year Ended June 30, 2017

services in almost all functional service areas. In total, the leading increases were \$469.7 million in Public Protection, \$309.6 million in Human Welfare and Neighborhood Development, and \$228.5 million in Culture and Recreation.



**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
 Year Ended June 30, 2017

**Business-type activities** decreased the City's net position by \$225.9 million and key factors contributing to this decrease are:

- The San Francisco International Airport had a decrease in net position at fiscal year-end of \$116.9 million, compared to a \$49.9 million increase in the prior year, a \$166.8 million difference. Operating revenues totaled \$926.8 million for fiscal year 2016-17, an increase of \$59.8 million or 6.9 percent over the prior year and included increases of \$49.9 million, \$2.8 million, and \$13.8 million in aviation, concession, parking and transportation, respectively, partially offset by a decrease of \$6.7 million in net sales and services revenues, reflecting traffic growth at the Airport. For the same period, the Airport's operating expenses increased by \$168.4 million, or 26.3 percent, for a net operating income of \$117.9 million for the period. Net nonoperating activities saw a deficit of \$201.0 million versus \$144.5 million deficit in the prior year, a \$56.6 million increase. The increase in both operating and nonoperating expenses is due to increases in personnel, depreciation, and other nonoperating expenses. Personnel costs increased by \$123.6 million due to a significant pension costs increase, cost of living adjustments, and additional positions.
- The City's Water Enterprise, the third largest such entity in California, reported a decrease in net position of \$121.4 million at the end of fiscal year 2016-17, compared to an increase of \$26.2 million at the end of the previous year, a \$147.6 million difference. Operating revenues totaled \$460.3 million, operating expenses totaled \$421.8 million, nonoperating items totaled \$99.9 million, and the net decrease from transfers was \$60.0 million. Compared to the prior year, operating revenues increased \$40.8 million, which included \$44.6 million in water and power services. Within operating expenses, the enterprise reported a total increase of \$107.0 million in fiscal year 2016-17. This included an \$79.0 million increase in personnel services mainly due to pensions, \$20.7 million in general and administrative, and \$12.2 million in depreciation expense, offset by \$2.3 for general and administrative expenses mainly from reductions in judgement and claims liability based on actuarial report.
- Hetch Hetchy Water and Power ended fiscal year 2016-17 with a net position increase of \$65.6 million, compared to a \$25.7 million increase the prior year, a difference of \$39.9 million. This change consisted of a decrease in operating income of \$20.4 million, offset by an increase in nonoperating revenues of \$0.9 million, and an increase of transfers from the City of \$59.4 million. This enterprise consists of three segments: Hetchy Water upcountry operations and water system, which reported a \$45.6 million increase in change in net position, Hetchy Power, which reported a \$13.2 million increase in change in net position, and CleanPowerSF, which reported a \$6.8 million increase in change in net position. CleanPowerSF was reported as a separate segment for the first time in fiscal year 2016-17. Hetchy Water operating revenues decreased by \$3.6 million while operating expenses increased by \$13.6 million. There was a \$3.6 million decrease in water assessment fee revenue from the Water Enterprise. Hetchy Power's total operating revenues decreased by \$5.0 million mostly due to increases in sale of power of \$3.7 million from CleanPowerSF in prior year and decreased sales of \$7.5 million to non-City customers, offset by increased electricity sales of \$3.9 million to other City departments. On the operating expenses side, Hetchy Power reported an increase of \$5.0 million due to increases of \$11.3 million mainly resulting from increased pension expense, \$0.7 million in increased capital projects spending, and \$0.6 million in depreciation and amortization related to increased capitalizable facilities and improvement. These increases were offset by decreases of \$3.1 million in purchased electricity due to higher generation from powerhouses, \$2.8 million in transmission and distribution power costs, \$0.7 million in legal services, \$0.6 million in contractual services, \$0.3 million in building and construction supplies, and \$0.2 million in decreased general and administrative expenses. CleanPowerSF had \$33.9 million in revenues and \$27.1 million in expenses in its first year as a separate segment.
- The City's Wastewater Enterprise's net position decreased by \$9.7 million, compared to a \$13.9 million increase the prior year, a \$23.6 million change. Operating revenues increased by \$15.6 million due to a \$18.4 million increase in charges for services as a result of an average 7.0 percent adopted rate increase. A \$1.1 million increase of interest and investment income, and \$3.8 million in other non-operating revenues mainly related to state assistance for storm water flood management projects. The



**CITY AND COUNTY OF SAN FRANCISCO**

**Management's Discussion and Analysis (Unaudited) (Continued)**

Year Ended June 30, 2017

increases were offset by a decrease of \$3.5 million attributed to prior year's settlement from Pacific Gas and Electric and \$2.7 million mainly related to decrease in capacity fees resulting from a 20.0 percent decline in permit sales and write-offs of capacity fees receivables. Operating expenses increased by \$22.7 million due to increases of \$55.3 million in Sewer System Improvement Program (SSIP) and repair and replacement project expenses, \$36.2 million in personnel services mainly due to cost of living adjustments, health and pension costs, \$4.6 in depreciation expense, and \$0.7 million in services provided by other departments, which were offset by decreases of \$66.5 million in other operating expenses mainly due to increased capitalization of fixed assets, \$4.9 million in general and administrative expenses, \$1.5 million in materials and supplies, and \$1.2 million in contractual services. Additional increases include \$6.2 million in interest expense, offset by \$2.9 million in amortization of premium, refunding loss and issuance cost. Transfers out totaled \$30.7 million mainly due to a transfer to City Real Estate Division for the Phase 1 of the Central Shops Relocation Project.

- The Port ended fiscal year 2016-17 with a net position increase of \$2.1 million, compared to a \$35.1 million increase in the previous year, a \$33.0 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 2016-17, operating revenues increased by \$13.6 million, mostly due to construction and event permit fees, developer or other one-time transaction fees, and expense recoveries realized or realizable from major development projects. Operating expenses increased \$27.3 million over the prior year. This was due in part to increases of \$17.2 million in personnel services, which mostly included a \$14.9 million increase in pension expense; \$5.8 million in contractual services, and \$2.3 million in depreciation and amortization.
- The SFMTA had an increase in net position of \$274.7 million for fiscal year 2016-17, compared to an increase of \$478.3 million in the prior year, a \$203.6 million change. SFMTA's total operating revenues were \$500.0 million, while total operating expenses reached \$1.41 billion. Operating revenues increased by \$4.7 million compared to the prior year and is mainly due to increase in charges for services by \$7.0 million, permits revenue by \$2.4 million, parking fines and penalties by \$5.0 million, parking fees by \$1.2 million, and advertising revenue by \$0.1 million. These increases were offset by decreases in taxi revenues by \$1.5 million, \$9.5 million in passenger fares revenue, and slight decrease in rental income by \$0.3 million. Operating expenses increased by \$308.5 million primarily due to personnel costs, which is attributable mainly to pension costs, salary and hiring increases. Net nonoperating revenue increased by \$57.9 million mostly from federal operating grants, development fees, gain on disposal of assets, and interest and investment income, which were offset by decrease in state operating grants and amortized portion of the lease leaseback benefits. Net transfers increased by \$43.9 million mainly due to a \$33.7 million increase in transfers from the City's General Fund mainly for operating subsidies.
- LHH, the City's skilled nursing care hospital, had a decrease in net position of \$69.5 million at the end of fiscal year 2016-17, compared to an increase of \$21.6 million at the end of the previous year, a \$91.1 million difference. The LHH's loss before capital contributions and transfers for the year was \$132.6 million versus a loss of \$22.7 million for the prior year. This change of \$109.9 million was mostly due to a \$30.3 million decrease in operating revenues, a \$80.1 million increase in operating expenses, and a \$0.3 million increase in other nonoperating revenues.
- SFGH, the City's acute care hospital, ended fiscal year 2016-17 with a decrease in net position of \$250.9 million, compared to an increase of \$77.6 million the prior year, a \$328.5 million change. This was due to a \$79.7 million decrease in net transfers from the City compared to prior year's net transfers of \$108.7 million. However, SFGH incurred an operating loss of \$348.2 million, which was a \$258.6 million increase from the prior year. This was due to a \$18.8 million decrease in operating revenues, largely related to net patient services revenues, and increases in operating expenses mostly due to \$202.5 million in personal services due to pension costs, \$16.0 million in contractual services, \$11.6 million in materials and supplies, and \$10.5 million in depreciation and amortization.

**CITY AND COUNTY OF SAN FRANCISCO**

**Management's Discussion and Analysis (Unaudited) (Continued)**

Year Ended June 30, 2017

**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 2016-17, the City governmental funds reported combined fund balances of \$3.40 billion, an increase of \$569.3 million or 20.1 percent over the prior year. Of the total fund balances, \$1.17 billion is assigned and \$83.1 million is unassigned. The total of \$1.25 billion or 36.7 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 \$1.09 billion. The remainder of the governmental fund balances includes \$0.6 million nonspendable for items that are not expected to be converted to cash such as inventories and long-term loans, \$1.83 billion restricted for programs at various levels and \$327.6 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 \$1.42 billion while total fund balance reached \$1.87 billion. Combined assigned and unassigned fund balances represent 40.7 percent of total expenditures, while total fund balance represents 53.8 percent of total expenditures. For the year, the General Fund's total revenues exceeded expenditures by \$1.16 billion, before transfers and other items of \$715.6 million, resulting in total fund balance increasing by \$441.5 million. Overall, the significant growth in revenues, particularly in property taxes, business taxes, sales and uses tax and real property transfer tax 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.

At the end of fiscal year 2016-17, the unrestricted net position for the proprietary funds was as follows: Hetch Hetchy Water and Power: \$189.4 million, Wastewater Enterprise: \$48.5 million, and the Port: \$66.4 million. In addition, the following funds had net deficits in unrestricted net position: Airport: \$70.8 million, Water Enterprise: \$43.5 million, SFMTA: \$37.1 million, San Francisco General Hospital: \$572.9 million, and Laguna Honda Hospital: \$250.8 million.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
Year Ended June 30, 2017

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 decreased by approximately \$225.9 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 (Expense)	Capital Contributions and Others	Interfund Transfers, Net	Change in Net Position
Airport.....	\$ 926,800	\$ 808,860	\$ 117,940	\$ (201,019)	\$ 11,212	\$ (45,037)	(116,904)
Water.....	460,331	421,827	38,504	(99,917)	-	(59,988)	(121,401)
Hetch Hetchy.....	189,979	194,130	(4,151)	9,746	-	60,051	65,646
Municipal Transportation Agency....	500,030	1,408,693	(908,663)	264,441	356,293	562,664	274,735
General Hospital.....	698,218	1,046,419	(348,201)	68,366	-	28,944	(250,891)
Wastewater Enterprise.....	277,341	244,220	33,121	(12,091)	-	(30,707)	(9,677)
Port.....	113,353	114,043	(690)	970	1,822	(32)	2,070
Laguna Honda Hospital.....	175,003	315,959	(140,956)	8,314	-	63,130	(69,512)
Total.....	\$ 3,341,055	\$ 4,554,151	\$(1,213,096)	\$ 38,810	\$ 369,327	\$ 579,025	\$(225,934)

**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 2016-17, the net position of the Retirement System, Health Service System and Retiree Health Care Trust combined totaled \$22.67 billion, representing a \$2.33 billion increase from the prior year, and 11.5 percent change. The increase is a result of strong investment returns which were slightly reduced by the net difference between contributions received by the Plan and increased benefit payments made from the Plan. The Private-Purpose Trust Fund accounts for the Successor Agency, which had a net deficit of \$388.8 million at year's end. This 3.1 percent, or \$11.8 million, increase in the net deficit is due to decreases in developer receipts and other additions and increases in program costs. The Investment Trust Fund's net position was \$862.6 million at year's end, and the 16.0 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 \$128.0 million higher than the final budget. The City realized \$166.6 million, \$69.1 million, \$31.1 million, \$10.2 million and \$6.9 million more revenue than budgeted in real property transfer tax, property taxes, business taxes, interest and investment income, and utility users tax, respectively. These increases were partly offset by reductions of \$48.1 million, \$38.9 million, \$23.8 million, \$19.4 million, \$17.7 million and \$8.5 million, in sales and use tax, hotel room tax, federal grants and subventions, Medi-Cal, Medicare, and health service charges and parking tax, respectively.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in \$121.5 million in expenditure savings. Major factors include:

- \$52.1 million in savings from the Department of Public Health from professional services of \$41.2 million and \$10.1 million savings in salary and fringe benefit.
- \$14.7 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 and lower than expected caseload levels. The Department of Homelessness and Supportive Housing has a \$5.7 million saving partly due to the delay of purchase and upgrade of a building for headquarters but was not completed due to changes in the intended use of the building. The Department of Children,

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
Year Ended June 30, 2017

- Youth, and Their Family also has a \$1.2 million savings in work order expenditure resulting from performing departments not being able to complete all requested work within the fiscal year.
- \$14.9 million savings in contracts and salary and benefits mainly in Treasurer/Tax Collector, General Services Agency, City Planning, Assessor/Recorder, and other departments in general administration and finance.
- \$12.7 million savings in general city responsibilities mainly from lower than expected city grant programs and retiree health subsidy.
- \$9.7 million in salary and benefit savings mainly in Juvenile Probation, Adult Probation, Police, Sheriff, and other departments in public protection.
- The remaining lower than budgeted expenditures are savings from culture and recreation and public works, transportation and commerce.

The net effect of substantial revenue increases and savings in expenditures was a budgetary fund balance available for subsequent year appropriation of \$545.9 million at the end of fiscal year 2016-17. The City's fiscal year 2017-18 and 2018-19 Adopted Original Budget assumed an available balance of \$471.5 million fully appropriated in fiscal year 2017-18 and fiscal year 2018-19 and contingency reserves of \$60.0 million of unappropriated fund balance, leaving \$14.4 million available for future appropriations. (See also Note to the Required Supplementary Information 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, 2017, increased by \$1.25 billion, 6.0 percent, to \$22.07 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 \$182.3 million or 14.6 percent to this total while \$1.07 billion or 85.4 percent was from business-type activities. Details are shown in the table below.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land.....	\$ 360,602	\$ 334,261	\$ 240,187	\$ 217,441	\$ 600,789	\$ 551,702
Construction in progress.....	624,711	456,093	4,073,686	3,120,461	4,698,397	3,576,554
Facilities and improvements....	3,262,136	3,372,183	10,473,740	10,484,335	13,735,876	13,856,518
Machinery and equipment.....	209,075	201,333	1,199,365	1,112,860	1,408,440	1,314,193
Infrastructure.....	753,919	686,365	722,116	701,029	1,476,035	1,387,394
Intangible asset.....	97,233	75,117	52,787	59,691	150,020	134,808
Total.....	\$ 5,307,676	\$ 5,125,352	\$ 16,761,881	\$ 15,695,817	\$ 22,069,557	\$ 20,821,169

Major capital asset events during the current fiscal year included the following:

- Under governmental activities, net capital assets increased by \$182.3 million or 3.6 percent. About \$195.2 million worth of construction in progress work was substantially completed and capitalized as facilities and improvement and infrastructure. Of the completed projects, about \$13.2 million in the new Glen Canyon Recreation Center and approximately \$12.3 million for the San Francisco Fire Department Fire Boat. The remaining completed projects include public works, intangible assets, and traffic signal projects.
- The Water Enterprise's net capital assets increased by \$155.0 million or 3.2 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, San Francisco Groundwater Supply, Recycled Water Project, Environmental Impact Project – Habitat Reserve Program, Irvington Tunnel Alternatives, and other upgrade and improvement programs. As of June 30, 2017, the SFPUC's Water Enterprise is 94.0 percent through construction of its multi-billion dollar, multi-year program to upgrade the Hetch Hetchy Regional and Local Water Systems. The

## CITY AND COUNTY OF SAN FRANCISCO

### Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2017

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, 2017, 34 local projects are completed and the target completion date is September 2017. For regional projects, 39 are completed and the expected completion date is December 2019. The Water System Improvement Program delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high quality drinking water to its customers.

- SFMTA's net capital assets increased by \$469.0 million or 14.9 percent mainly from construction in progress of \$239.6 million for the new Central Subway Project, transit lane, and rail replacement. Equipment costs of \$219.1 million were incurred during the fiscal year for the procurement of new motor bus, radio replacement, procurement of light rail vehicles, and historic street car rehabilitation. Land and building cost totaling \$57.0 million was incurred in fiscal year 2017 for Islais Creek facility improvement, improvement of signals and street, escalator modernization, and upgrade of garage facilities in various locations and other facility improvement.
- LHH's net capital assets decreased by \$11.0 million or 2.1 percent due primarily higher depreciation expense and lower new construction in progress due to the completion of the new hospital facility in March 2014. 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 decreased by \$13.3 million or 7.2 percent due primarily higher depreciation expense and lower new construction in progress due to the completion of the Zuckerberg San Francisco General Hospital rebuild. The rebuild General Obligation Bonds are accounted for as governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds.
- The Wastewater Enterprise net capital assets reported an increase of \$192.0 million or 9.3 percent mainly from new construction in progress activities. These include the Biosolids Digester Project, SEP Primary and Secondary Clarifier, Water System Improvement, Sewer System Improvement Program (SSIP), and other capital projects throughout the system. The SSIP is a \$7.00 billion program that includes three phases over 20 years to improve the existing wastewater system. As of June 30, 2017, the SSIP has 13 projects or 18.6 percent totaling \$97.0 million were completed, with 39 projects in pre-construction phase, 18 projects in construction phase, and no project in close-out phase.
- Hetch Hetchy's net capital assets increased by \$40.5 million or 10.0 percent to \$444.7 million primarily due to additions of facilities, improvements, machinery, and equipment for Mountain Tunnel Improvement, Moccasin Facilities New Construction, San Joaquin Pipeline Rehabilitation, and facilities related to the Transbay Transit Center. 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 \$237.0 million or 5.9 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 2016-17 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.

## CITY AND COUNTY OF SAN FRANCISCO

### Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2017

- The Port's net capital assets decreased by \$3.1 million or 0.7 percent due to capitalization and depreciation of capital improvements in 2017, including the Pier 31 Roof and Structure Repair which is a \$7.2 million project for new roofing and structural improvements to adequately support and protect the new roofing system at Piers 29½ and 31. Piers 29½ and 31 are a contributing resource within the San Francisco Embarcadero Historic District listed in the National Register of Historic Places. The security improvements through the installation and deployment of closed-circuit television and integrated access control/intrusion detection systems at key Port facilities continue in phases, largely based on priority and available funding.

At the end of the year, the City's business-type activities had approximately \$1.38 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated \$279.8 million, MTA had \$579.8 million, Wastewater had \$229.7 million, Airport had \$188.8 million, Hetch Hetchy had \$72.7 million, Port had \$13.7 million, Laguna Honda Hospital had \$1.0 million and the General Hospital had \$16.6 million. In addition, there was approximately \$83.4 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 June 30, 2017, the City had total long-term and commercial paper debt outstanding of \$15.50 billion. Of this amount, \$2.28 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 \$13.22 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 \$1.10 billion or 7.7 percent during the fiscal year.

The net increase in debt obligations in the governmental activities was \$204.3 million primarily due to the issuance of \$248.3 million of general obligation bonds to finance 1) affordable housing improvements and related costs, 2) construction, seismic strengthening and betterment of critical community and mental health, emergency response and safety, and homeless shelter and service facilities. The City likewise issued \$28.3 million certificates of participation to refinance commercial paper used to finance the construction and renovation of mixed used housing development in the City's Hunters View project (Hope SF). The City issued \$1.35 billion and retired \$1.25 billion commercial paper for the expansion of the Moscone Convention Center and executed \$49.0 million revolving certificates of participation for the development of the Transbay Transit Center. The City borrowed additional \$46.0 million for the San Francisco County Transportation Authority's voter approved Proposition K Expenditure Plan and entered into a capital lease agreement with Banc of America for \$34.2 million to purchase and install a new emergency communication system and maintain the old system during the transition.

The net debt increase for the business-type activities was \$900.3 million. The Airport issued \$740.1 million revenue bonds to refinance commercial paper used to fund the redevelopment of Terminal 1, relocation of a firehouse and vehicle security checkpoint, relocation of ground transportation facilities, construction of a new administration campus, upgrades to the operating systems for the AirTrain extension, gate enhancements to accommodate larger aircrafts, and various technology upgrades to network services. The Municipal Transit Agency issued \$177.8 million revenue bonds to fund various transit and parking projects and obtained \$0.8 million bank loan for the renovation of Portsmouth Plaza Parking. The Water Enterprise issued \$259.4 million revenue bonds to refund commercial paper used and provide \$20.0 million new money for various capital projects in furtherance of the City's water system improvement program. The

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
Year Ended June 30, 2017

Airport and the Water Enterprise issued revenue refunding bonds for \$147.8 million and \$893.8 million, respectively, 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 \$212.30 billion in value as of the close of the fiscal year. As of June 30, 2017, the City had \$2.28 billion in authorized, outstanding general obligation bonds, which is equal to approximately 1.03 percent of gross (1.07 percent of net) taxable assessed value of property. As of June 30, 2017, there were an additional \$1.37 billion in bonds that were authorized but unissued. If all these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.65 percent of gross (1.72 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2017 were:

Moody's Investors Service, Inc.	Aa1
Standard & Poor's	AA+
Fitch Ratings	AA+

During the fiscal year, Moody's Investors Service (Moody's), Standard & Poor's and Fitch Ratings affirmed the City's ratings of "Aa1" and "AA+", and AA+ respectively, with Stable Outlook on all the City's outstanding general obligation bonds.

The City's enterprise activities carried underlying debt ratings for the SFMTA of "AA" with Stable Rating Outlook from Standard & Poor's and "Aa2" from Moody's. Moody's, Standard and Poor's and Fitch Ratings affirmed their underlying credit ratings of the Airport of "A1", "A+" and "A+", respectively, each with Stable Rating Outlook. The Water Enterprise carried underlying ratings of "Aa3" and "AA-" from Moody's and Standard and Poor's respectively.

Additional information in the City's long-term debt can be found in Note 8 to the Basic Financial Statements.

**Economic factors and future budgets and rates**

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 2017-18 and 2018-19. 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 2016-17 was 3.1 percent, a decrease of 0.3 percent from the average unemployment rate in fiscal year 2015-16.
- Housing prices continued to show growth, reaching new historical highs. The average median home price in fiscal year 2016-17 was \$1.2 million, up 2.8 percent from the previous fiscal year.
- Commercial rents have shown strong growth, also reaching new historical highs. The monthly per square foot rental rates for commercial space grew to \$73.71 in fiscal year 2016-17, a 5.1 percent increase over the prior year.
- The resident population also continued to grow, reaching a new historical high of 870,887 in 2016 according to the U.S. Census Bureau. This represents a 1.0 percent increase versus the prior year, and cumulative growth of 102,237 or 13.3 percent over the last decade.

The Board of Supervisors approved a final two-year budget for fiscal years 2017-18 and 2018-19 in July 2017, which assumes use of prior year fund balance from General Fund of \$183.3 million and \$288.2 million, respectively.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Management's Discussion and Analysis (Unaudited) (Continued)**  
Year Ended June 30, 2017

**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, 13<sup>th</sup> Floor  
San Francisco, CA 94102

**Laguna Honda Hospital**  
Chief Financial Officer  
375 Laguna Honda Blvd.  
San Francisco, CA 94116

**Municipal Transportation Agency**  
SFMTA Chief Financial Officer  
1 South Van Ness Avenue, 3<sup>rd</sup> 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 2A5  
San Francisco, CA 94110

**San Francisco**  
**Employees' Retirement System**  
Executive Director  
1145 Market Street, 5<sup>th</sup> Floor  
San Francisco, CA 94103

**Successor Agency to the**  
**San Francisco Redevelopment Agency**  
1 South Van Ness Avenue, 5<sup>th</sup> Floor  
San Francisco, CA 94103

**Retiree Health Care Trust**  
c/o Office of the Controller  
City Hall, Room 316  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

**Blended Component Units Financial Statements**

**San Francisco County Transportation Authority**  
Deputy Director for Administration and Finance  
1455 Market Street, 22<sup>nd</sup> 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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Position  
June 30, 2017  
(In Thousands)

	Primary Government			Component Unit Treasure Island Development Authority
	Governmental Activities	Business- Type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Deposits and investments with City Treasury.....	\$ 3,911,280	\$ 2,446,138	\$ 6,357,418	\$ 7,225
Deposits and investments outside City Treasury.....	155,356	15,576	170,932	-
Receivables (net of allowance for uncollectible amounts of \$252,763 for the primary government):				
Property taxes and penalties.....	99,951	-	99,951	-
Other local taxes.....	267,319	-	267,319	-
Federal and state grants and subventions.....	294,807	173,369	468,176	-
Charges for services.....	85,002	249,969	334,971	700
Interest and other.....	13,743	184,811	198,554	13
Due from component units.....	1,581	568	2,149	-
Inventories.....	-	98,374	98,374	-
Other assets.....	95,020	6,156	101,176	-
Restricted assets:				
Deposits and investments with City Treasury.....	-	351,472	351,472	-
Deposits and investments outside City Treasury.....	21,617	291,800	313,417	-
Grants and other receivables.....	-	22,271	22,271	-
Total current assets.....	4,945,676	3,840,504	8,786,180	7,938
Noncurrent assets:				
Loan receivables (net of allowance for uncollectible amounts of \$1,263,252).....	138,223	-	138,223	-
Advance to component units.....	13,149	2,627	15,776	-
Other assets.....	-	11,452	11,452	-
Restricted assets:				
Deposits and investments with City Treasury.....	-	569,877	569,877	-
Deposits and investments outside City Treasury.....	-	443,145	443,145	-
Grants and other receivables.....	-	36,029	36,029	-
Capital assets:				
Land and other assets not being depreciated.....	1,040,075	4,325,916	5,365,991	20,390
Facilities, infrastructure and equipment, net of depreciation.....	4,267,601	12,435,965	16,703,566	12
Total capital assets.....	5,307,676	16,761,881	22,069,557	20,402
Total noncurrent assets.....	5,459,048	17,825,011	23,284,059	20,402
Total assets.....	10,404,724	21,665,515	32,070,239	28,340
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Unamortized loss on refunding of debt.....	16,339	204,299	220,638	-
Deferred outflows on derivative instruments.....	-	54,870	54,870	-
Deferred outflows related to pensions.....	1,294,735	1,013,927	2,308,662	19
Total deferred outflows of resources.....	\$ 1,311,074	\$ 1,273,096	\$ 2,584,170	\$ 19

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 Net Position (Continued)  
June 30, 2017  
(In Thousands)

	Primary Government			Component Unit Treasure Island Development Authority
	Governmental Activities	Business- Type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable.....	\$ 281,462	\$ 194,413	\$ 475,875	\$ 79
Accrued payroll.....	104,840	80,055	184,895	-
Accrued vacation and sick leave pay.....	91,060	65,212	156,272	-
Accrued workers' compensation.....	42,621	32,875	75,496	-
Estimated claims payable.....	71,290	39,424	110,714	-
Bonds, loans, capital leases, and other payables.....	573,669	546,565	1,120,234	-
Accrued interest payable.....	12,240	55,187	67,427	-
Unearned grant and subvention revenues.....	25,894	-	25,894	-
Due to primary government.....	-	-	-	1,589
Internal balances.....	35,190	(35,190)	-	-
Unearned revenues and other liabilities.....	573,442	513,027	1,086,469	1,669
Liabilities payable from restricted assets:				
Bonds, loans, capital leases, and other payables.....	-	228,895	228,895	-
Accrued interest payable.....	-	36,062	36,062	-
Other.....	-	155,406	155,406	-
Total current liabilities.....	1,811,708	1,911,931	3,723,639	3,337
Noncurrent liabilities:				
Accrued vacation and sick leave pay.....	65,080	43,824	108,904	-
Accrued workers' compensation.....	199,202	161,053	360,255	-
Other postemployment benefits obligation.....	1,338,592	974,031	2,312,623	-
Estimated claims payable.....	131,199	55,256	186,455	-
Bonds, loans, capital leases, and other payables.....	2,925,168	11,224,019	14,149,187	-
Advance from primary government.....	-	-	-	2,627
Unearned revenues and other liabilities.....	1,896	117,432	119,328	-
Derivative instruments liabilities.....	-	65,965	65,965	-
Net pension liability.....	3,306,484	2,501,732	5,808,216	27
Total noncurrent liabilities.....	7,967,621	15,143,312	23,110,933	2,654
Total liabilities.....	9,779,329	17,055,243	26,834,572	5,991
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unamortized gain on refunding of debt.....	217	297	514	-
Unamortized gain on leaseback transaction.....	-	4,015	4,015	-
Deferred inflows related to pensions.....	149,841	107,154	256,995	2
Total deferred inflows of resources.....	150,058	111,466	261,524	2
<b>NET POSITION</b>				
Net investment in capital assets, Note 10(d).....	2,873,927	5,752,069	8,321,778	20,402
Restricted for:				
Reserve for rainy day.....	125,689	-	125,689	-
Debt service.....	108,179	202,262	310,441	-
Capital projects, Note 10(d).....	257,634	394,634	569,948	-
Community development.....	434,691	-	434,691	-
Transportation Authority activities.....	16,189	-	16,189	-
Building inspection programs.....	150,109	-	150,109	-
Children and families.....	115,284	-	115,284	-
Culture and recreation.....	130,984	-	130,984	-
Grants.....	90,087	-	90,087	-
Other purposes.....	44,373	93,696	138,069	-
Total restricted.....	1,473,219	690,592	2,081,491	-
Unrestricted (deficit), Note 10(d).....	(2,560,735)	(670,759)	(2,844,956)	1,964
Total net position.....	\$ 1,786,411	\$ 5,771,902	\$ 7,558,313	\$ 22,366

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 Activities  
Year Ended June 30, 2017  
(In Thousands)

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit
				Governmental Activities	Business-Type Activities	
Primary government:						
Governmental activities:						
Public protection.....	\$ 1,692,224	\$ 83,896	\$ 187,766	\$ -	\$ (1,420,562)	\$ -
Public works, transportation and commerce.....	387,423	148,804	46,933	11,763	(179,923)	-
Human welfare and neighborhood development.....	1,543,047	164,755	650,585	-	(727,707)	-
Community health.....	868,628	68,601	365,722	-	(434,305)	-
Culture and recreation.....	539,516	97,614	1,522	7,730	(432,650)	-
General administration and finance.....	337,209	45,385	5,330	-	(286,494)	-
General City responsibilities.....	145,247	37,367	5,404	-	(102,476)	-
Unallocated interest on long-term debt and cost of issuance.....	113,264	-	-	-	(113,264)	-
Total governmental activities.....	5,626,558	646,422	1,263,262	19,493	(3,697,381)	(3,697,381)
Business-type activities:						
Airport.....	1,122,802	926,800	-	11,212	(184,790)	(184,790)
Transportation.....	1,468,586	500,030	196,317	340,012	(432,227)	(432,227)
Port.....	118,361	113,353	3,786	1,822	600	600
Water.....	572,509	460,331	-	-	(112,178)	(112,178)
Power.....	186,621	189,979	37	-	(8,605)	(8,605)
Hospitals.....	1,370,154	873,221	66,753	-	(430,180)	(430,180)
Sewer.....	273,077	277,341	3,274	-	7,538	7,538
Total business-type activities.....	5,124,110	3,341,055	270,167	353,046	(1,159,842)	(1,159,842)
Total primary government.....	\$ 10,750,668	\$ 3,987,477	\$ 1,533,429	\$ 372,539	(3,697,381)	(4,857,223)
Component unit:						
Treasure Island Development Authority.....	\$ 10,485	\$ 11,853	\$ -	\$ 14,862		\$ 16,230
General Revenues						
Taxes:						
Property taxes.....				1,951,696	-	1,951,696
Business taxes.....				702,331	-	702,331
Sales and use tax.....				291,395	-	291,395
Hotel room tax.....				370,344	-	370,344
Utility users tax.....				101,203	-	101,203
Parking tax.....				84,278	-	84,278
Real property transfer tax.....				410,561	-	410,561
Other local taxes.....				47,728	-	47,728
Interest and investment income.....				35,240	28,547	63,787
Other.....				182,933	257,419	440,352
Transfers - internal activities of primary government.....				(647,942)	647,942	-
Total general revenues and transfers.....				3,529,767	933,908	4,463,675
Change in net position.....				(167,614)	(225,934)	(393,548)
Net position at beginning of year, as previously reported.....				2,009,063	5,997,836	8,006,899
Cumulative effect of accounting change.....				(55,038)	-	(55,038)
Net position at beginning of year, as restated.....				1,954,025	5,997,836	7,951,861
Net position at end of year.....				\$ 1,786,411	\$ 5,771,902	\$ 7,558,313

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, 2017  
(With comparative financial information as of June 30, 2016)  
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2017	2016	2017	2016	2017	2016
	Assets:					
Deposits and investments with City Treasury.....	\$ 2,144,741	\$ 1,723,488	\$ 1,736,620	\$ 1,556,236	\$ 3,881,361	\$ 3,279,724
Deposits and investments outside City Treasury.....	5,923	3,183	149,433	81,662	155,356	84,845
Receivables (net of allowance for uncollectible amounts of \$223,508 in 2017; \$191,320 in 2016):						
Property taxes and penalties.....	78,519	61,564	21,432	15,677	99,951	77,241
Other local taxes.....	248,905	260,070	18,414	18,693	267,319	278,763
Federal and state grants and subventions.....	198,490	197,391	96,317	105,525	294,807	303,316
Charges for services.....	71,476	81,303	13,431	18,616	84,907	99,919
Interest and other.....	8,331	5,014	4,670	10,808	13,001	15,822
Due from other funds.....	10,926	4,596	6,624	7,466	17,550	12,062
Due from component unit.....	-	920	1,581	1,517	1,581	2,437
Advance to component unit.....	-	-	13,149	17,496	13,149	17,496
Loans receivable (net of allowance for uncollectible amounts of \$1,263,252 in 2017; \$1,121,995 in 2016)	9,666	6,473	128,557	75,328	138,223	81,801
Other assets.....	67,598	15	27,422	6,840	95,020	6,855
Total assets.....	\$ 2,844,575	\$ 2,344,017	\$ 2,217,650	\$ 1,916,264	\$ 5,062,225	\$ 4,260,281
Liabilities:						
Accounts payable.....	\$ 154,195	\$ 229,248	\$ 123,620	\$ 124,473	\$ 277,815	\$ 353,721
Accrued payroll.....	84,637	74,020	17,961	15,242	102,598	89,262
Unearned grant and subvention revenues.....	8,146	6,099	17,748	18,151	25,894	24,250
Due to other funds.....	560	1,599	50,393	32,097	50,953	33,696
Unearned revenues and other liabilities.....	520,366	439,522	53,042	55,274	573,408	494,796
Bonds, loans, capital leases, and other payables.....	-	-	255,939	102,778	255,939	102,778
Total liabilities.....	767,904	750,488	518,703	348,015	1,286,607	1,098,503
Deferred inflows of resources.....	205,968	164,367	164,877	161,937	370,845	326,304
Fund balances:						
Nonspendable.....	525	522	82	82	607	604
Restricted.....	125,689	120,106	1,701,020	1,443,956	1,826,709	1,564,062
Committed.....	327,607	187,170	-	-	327,607	187,170
Assigned.....	1,088,288	879,567	78,413	66,085	1,166,701	945,652
Unassigned.....	328,594	241,797	(245,445)	(103,811)	83,149	137,986
Total fund balances.....	1,870,703	1,429,162	1,534,070	1,406,311	3,404,773	2,835,474
Total liabilities, deferred inflows of resources and fund balances.....	\$ 2,844,575	\$ 2,344,017	\$ 2,217,650	\$ 1,916,264	\$ 5,062,225	\$ 4,260,281

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, 2017  
(In Thousands)

Fund balances – total governmental funds	\$ 3,404,773
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.	5,296,075
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(4,969,646)
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.	370,845
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(11,016)
Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	15,110
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.	(2,120,840)
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.	(198,890)
Net position of governmental activities	<u>\$ 1,786,411</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2017  
(With comparative financial information as of June 30, 2016)  
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Property taxes.....	\$ 1,478,671	\$ 1,393,574	\$ 459,023	\$ 405,202	\$ 1,937,694	\$ 1,798,776
Business taxes.....	700,536	659,086	1,795	1,840	702,331	660,926
Sales and use tax.....	189,473	167,915	102,237	99,528	291,710	267,443
Hotel room tax.....	370,344	367,661	-	-	370,344	367,661
Utility users tax.....	101,203	98,651	-	-	101,203	98,651
Parking tax.....	84,278	86,012	-	-	84,278	86,012
Real property transfer tax.....	410,561	269,090	-	-	410,561	269,090
Other local taxes.....	47,728	44,780	-	-	47,728	44,780
Licenses, permits and franchises.....	29,336	27,309	15,961	15,813	44,397	43,722
Fines, forfeitures, and penalties.....	2,734	9,985	28,064	27,194	30,798	36,169
Interest and investment income.....	14,439	9,613	20,650	14,318	35,089	23,931
Rents and concessions.....	15,352	46,553	85,192	89,312	100,544	135,865
<b>Intergovernmental:</b>						
Federal.....	225,112	231,098	186,257	185,725	411,369	416,823
State.....	704,286	667,450	118,726	109,416	823,012	776,866
Other.....	3,178	2,272	10,636	83,600	13,814	85,872
Charges for services.....	220,877	233,976	157,560	158,689	378,437	392,665
Other.....	38,679	22,291	149,632	242,431	188,311	264,722
<b>Total revenues.....</b>	<u>4,636,787</u>	<u>4,356,916</u>	<u>1,334,833</u>	<u>1,433,058</u>	<u>5,971,620</u>	<u>5,789,974</u>
<b>Expenditures:</b>						
<b>Current:</b>						
Public protection.....	1,257,948	1,204,666	65,629	64,334	1,323,577	1,269,000
Public works, transportation and commerce.....	166,285	136,762	166,408	279,390	332,693	416,152
Human welfare and neighborhood development.....	956,478	853,924	467,947	398,664	1,424,425	1,252,588
Community health.....	600,067	666,138	112,428	110,474	712,495	776,612
Culture and recreation.....	139,368	124,515	250,670	240,394	390,038	364,909
General administration and finance.....	238,064	223,844	65,049	53,885	303,113	277,729
General City responsibilities.....	121,444	114,663	3	21	121,447	114,684
<b>Debt service:</b>						
Principal retirement.....	-	-	283,356	252,456	283,356	252,456
Interest and other fiscal charges.....	-	-	125,091	119,723	125,091	119,723
Bond issuance costs.....	-	-	2,695	7,108	2,695	7,108
Capital outlay.....	-	-	297,089	223,904	297,089	223,904
<b>Total expenditures.....</b>	<u>3,479,654</u>	<u>3,324,512</u>	<u>1,836,365</u>	<u>1,750,353</u>	<u>5,316,019</u>	<u>5,074,865</u>
Excess (deficiency) of revenues over (under) expenditures.....	1,157,133	1,032,404	(501,532)	(317,295)	655,601	715,109
<b>Other financing sources (uses):</b>						
Transfers in.....	140,272	209,494	500,851	371,243	641,123	580,737
Transfers out.....	(857,629)	(962,343)	(364,534)	(289,457)	(1,222,163)	(1,251,800)
<b>Issuance of bonds and loans:</b>						
Face value of bonds issued.....	-	-	276,570	595,925	276,570	595,925
Face value of loans issued.....	-	-	46,000	-	46,000	-
Premium on issuance of bonds.....	-	-	12,432	32,845	12,432	32,845
Payment to refunded bond escrow agent.....	-	-	-	(131,935)	-	(131,935)
Proceeds from sale of capital assets.....	-	-	122,000	-	122,000	-
<b>Other financing sources - capital leases:</b>						
Other financing sources.....	1,765	4,411	35,971	1,239	37,336	5,650
<b>Total other financing sources (uses).....</b>	<u>(715,592)</u>	<u>(748,438)</u>	<u>629,290</u>	<u>579,860</u>	<u>(86,302)</u>	<u>(168,578)</u>
Net changes in fund balances.....	441,541	283,966	127,758	262,565	569,299	546,531
Fund balances at beginning of year.....	1,429,162	1,145,196	1,406,312	1,143,747	2,835,474	2,288,943
Fund balances at end of year.....	<u>\$ 1,870,703</u>	<u>\$ 1,429,162</u>	<u>\$ 1,534,070</u>	<u>\$ 1,406,312</u>	<u>\$ 3,404,773</u>	<u>\$ 2,835,474</u>

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**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, 2017  
(In Thousands)

Net changes in fund balances - total governmental funds	\$569,299
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.	181,708
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.	(1,632,027)
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.	14,002
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.	23,050
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.	7,615
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.	746,638
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.	(73,398)
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.	(12,432)
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.	19,186
The activities of internal service funds are reported with governmental activities.	(11,255)
Change in net position of governmental activities	<u>\$ (167,614)</u>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Net Position - Proprietary Funds**  
June 30, 2017  
(With comparative financial information as of June 30, 2016)  
(In Thousands)

	Business-Type Activities - Enterprise Funds									Total		Governmental Activities - Internal Service Funds	
	Major Funds									2017	2016	2017	2016
	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					
<b>ASSETS</b>													
Current Assets:													
Deposits and investments with City Treasury.....	\$ 375,593	\$ 319,162	\$ 264,026	\$ 921,116	\$ 224,663	\$ 195,559	\$ 146,019	\$ -	\$ 2,446,138	\$ 2,370,166	\$ 29,919	\$ 35,264	
Deposits and investments outside City Treasury.....	5,864	34	10	9,651	10	-	5	2	15,576	16,494	-	-	
Receivables (net of allowance for uncollectible amounts of \$29,255 and \$29,495 in 2017 and 2016, respectively):													
Federal and state grants and subventions.....	-	150	244	131,365	53	2,251	1,192	38,114	173,369	225,984	-	-	
Charges for services.....	53,085	54,425	13,716	4,516	68,805	28,874	4,737	21,811	249,969	232,251	95	53	
Interest and other.....	2,085	1,682	261	9,732	164,590	255	6,074	132	184,811	199,453	742	633	
Lease receivable.....	-	-	-	-	-	-	-	-	-	-	11,233	14,409	
Due from other funds.....	-	362	8,521	31,742	2	137	-	-	40,764	27,133	-	-	
Due from component unit.....	-	270	275	-	-	23	-	-	568	594	-	-	
Inventories.....	58	7,436	401	77,120	8,500	2,046	1,592	1,221	98,374	102,000	-	-	
Other assets.....	4,245	-	821	720	-	147	223	-	6,156	3,163	-	-	
Restricted assets:													
Deposits and investments with City Treasury.....	273,106	-	-	-	-	-	34,748	43,618	351,472	250,115	-	-	
Deposits and investments outside City Treasury.....	142,557	107,188	3,783	-	-	28,128	10,144	-	291,800	312,380	21,617	25,349	
Grants and other receivables.....	22,271	-	-	-	-	-	-	-	22,271	21,138	-	-	
Total current assets.....	878,864	490,709	292,058	1,185,962	466,623	257,420	204,734	104,898	3,881,268	3,760,871	63,606	75,708	
Noncurrent assets:													
Other assets.....	285	4,290	1,001	-	-	2,108	3,768	-	11,452	12,660	-	-	
Capital leases receivable.....	-	-	-	-	-	-	-	-	-	-	167,710	179,041	
Advance to component unit.....	-	-	2,627	-	-	-	-	-	2,627	2,827	-	-	
Restricted assets:													
Deposits and investments with City Treasury.....	315,746	100,701	40,152	88,511	-	24,767	-	-	569,877	697,292	-	-	
Deposits and investments outside City Treasury.....	409,355	-	-	20,532	401	-	-	12,857	443,145	423,364	-	-	
Grants and other receivables.....	924	4,100	268	1,327	-	1,149	-	28,261	36,029	24,114	-	-	
Capital assets:													
Land and other assets not being depreciated.....	549,224	1,223,296	103,502	1,701,553	41,264	586,962	119,237	878	4,325,916	3,349,945	-	-	
Facilities, infrastructure, and equipment, net of depreciation.....	3,733,405	3,830,168	341,219	1,915,351	130,738	1,664,738	308,505	511,841	12,435,965	12,345,872	11,601	10,985	
Total capital assets.....	4,282,629	5,053,464	444,721	3,616,904	172,002	2,251,700	427,742	512,719	16,761,881	15,695,817	11,601	10,985	
Total noncurrent assets.....	5,008,639	5,162,555	488,769	3,727,274	172,403	2,279,724	431,510	553,837	17,825,011	16,856,074	179,311	190,026	
Total assets.....	5,887,803	5,653,264	780,827	4,913,236	639,026	2,537,144	636,244	658,735	21,706,279	20,616,945	242,917	265,734	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>													
Unamortized loss on refunding of debt.....	76,789	126,805	-	-	-	705	-	-	204,299	105,229	1,012	1,091	
Deferred outflows on derivative instruments.....	54,870	-	-	-	-	-	-	-	54,870	83,614	-	-	
Deferred outflows related to pensions.....	145,743	105,357	28,132	340,916	227,598	48,192	20,916	97,073	1,013,927	301,184	25,906	7,475	
Total deferred outflows of resources.....	277,402	232,162	28,132	340,916	227,598	48,897	20,916	97,073	1,273,096	490,027	26,918	8,566	

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 Net Position - Proprietary Funds (Continued)**  
June 30, 2017  
(With comparative financial information as of June 30, 2016)  
(In Thousands)

	Business-Type Activities - Enterprise Funds									Total		Governmental Activities - Internal Service Funds	
	Major Funds									2017	2016	2017	2016
	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					
<b>LIABILITIES</b>													
Current liabilities:													
Accounts payable.....	\$ 54,064	\$ 7,268	\$ 10,817	\$ 98,059	\$ 12,747	\$ 5,517	\$ 4,746	\$ 1,195	\$ 194,413	\$ 270,548	\$ 3,647	\$ 7,459	
Accrued payroll.....	10,477	6,483	2,368	27,981	19,349	4,594	1,612	7,191	80,055	71,008	2,242	1,862	
Accrued vacation and sick leave pay.....	9,845	6,166	2,154	22,689	13,837	3,429	1,285	5,807	65,212	64,822	1,853	1,804	
Accrued workers' compensation.....	1,520	1,612	548	21,076	4,200	1,031	461	2,427	32,875	31,867	331	342	
Estimated claims payable.....	777	3,616	991	28,475	-	4,790	775	-	39,424	52,808	-	-	
Due to other funds.....	-	7	387	3,480	350	1,250	100	-	5,574	5,138	1,787	361	
Unearned revenues and other liabilities.....	54,853	25,255	3,249	67,629	314,997	4,037	13,379	28,628	513,027	621,224	15,815	21,049	
Accrued interest payable.....	36,615	333	533	3,324	89	11,465	1,580	1,561	55,187	52,885	1,224	1,315	
Bonds, loans, capital leases, and other payables.....	152,685	196,306	22,826	12,382	21,290	132,069	2,567	6,440	546,565	574,729	10,880	14,025	
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables.....	228,895	-	-	-	-	-	-	-	228,895	373,378	-	-	
Accrued interest payable.....	36,062	-	-	-	-	-	-	-	36,062	31,475	-	-	
Other.....	91,578	31,580	6,995	1,102	-	23,477	-	674	155,408	173,084	-	-	
Total current liabilities.....	640,756	314,908	50,868	286,197	386,859	191,689	26,505	54,913	1,952,695	2,322,966	37,779	48,217	
Noncurrent liabilities:													
Accrued vacation and sick leave pay.....	7,172	4,845	1,469	13,841	9,762	2,520	882	3,333	43,824	43,791	1,363	1,298	
Accrued workers' compensation.....	5,816	7,477	2,421	100,297	24,462	4,549	2,445	13,586	161,053	157,736	1,469	1,522	
Other postemployment benefits obligation.....	138,168	121,330	28,222	262,317	258,157	51,670	23,864	90,303	974,031	878,590	26,393	23,518	
Estimated claims payable.....	78	7,122	1,447	36,900	-	9,359	350	-	55,256	64,260	-	-	
Unearned revenue and other liabilities.....	-	37,725	3,817	-	-	2,711	73,179	-	117,432	94,414	-	-	
Bonds, loans, capital leases, and other payables.....	4,882,080	4,619,661	70,070	377,402	14,184	1,053,280	86,377	120,965	11,224,019	10,151,025	171,903	183,192	
Derivative instruments liabilities.....	65,965	-	-	-	-	-	-	-	65,965	96,132	-	-	
Net pension liability.....	359,599	259,956	69,412	841,164	561,571	118,907	51,608	239,515	2,501,732	976,938	63,919	24,166	
Total noncurrent liabilities.....	5,458,878	5,058,116	176,858	1,631,921	868,136	1,242,996	238,705	467,702	15,143,312	12,462,886	265,047	233,696	
Total liabilities.....	6,099,634	5,373,024	227,726	1,918,118	1,254,995	1,434,685	265,210	522,615	17,096,007	14,785,852	302,826	281,913	
<b>DEFERRED INFLOWS OF RESOURCES</b>													
Unamortized gain on refunding of debt.....	-	-	-	297	-	-	-	-	297	337	-	-	
Unamortized gain on leaseback transaction.....	-	-	-	4,015	-	-	-	-	4,015	4,349	-	-	
Deferred inflows related to pensions.....	15,402	11,135	2,973	36,030	24,053	5,093	2,210	10,258	107,154	318,598	2,737	7,829	
Total deferred inflows of resources.....	15,402	11,135	2,973	40,342	24,053	5,093	2,210	10,258	111,466	323,284	2,737	7,829	
<b>NET POSITION</b>													
Net investment in capital assets.....	(284,761)	495,868	388,412	3,223,499	136,887	1,095,165	298,928	398,071	5,752,069	5,690,741	11,601	10,985	
Restricted:													
Debt service.....	109,554	10,989	485	18,401	-	977	-	61,856	202,262	127,073	-	-	
Capital projects.....	296,188	37,904	-	-	23,575	1,653	24,365	10,949	394,634	340,896	-	-	
Other purposes.....	-	-	-	90,867	-	-	-	2,829	93,696	70,505	-	-	
Unrestricted (deficit).....	(70,812)	(43,494)	189,363	(37,075)	(572,886)	48,468	66,447	(250,770)	(670,759)	(231,379)	(47,329)	(26,427)	
Total net position.....	\$ 50,169	\$ 501,267	\$ 578,260	\$ 3,295,692	\$(412,424)	\$ 1,146,263	\$ 389,740	\$ 222,935	\$ 5,771,902	\$ 5,997,836	\$(35,728)	\$(15,442)	

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, 2017  
(With comparative financial information as of June 30, 2016)  
(In Thousands)

	Business-Type Activities - Enterprise Funds										Total		Governmental Activities - Internal Service Funds	
	Major Funds										2017	2016	2017	2016
	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						
Operating revenues:											2017	2016	2017	2016
Aviation.....	\$ 545,310	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 545,310	\$ 495,439	\$ -	\$ -
Water and power service.....	-	438,207	189,664	-	-	-	-	-	-	-	627,871	558,056	-	-
Passenger fees.....	-	-	-	195,886	-	-	-	-	-	-	195,886	205,374	-	-
Net patient service revenue.....	-	-	-	-	690,122	-	-	-	173,437	-	863,559	913,296	-	-
Sewer service.....	-	-	-	-	-	267,601	-	-	-	-	267,601	249,203	-	-
Rents and concessions.....	149,697	8,813	315	7,436	2,578	606	75,530	-	-	244,975	244,937	176	176	
Parking and transportation.....	150,548	-	-	227,624	-	-	21,900	-	-	400,072	379,320	-	-	
Other charges for services.....	-	-	-	29,055	-	-	-	-	-	29,055	22,054	145,284	136,820	
Other revenues.....	81,245	13,311	-	40,029	5,518	9,134	15,923	1,566	-	166,726	162,688	-	-	
Total operating revenues.....	926,800	460,331	189,979	500,030	698,218	277,341	113,353	175,003	-	3,341,055	3,230,367	145,460	136,996	
Operating expenses:														
Personal services.....	364,831	182,034	68,172	988,541	663,367	115,288	47,998	261,122	2,691,353	1,818,791	78,176	49,472		
Contractual services.....	73,918	10,664	7,074	136,335	218,710	13,825	11,660	10,816	463,002	446,008	59,146	51,813		
Light, heat and power.....	23,093	-	43,407	-	-	-	-	-	69,333	51,863	-	-		
Materials and supplies.....	16,152	12,564	2,672	74,467	87,843	8,736	1,853	19,970	224,257	221,696	14,508	19,513		
Depreciation and amortization.....	265,841	118,826	17,730	146,595	27,769	55,441	24,191	13,145	669,538	590,595	3,294	2,798		
General and administrative.....	4,360	38,566	45,663	18,360	520	14,098	4,345	-	125,912	139,808	408	540		
Services provided by other departments.....	21,594	59,173	9,412	67,147	48,009	36,832	18,977	10,906	272,050	268,115	9,590	5,896		
Other.....	39,071	-	-	(22,752)	201	-	-	2,186	-	18,706	19,993	3,184	5,780	
Total operating expenses.....	808,860	421,827	194,130	1,408,693	1,046,419	244,220	114,043	315,959	4,554,151	3,554,869	168,306	135,802		
Operating income (loss).....	117,940	38,504	(4,151)	(908,663)	(348,201)	33,121	(690)	(140,956)	(1,213,096)	(324,502)	(22,846)	1,194		
Nonoperating revenues (expenses):														
Operating grants:														
Federal.....	-	-	37	64,955	-	3,274	3,786	1	72,053	12,716	-	-	41	
State / other.....	-	-	-	131,362	66,752	-	-	-	198,114	186,907	-	-	4,263	
Interest and investment income.....	7,892	4,331	1,853	7,171	2,986	2,327	1,502	485	28,547	29,566	4,470	4,263		
Interest expense.....	(210,415)	(148,075)	(3,270)	(7,257)	(1,372)	(28,474)	(4,262)	(6,404)	(409,529)	(406,386)	(4,664)	(4,589)		
Other nonoperating revenues.....	105,031	46,434	12,347	68,210	-	11,165	-	14,232	257,419	240,636	739	833		
Other nonoperating expenses.....	(103,527)	(2,607)	(1,221)	-	-	(383)	(56)	-	(107,794)	(55,868)	-	-		
Total nonoperating revenues (expenses).....	(201,019)	(99,917)	9,746	264,441	68,366	(12,091)	970	8,314	38,810	6,571	545	548		
Income (loss) before capital contributions and transfers.....	(83,079)	(61,413)	5,595	(644,222)	(279,835)	21,030	280	(132,642)	(1,174,286)	(317,931)	(22,301)	1,742		
Capital contributions.....	11,212	-	-	356,291	-	-	1,822	-	369,327	374,524	-	-		
Transfers in.....	-	128	60,100	563,660	62,710	40	-	65,286	751,924	875,309	2,153	5		
Transfers out.....	(45,037)	(60,116)	(49)	(996)	(33,766)	(30,747)	(32)	(2,156)	(172,899)	(204,136)	(138)	(115)		
Change in net position.....	(116,904)	(121,401)	65,646	274,735	(250,891)	(6,677)	2,070	(69,512)	(225,934)	(728,166)	(20,286)	1,632		
Net position (deficit) at beginning of year.....	167,073	622,668	512,614	3,020,957	(161,533)	1,155,940	387,670	292,447	5,997,836	5,269,670	(15,442)	(17,074)		
Net position (deficit) at end of year.....	\$ 50,169	\$ 501,267	\$ 578,260	\$ 3,295,692	\$ (412,424)	\$ 1,146,263	\$ 389,740	\$ 222,935	\$ 5,771,902	\$ 5,997,836	\$ (35,728)	\$ (15,442)		

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, 2017  
(With comparative financial information as of June 30, 2016)  
(In Thousands)

	Business-Type Activities - Enterprise Funds										Total		Governmental Activities - Internal Service Funds	
	Major Funds										2017	2016	2017	2016
	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						
Cash flows from operating activities:											2017	2016	2017	2016
Cash received from customers, including cash deposits.....	\$ 931,127	\$ 464,244	\$ 192,733	\$ 550,327	\$ 684,277	\$ 277,219	\$ 28,635	\$ 217,295	\$ 3,345,857	\$ 3,123,395	\$ 163,461	\$ 159,994		
Cash received from tenants for rent.....	-	11,945	308	7,617	2,578	606	74,154	-	97,208	98,059	-	-		
Cash paid for employees' services.....	(268,646)	(114,537)	(47,242)	(734,057)	(503,665)	(82,623)	(34,529)	(193,400)	(1,978,699)	(1,892,160)	(58,641)	(51,530)		
Cash paid to suppliers for goods and services.....	(204,036)	(133,055)	(109,690)	(334,336)	(378,391)	(75,478)	(39,626)	(42,027)	(1,317,241)	(1,205,195)	(93,370)	(91,029)		
Cash paid for judgments and claims.....	-	(4,598)	(3,195)	(15,443)	-	(2,313)	-	-	(25,549)	(28,083)	-	-		
Net cash provided by (used in) operating activities.....	458,443	225,399	32,914	(525,892)	(195,201)	117,411	28,634	(18,132)	121,576	96,996	11,450	17,435		
Cash flows from noncapital financing activities:														
Operating grants.....	-	1,496	2,794	191,789	66,999	2,055	2,624	2	267,459	199,884	-	41		
Transfers in.....	-	128	60,100	466,279	62,710	40	-	62,844	652,101	789,310	2,153	5		
Transfers out.....	(45,037)	(60,116)	(49)	(996)	(33,766)	(30,747)	(32)	(2,156)	(172,899)	(204,136)	(138)	(115)		
Other noncapital financing sources.....	1,076	6,867	12,188	53,390	-	1,325	1,000	-	75,846	63,416	-	-		
Other noncapital financing uses.....	(81,908)	(2,607)	(1,546)	-	(163)	(383)	-	-	(86,607)	(43,068)	-	-		
Net cash provided by (used in) noncapital financing activities.....	(125,869)	(54,232)	73,487	710,462	95,480	(27,710)	3,592	60,690	735,900	805,406	2,015	(69)		
Cash flows from capital and related financing activities:														
Capital grants and other proceeds restricted for capital purposes.....	10,011	-	-	286,666	-	-	644	113	297,434	305,342	-	-		
Transfers in.....	-	-	-	97,147	-	-	-	2,442	99,589	85,999	-	-		
Bond sale proceeds and loans received.....	437,465	1,191,788	-	192,930	-	-	-	-	1,822,183	365,744	-	-		
Proceeds from sale/transfer of capital assets.....	-	6,407	47	243	-	37	2	-	6,736	698	-	-		
Proceeds from commercial paper borrowings.....	179,000	145,736	20,058	-	21,399	111,411	-	-	477,604	413,911	-	-		
Proceeds from passenger facility charges.....	97,287	-	-	-	-	-	-	-	97,287	98,432	-	-		
Acquisition of capital assets.....	(508,508)	(243,231)	(55,164)	(634,908)	(14,449)	(238,625)	(17,123)	(2,578)	(1,712,553)	(1,402,545)	(3,910)	(4,211)		
Retirement of capital leases, bonds and loans.....	(208,125)	(1,210,307)	(2,298)	(7,672)	(31,836)	(82,482)	(2,521)	(6,148)	(1,551,389)	(369,699)	(14,025)	(18,795)		
Bond issue costs paid.....	-	(996)	-	(1,936)	-	(97)	-	-	(3,029)	(1,796)	-	-		
Interest paid on debt.....	(233,585)	(200,025)	(3,480)	(6,339)	(1,380)	(45,252)	(4,688)	(6,612)	(501,341)	(502,804)	(4,753)	(4,688)		
Federal interest income subsidy from Build America Bonds.....	-	24,158	532	-	-	3,998	-	-	28,688	28,895	-	-		
Other capital financing sources.....	-	-	-	15,600	-	-	550	-	16,150	17,450	-	-		
Other capital financing uses.....	-	-	-	-	-	-	(3,098)	-	(3,098)	(951)	-	-		
Net cash provided by (used in) capital and related financing activities.....	(224,455)	(286,470)	(40,285)	(58,269)	(26,266)	(251,010)	(26,234)	(12,780)	(925,769)	(961,334)	(22,688)	(27,704)		
Cash flows from investing activities:														
Purchases of investments with trustees.....	(899,700)	(520,024)	(3,056)	-	-	(92,976)	-	-	(1,305,756)	(1,028,954)	-	-		
Proceeds from sale of investments with trustees.....	664,457	454,457	3,051	-	-	84,957	-	-	1,206,922	1,125,680	-	4,672		
Interest and investment income.....	15,235	4,442	1,946	6,954	2,986	2,578	1,436	548	36,125	32,384	148	137		
Other investing activities.....	-	-	-	-	-	-	-	-	-	-	(2)	(5)		
Net cash provided by (used in) investing activities.....	(10,008)	(61,125)	1,941	6,954	2,986	(6,441)	1,436	548	(62,709)	(29,110)	146	4,804		
Net increase (decrease) in cash and cash equivalents.....	96,111	(178,428)	68,657	133,255	(123,001)	(166,750)	7,428	30,326	(131,002)	69,178	(6,073)	(5,534)		
Cash and cash equivalents-beginning 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		
Cash and cash equivalents-end of year.....	\$ 971,852	\$ 461,701	\$ 305,521	\$ 1,039,810	\$ 225,074	\$ 240,531	\$ 190,651	\$ 56,477	\$ 3,491,617	\$ 3,622,619	\$ 51,536	\$ 60,613		

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 (Continued)**  
Year Ended June 30, 2017  
(With comparative financial information as of June 30, 2016)  
(In Thousands)

	Business-Type Activities - Enterprise Funds										Total		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	2017	2016	2017	2016								
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:																				
Operating income (loss).....	\$ 117,940	\$ 38,504	\$ (4,151)	\$ (908,683)	\$ (348,201)	\$ 33,121	\$ (690)	\$ (140,956)	\$ (1,213,096)	\$ (324,502)	\$ (22,846)	\$ 1,194								
Adjustments for non-cash and other activities:																				
Depreciation and amortization.....	265,841	118,826	17,730	146,595	27,769	55,441	24,191	13,145	669,538	590,791	3,294	2,798								
Provision for uncollectibles.....	593	101	50	(26)	-	597	188	-	1,503	555	-	-								
Write-off of capital assets.....	-	2,448	1,482	-	-	1,960	-	-	5,890	4,791	-	-								
Other.....	1,912	-	-	-	-	-	-	-	1,912	980	409	397								
Changes in assets and deferred outflows of resources/liabilities and deferred inflows of resources:																				
Receivables, net.....	(5,827)	(7,171)	181	(53)	13,554	(1,787)	(5,653)	8,331	1,575	(136,645)	12,609	18,888								
Due from other funds.....	-	(186)	1,130	-	55	(132)	-	33,181	34,048	19,091	-	-								
Inventories.....	(20)	(90)	75	2,893	1,506	133	(128)	(168)	4,200	(7,810)	-	-								
Other assets.....	(2,438)	-	(352)	60	-	-	(2,213)	-	(4,943)	(1,687)	-	-								
Accounts payable.....	(3,041)	(9,051)	(5,224)	(16,712)	(24,814)	(2,725)	1,085	(166)	(60,448)	(8,149)	(3,803)	(843)								
Accrued payroll.....	898	758	179	3,418	2,077	613	328	498	8,769	13,977	380	506								
Accrued vacation and sick leave pay.....	(22)	555	(164)	1,724	(917)	(596)	(24)	(113)	423	3,362	114	208								
Accrued workers' compensation.....	679	275	5	3,733	(1,244)	(78)	179	776	4,325	17,713	(64)	(79)								
Other postemployment benefits obligation.....	13,816	9,784	3,053	26,325	26,752	5,617	2,220	7,874	95,441	63,982	2,875	1,651								
Estimated claims payable.....	-	(6,162)	577	(13,847)	-	(2,484)	150	-	(21,766)	12,193	-	-								
Due to other funds.....	-	(779)	(363)	976	-	84	-	-	(82)	265	(24)	(52)								
Unearned revenue and other liabilities.....	(12,703)	21,759	1,701	7,305	(24,972)	1,728	(1,919)	780	(6,321)	22,630	2,276	(2,889)								
Net pension liability and pension related deferred outflows and inflows of resources.....	80,815	53,828	17,025	220,380	133,034	25,919	10,921	58,686	600,698	(176,131)	16,230	(4,344)								
Total adjustments.....	340,503	184,895	37,065	382,771	153,000	84,290	29,324	122,824	1,334,672	420,458	34,296	16,241								
Net cash provided by (used in) operating activities.....	\$ 458,443	\$ 223,399	\$ 32,914	\$ (525,892)	\$ (195,201)	\$ 117,411	\$ 28,634	\$ (18,132)	\$ 121,576	\$ 95,996	\$ 11,450	\$ 17,435								
Reconciliation of cash and cash equivalents to the statement of net position:																				
Deposits and investments with City Treasury:																				
Unrestricted.....	\$ 375,593	\$ 319,162	\$ 264,026	\$ 921,116	\$ 224,663	\$ 195,559	\$ 146,019	\$ -	\$ 2,446,138	\$ 2,370,166	\$ 29,919	\$ 35,264								
Restricted.....	588,852	100,701	40,152	88,511	-	24,767	34,748	43,618	921,349	947,407	-	-								
Deposits and investments outside City Treasury:																				
Unrestricted.....	5,864	34	10	9,651	10	-	5	2	15,576	16,494	-	-								
Restricted.....	551,912	107,188	3,783	20,532	401	28,128	10,144	12,857	734,945	735,744	21,617	25,349								
Total deposits and investments.....	1,522,221	527,085	307,971	1,039,810	225,074	248,454	190,916	56,477	4,118,008	4,069,811	51,536	60,613								
Less: Investments outside City Treasury not meeting the definition of cash equivalents.....	(550,369)	(65,384)	(2,450)	-	-	(7,923)	(265)	-	(626,391)	(447,192)	-	-								
Cash and cash equivalents at end of year on statement of cash flows.....	\$ 971,852	\$ 461,701	\$ 305,521	\$ 1,039,810	\$ 225,074	\$ 240,531	\$ 190,651	\$ 56,477	\$ 3,491,617	\$ 3,622,619	\$ 51,536	\$ 60,613								
Non-cash capital and related financing activities:																				
Acquisition of capital assets on accounts payable and capital lease.....	\$ 91,578	\$ 31,580	\$ 6,995	\$ -	\$ 743	\$ 23,477	\$ 1,908	\$ 431	\$ 156,712	\$ 170,288	\$ 1,997	\$ 361								
Tenant improvements financed by rent credits.....	-	-	-	-	-	-	613	-	613	241	-	-								
Net capitalized interest.....	8,772	49,013	259	3,334	-	18,607	326	-	80,311	89,225	-	-								
Donated inventory.....	-	-	-	-	1,910	-	-	-	1,910	2,844	-	-								
Capital contributions and other noncash capital items.....	-	-	-	234	-	-	515	-	749	624	-	-								
Bond refunding through fiscal agent.....	184,536	-	-	-	-	-	-	-	184,536	282,453	-	-								
Bond proceeds held by fiscal agent.....	434,287	-	-	-	-	-	-	-	434,287	-	-	-								
Commercial paper repaid through fiscal agent.....	343,050	-	-	-	-	-	-	-	343,050	-	-	-								
Interfund loan.....	-	7	-	-	-	1,250	-	-	1,257	2,057	-	-								

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 Fiduciary Net Position  
Fiduciary Funds  
June 30, 2017  
(In Thousands)

	Pension, Other Employee and Other Post- Employment Benefit Trust Funds	Investment Trust Fund	Private- Purpose Trust Fund	Agency Funds
<b>ASSETS</b>				
Deposits and investments with City Treasury.....	\$ 50,782	\$ 864,035	\$ 239,516	\$ 187,821
Deposits and investments outside City Treasury:				
Cash and deposits.....	65,697	-	5,897	3,233
Short-term investments.....	347,744	-	-	-
Debt securities.....	4,494,029	-	-	-
Equity securities.....	10,693,290	-	-	-
Real assets.....	2,975,974	-	-	-
Private equity and other alternative investments.....	3,979,516	-	-	-
Foreign currency contracts, net.....	164	-	-	-
Invested in securities lending collateral.....	201	-	-	-
Receivables:				
Employer and employee contributions.....	34,653	-	-	51,565
Brokers, general partners and others.....	145,795	-	-	-
Federal and state grants and subventions.....	-	-	404	-
Interest and other.....	34,108	1,081	11,758	281,227
Loans (net of allowance for uncollectible amounts).....	-	-	1,724	-
Other assets.....	45,402	-	1,623	45,538
Restricted asset:				
Deposits and investments outside City Treasury.....	-	-	348,529	-
Capital assets:				
Land and other assets not being depreciated.....	-	-	44,988	-
Facilities, infrastructure and equipment, net of depreciation.....	-	-	107,474	-
<b>Total assets.....</b>	<b>22,867,355</b>	<b>865,116</b>	<b>761,913</b>	<b>569,384</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions.....	-	-	3,883	-
Unamortized loss on refunding of debt.....	-	-	30,965	-
<b>Total deferred outflows of resources.....</b>	<b>-</b>	<b>-</b>	<b>34,848</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts payable.....	19,128	2,500	18,321	69,785
Estimated claims payable.....	27,755	-	-	-
Due to the primary government.....	-	-	560	-
Agency obligations.....	-	-	-	499,599
Accrued interest payable.....	-	-	18,451	-
Payable to brokers.....	147,095	-	-	-
Deferred Retirement Option Program.....	313	-	-	-
Payable to borrowers of securities.....	106	-	-	-
Other liabilities.....	2,656	-	1,225	-
Advance from primary government.....	-	-	13,149	-
Long-term obligations.....	-	-	1,104,148	-
Net pension liability.....	-	-	23,281	-
<b>Total liabilities.....</b>	<b>197,053</b>	<b>2,500</b>	<b>1,179,135</b>	<b>569,384</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions.....	-	-	6,475	-
<b>NET POSITION</b>				
Restricted for pension and other employee benefits.....	22,670,302	-	-	-
Held for external pool participants.....	-	862,616	-	-
Held for Redevelopment Agency dissolution.....	-	-	(388,849)	-
<b>Total net position.....</b>	<b>\$ 22,670,302</b>	<b>\$ 862,616</b>	<b>\$ (388,849)</b>	<b>\$ -</b>

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, 2017  
(In Thousands)

	Pension, Other Employee and Other Post- Employment Benefit Trust Funds	Investment Trust Fund	Private- Purpose Trust Fund
<b>Additions:</b>			
Redevelopment property tax revenues.....	\$ -	\$ -	\$ 129,233
Charges for services.....	-	-	46,467
<b>Contributions:</b>			
Employee contributions.....	481,785	-	-
Employer contributions.....	1,461,184	-	-
Contributions to pooled investments.....	-	3,162,248	-
<b>Total contributions.....</b>	<b>1,942,969</b>	<b>3,162,248</b>	<b>175,700</b>
<b>Investment income:</b>			
Interest.....	176,412	5,374	2,286
Dividends.....	209,951	-	-
Net appreciation in fair value of investments.....	2,358,432	-	-
Securities lending income.....	9,004	-	-
<b>Total investment income.....</b>	<b>2,753,799</b>	<b>5,374</b>	<b>2,286</b>
<b>Less investment expenses:</b>			
Securities lending borrower rebates and expenses.....	(3,489)	-	-
Other investment expenses.....	(47,597)	-	-
<b>Total investment expenses.....</b>	<b>(51,086)</b>	<b>-</b>	<b>-</b>
<b>Other additions.....</b>	<b>-</b>	<b>-</b>	<b>11,918</b>
<b>Total additions, net.....</b>	<b>4,645,682</b>	<b>3,167,622</b>	<b>189,904</b>
<b>Deductions:</b>			
Neighborhood development.....	-	-	130,840
Depreciation.....	-	-	4,949
Interest on debt.....	-	-	52,947
Benefit payments.....	2,281,518	-	-
Refunds of contributions.....	13,507	-	-
Distribution from pooled investments.....	-	3,048,901	-
Administrative expenses.....	18,243	-	12,975
<b>Total deductions.....</b>	<b>2,313,268</b>	<b>3,048,901</b>	<b>201,711</b>
<b>Change in net position.....</b>	<b>2,332,414</b>	<b>118,721</b>	<b>(11,807)</b>
<b>Net position at beginning of year.....</b>	<b>20,337,888</b>	<b>743,895</b>	<b>(377,042)</b>
<b>Net position at end of year.....</b>	<b>\$ 22,670,302</b>	<b>\$ 862,616</b>	<b>\$ (388,849)</b>

The notes to the financial statements are an integral part of this statement.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements  
June 30, 2017  
(Dollars in Thousands)

(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, 22<sup>nd</sup> 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 \$20.0 million (plus 5.0% 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, 8<sup>th</sup> Floor, San Francisco, CA 94103.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements (Continued)  
June 30, 2017  
(Dollars in Thousands)

**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, 5<sup>th</sup> Floor, San Francisco, CA 94103.

CITY AND COUNTY OF SAN FRANCISCO  
Notes to Basic Financial Statements (Continued)  
June 30, 2017  
(Dollars in Thousands)

**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 separate 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, 2016, 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 AND COUNTY OF SAN FRANCISCO  
Notes to Basic Financial Statements (Continued)  
June 30, 2017  
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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.

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 (Hetch Hetchy) and CleanPowerSF. Hetch Hetchy is engaged in the collection and conveyance of approximately 85.0% of the City's water supply and in the generation and transmission of electricity. CleanPowerSF aggregates the buying power of customers in San Francisco to purchase renewable energy.
- 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 \$240.0 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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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) 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 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, 2017, involuntary participants accounted for approximately 96.4% of the pool. Voluntary participants accounted for 3.6% 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, 2017, \$862.6 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 10.0%. Internal participants accounted for 90.0% 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 (NAV) 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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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partners. For investments that are not traded on national or international exchanges with closing market prices available data is obtained to corroborate pricing.

The Absolute Return Program invests in limited partnerships and other alternative investment vehicles. The most common investment strategies include, but are not limited to Equity, Credit, Macro, Emerging Markets, Quantitative, Multi-Strategy, Special Situations, and Commodities. These investments are valued using their respective NAV, and are audited annually. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are typically valued on a monthly basis by each fund's independent administrator and for certain illiquid investments, where no market exists, the General Partner may provide pricing input. The management assumptions are based upon the nature of the investment and the underlying business. Investments have the potential to become illiquid under stressed market conditions and, in certain circumstances, investors may be subject to redemption restrictions which can impede the timely return of capital. The valuation techniques vary based upon investment type, but are predominantly derived from observed market prices.

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 102.0% and international securities for collateral of 105.0%. 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, 2017, was 31 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, 2017, the weighted average maturity of the reinvested cash collateral account was 1 day. 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.

*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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
(Dollars in Thousands)

*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 and bankers' acceptances) 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. 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.

**(d) 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, 2017, it was determined that \$1,263.3 million of the \$1,401.5 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.

**(e) 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.



**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
 June 30, 2017  
 (Dollars in Thousands)

**(f) 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.

**(g) 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 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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.

**(h) 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
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**(i) 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.

**(j) 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
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**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.

**(k) 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.

**(l) 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.

**(m) 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.

**(n) 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
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**(o) 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, 2015 and were rolled forward to June 30, 2016. For this report, the following timeframes are used for the City's pension plans:

Valuation Date (VD).....	June 30, 2015 updated to June 30, 2016
Measurement Date (MD).....	June 30, 2016
Measurement Period (MP)....	July 1, 2015 to June 30, 2016

**(p) 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.

**(q) 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.

**(r) 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.

**(s) Reclassifications**

Certain amounts, presented as fiscal year 2015-16 Summarized Comparative Financial Information in the basic financial statements, have been reclassified for comparative purposes, to conform to the presentation in the fiscal year 2016-17 basic financial statements.

**CITY AND COUNTY OF SAN FRANCISCO**  
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**(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, \$3,404,773, differs from net position of governmental activities, \$1,786,411 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 <sup>(1)</sup>	Internal Service Funds <sup>(2)</sup>	Reclassifications and Eliminations	Statement of Net Position Totals
<b>Assets</b>					
Deposits and investments with City Treasury.....	\$ 3,881,361	\$ -	\$ 29,919	\$ -	\$ 3,911,280
Deposits and investments outside City Treasury.....	155,356	-	21,617	-	176,973
Receivables, net					
Property taxes and penalties.....	99,951	-	-	-	99,951
Other local taxes.....	267,319	-	-	-	267,319
Federal and state grants and subventions.....	294,807	-	-	-	294,807
Charges for services.....	84,907	-	95	-	85,002
Interest and other.....	13,001	-	742	-	13,743
Due from other funds.....	17,550	-	-	(17,550)	-
Due from component unit.....	1,581	-	-	-	1,581
Advance to component unit.....	13,149	-	-	-	13,149
Loans receivable, net.....	138,223	-	-	-	138,223
Capital assets, net.....	-	5,296,075	11,601	-	5,307,676
Other assets.....	95,020	-	-	-	95,020
Total assets.....	5,062,225	5,296,075	63,974	(17,550)	10,404,724
<b>Deferred outflows of resources</b>					
Unamortized loss on refunding of debt.....	-	15,327	1,012	-	16,339
Deferred outflows related to pensions.....	-	1,268,829	25,906	-	1,294,735
Total deferred outflows of resources.....	-	1,284,156	26,918	-	1,311,074
<b>Liabilities</b>					
Accounts payable.....	277,815	-	3,647	-	281,462
Accrued payroll.....	102,598	-	2,242	-	104,840
Accrued vacation and sick leave pay.....	-	152,924	3,216	-	156,140
Accrued workers' compensation.....	-	240,023	1,800	-	241,823
Other postemployment benefits obligation.....	-	1,312,199	26,393	-	1,338,592
Estimated claims payable.....	-	202,489	-	-	202,489
Accrued interest payable.....	-	11,016	1,224	-	12,240
Unearned grant and subvention revenues.....	25,894	-	-	-	25,894
Due to other funds.....	50,953	-	1,787	(17,550)	35,190
Unearned revenue and other liabilities.....	573,408	1,896	34	-	575,338
Bonds, loans, capital leases, and other payables.....	255,939	3,060,115	182,783	-	3,498,837
Net pension liability.....	-	3,242,565	63,919	-	3,306,484
Total liabilities.....	1,286,607	8,223,227	287,045	(17,550)	9,779,329
<b>Deferred inflows of resources</b>					
Unavailable revenue.....	370,845	(370,845)	-	-	-
Unamortized gain on refunding of debt.....	-	217	-	-	217
Deferred inflows related to pensions.....	-	147,104	2,737	-	149,841
Total deferred inflows of resources.....	370,845	(223,524)	2,737	-	150,058
<b>Fund balances/ net position</b>					
Total fund balances/ net position.....	\$ 3,404,773	\$ (1,419,472)	\$ (198,890)	\$ -	\$ 1,786,411

**CITY AND COUNTY OF SAN FRANCISCO**  
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- (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 .....	\$ 6,923,800
Accumulated depreciation .....	(1,627,725)
	<u>\$ 5,296,075</u>

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 .....	\$ (152,924)
Accrued workers' compensation.....	(240,023)
Other postemployment benefits obligation .....	(1,312,199)
Estimated claims payable.....	(202,489)
Unearned revenue and other liabilities .....	(1,896)
Bonds, loans, capital leases, and other payables .....	<u>(3,060,115)</u>
	<u>\$ (4,969,646)</u>

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. \$ (11,016)

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.....	\$ 15,327
Unamortized gain on refunding of debt .....	(217)
	<u>\$ 15,110</u>

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.....	\$(3,242,565)
Deferred outflows of resources related to pensions .....	1,268,829
Deferred inflows of resources related to pensions .....	(147,104)
	<u>\$ (2,120,840)</u>

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 ..... \$ 370,845

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
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(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 .....	\$ (35,728)
Adjustments for internal balances with the San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds .....	(178,943)
Unearned revenue and other liabilities .....	<u>15,781</u>
	<u>\$ (198,890)</u>

(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, \$569,299, differs from the change in net position for governmental activities, \$(167,614), 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 (6)	Statement of Activities Totals
<b>Revenues</b>						
Property taxes.....	\$ 1,937,694	\$ 14,002	\$ -	\$ -	\$ -	\$ 1,951,696
Business taxes.....	702,331	-	-	-	-	702,331
Sales and use tax.....	291,710	(315)	-	-	-	291,395
Hotel room tax.....	370,344	-	-	-	-	370,344
Utility users tax.....	101,203	-	-	-	-	101,203
Parking tax.....	84,278	-	-	-	-	84,278
Real property transfer tax.....	410,561	-	-	-	-	410,561
Other local taxes.....	47,728	-	-	-	-	47,728
Licenses, permits and franchises.....	44,397	216	-	-	-	44,613
Fines, forfeitures, and penalties.....	30,798	(3,870)	-	-	-	26,928
Interest and investment income.....	35,089	-	-	151	-	35,240
Rents and concessions.....	100,544	(1,377)	-	-	-	99,167
<b>Intergovernmental:</b>						
Federal.....	411,369	15,446	-	-	-	426,815
State.....	823,012	13,541	-	-	-	836,553
Other.....	13,814	(2,772)	-	-	-	11,042
Charges for services.....	378,437	2,405	-	-	-	380,842
Other.....	188,311	(224)	97,324	739	-	286,150
Total revenues.....	<u>5,971,620</u>	<u>37,052</u>	<u>97,324</u>	<u>890</u>	<u>-</u>	<u>6,106,886</u>
<b>Expenditures/ Expenses</b>						
<b>Current:</b>						
Public Protection.....	1,323,577	343,745	29,554	(4,652)	-	1,692,224
Public works, transportation and commerce.....	332,693	75,969	(20,971)	(268)	-	387,423
Human welfare and neighborhood development.....	1,424,425	118,008	681	(67)	-	1,543,047
Community health.....	712,495	124,228	31,905	-	-	868,628
Culture and recreation.....	390,038	74,085	87,282	(11,889)	-	539,516
General administration and finance.....	303,113	140,785	(106,663)	(26)	-	337,209
General City responsibilities.....	121,447	954	-	22,846	-	145,247
Debt service:						
Principal retirement.....	283,356	-	-	-	(283,356)	-
Interest and other fiscal charges.....	125,091	-	-	4,664	(19,186)	110,569
Bond issuance costs.....	2,695	-	-	-	-	2,695
Capital outlay.....	297,089	-	(297,089)	-	-	-
Total expenditures.....	<u>5,316,019</u>	<u>877,774</u>	<u>(275,301)</u>	<u>10,608</u>	<u>(302,542)</u>	<u>5,626,558</u>
Excess (deficiency) of revenues over (under) expenditures.....	655,601	(840,722)	372,625	(9,718)	302,542	480,328

**CITY AND COUNTY OF SAN FRANCISCO**  
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	Total Governmental Funds	Long-term Revenues/ Expenses (3)	Capital- related Items (4)	Internal Service Funds (5)	Long-term Debt Transactions (6)	Statement of Activities Totals
<b>Other financing sources (uses) / changes in net position</b>						
Net transfers in (out).....	(581,040)	-	(68,917)	2,015	-	(647,942)
Issuance of bonds and loans:						
Face value of bonds issued.....	276,570	-	-	-	(276,570)	-
Face value of loans issued.....	46,000	-	-	-	(46,000)	-
Premium on issuance of bonds.....	12,432	-	-	-	(12,432)	-
Proceeds from sale of capital assets.....	122,000	-	(122,000)	-	-	-
Other financing sources - capital leases.....	37,736	-	-	(3,552)	(34,184)	-
Total other financing sources (uses).....	<u>(86,302)</u>	<u>-</u>	<u>(190,917)</u>	<u>(1,537)</u>	<u>(369,186)</u>	<u>(647,942)</u>
<b>Net change for the year.....</b>	<u>\$ 569,299</u>	<u>\$ (840,722)</u>	<u>\$ 181,708</u>	<u>\$ (11,255)</u>	<u>\$ (66,644)</u>	<u>\$ (167,614)</u>

(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. \$ 14,002

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. 23,050  
\$ 37,052

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. \$(1,632,027)

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. 746,638

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. 7,615  
\$ (877,774)

**CITY AND COUNTY OF SAN FRANCISCO**  
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(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 .....	\$ 486,779
Depreciation expenses .....	(180,738)
Gain on disposal of capital assets .....	97,324
Loss on disposal of capital assets .....	(36,427)
Transfer of assets to enterprise fund .....	(68,917)
Write off of construction in progress .....	(22,602)
Increase in construction in progress .....	28,289
Proceeds from sale of capital assets .....	(122,000)
Difference .....	<u>\$ 181,708</u>

(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.

\$ (11,255)

(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.

\$ (12,432)

Repayment of bond principal is reported as expenditures 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 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.

Principal payments made .....

\$ 283,354

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 .....	(248,250)
Certificates of participation .....	(28,320)
Capital lease for equipment .....	(34,184)
Loans .....	(46,000)
	<u>(356,754)</u>
	<u>\$ (73,398)</u>

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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.

Decrease in accrued interest .....	\$ 877
Amortization of bond premiums and discounts .....	20,245
Amortization of bond refunding losses and gains .....	(1,936)
	<u>\$ 19,186</u>

**(4) EFFECTS OF NEW ACCOUNTING PRONOUNCEMENTS**

During fiscal year 2017, the City implemented the following accounting standards:

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 were effective for the City's year ended 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 year ended June 30, 2017. Implementation of the standard resulted in a restatement which decreased beginning net position of governmental activities for fiscal year 2016-17 by \$55.0 million.

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 year ended June 30, 2017. Statement No. 74 was implemented for the City's fiscal year 2017. The total OPEB liability, determined in accordance with GASB Statement No. 74, is presented in the notes and in the required supplementary information in the Retiree Health Care Trust Fund's separately issued financial report. Application of Statement No. 75 is effective for the City's year ending June 30, 2018.

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 did not have a significant impact on the City for the year ended 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 did not have a significant impact on the City for the year ended June 30, 2017.

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In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The new standard is effective for periods beginning after June 15, 2016. Application of this statement did not have a significant impact on the City for the year ended June 30, 2017.

In addition, the City is currently analyzing its accounting practices to determine the potential impact of the following pronouncements:

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 year ending June 30, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB Statement No. 83 addresses accounting and financial reporting for asset retirement obligations. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, and requires disclosures of methods and assumptions used. The new standard is effective for periods beginning after June 15, 2018. Application of this statement is effective for the City's year ending June 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The new standard is effective for periods beginning after December 15, 2018. Application of this statement is effective for the City's year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The new standard is effective for periods beginning after June 15, 2017. Application of this statement is effective for the City's year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. GASB Statement No. 86 clarifies accounting and financial reporting for in-substance defeasance of debt using existing resources other than proceeds of refunding debt. The new standard is effective for periods beginning after June 15, 2017. Application of this statement is effective for the City's year ending June 30, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease assets, liabilities, and deferred inflows that currently are not reported. The new standard is effective for periods beginning after December 15, 2019. Application of this statement is effective for the City's year ending June 30, 2021.

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**(5) DEPOSITS AND INVESTMENTS**

**(a) Cash, Deposits and Investments Presentation**

Total City cash, deposits and investments, at fair value, are as follows:

	Primary Government			Total	Component Unit
	Governmental Activities	Business-type Activities	Fiduciary Funds		TIDA
Deposits and investments with					
City Treasury.....	\$ 3,911,280	\$ 2,446,138	\$ 1,342,154	\$ 7,699,572	\$ 7,225
Deposits and investments outside					
City Treasury.....	155,356	15,576	22,565,544	22,736,476	-
Restricted assets:					
Deposits and investments with					
City Treasury.....	-	921,349	-	921,349	-
Deposits and investments outside					
City Treasury.....	21,617	734,945	348,529	1,105,091	-
Invested in securities lending collateral...	-	-	201	201	-
<b>Total deposits &amp; investments</b>	<b>\$ 4,088,253</b>	<b>\$ 4,118,008</b>	<b>\$ 24,256,428</b>	<b>\$ 32,462,689</b>	<b>\$ 7,225</b>
Cash and deposits.....				\$ 276,278	\$ -
Investments.....				32,186,411	7,225
<b>Total deposits and investments.....</b>				<b>\$ 32,462,689</b>	<b>\$ 7,225</b>

**(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.

**CITY AND COUNTY OF SAN FRANCISCO**  
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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	None
Repurchase Agreements (Securities permitted by CA Government Code, Sections 53601 and 53635)	1 year	10%	None
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 for 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. Those 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
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**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, 2017, are as follows:

Asset Class	Target Allocation
Global Equity	40.0%
Fixed Income	20.0%
Private Equity	18.0%
Real Assets	17.0%
Hedge Funds/Absolute Return	5.0%
	<u>100.0%</u>

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.

**Retiree Health Care Trust Fund (RHCTF)**

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%
	<u>100.0%</u>	

**CITY AND COUNTY OF SAN FRANCISCO**  
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June 30, 2017  
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**(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, 2017:

	Fair Value Measurements Using			
	Fair Value 6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Primary Government:</b>				
<b>Investments Held in City Treasury:</b>				
U.S. Treasury Notes	\$ 872,449	\$ 872,449	\$ -	\$ -
U.S. Agencies - Discount	483,736	-	483,736	-
U.S. Agencies - Coupon (no call option)	3,028,514	-	3,028,514	-
U.S. Agencies (callable option)	1,195,831	-	1,195,831	-
State and Local Agencies	334,967	-	334,967	-
Negotiable Certificates of Deposits	1,053,728	-	1,053,728	-
Corporate Notes	89,933	-	89,933	-
Supranationals	358,801	-	358,801	-
Commercial Paper	836,967	-	836,967	-
Public Time Deposits	960 *	-	-	-
Money Market Mutual Funds	301,857 *	-	-	-
Subtotal	<u>8,557,743</u>	<u>\$ 872,449</u>	<u>\$ 7,382,477</u>	<u>\$ -</u>
<b>Investments Held Outside City Treasury:</b>				
(Governmental and Business - Type)				
U.S. Treasury Notes	297,460	\$ 297,460	\$ -	\$ -
U.S. Agencies	234,885	-	234,885	-
Commercial Paper	77,697 *	-	-	-
Money Market Mutual Funds	534,668 *	-	-	-
Certificates of Deposit	265 *	-	-	-
Subtotal Investments Outside City Treasury	<u>1,144,975</u>	<u>\$ 297,460</u>	<u>\$ 234,885</u>	<u>\$ -</u>

\* Not subject to fair value hierarchy

**CITY AND COUNTY OF SAN FRANCISCO**  
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	Fair Value Measurements Using			
	Fair Value 6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Employees' Retirement System Investments</b>				
Short Term Investments	\$ 329,587	-	\$ 2,967	\$ 326,620
Debt Securities:				
U.S. Government & Agency Securities	1,194,634	-	1,194,634	-
Other Debt Securities	2,004,564	-	1,940,027	64,537
Equity Securities:				
Domestic Equity	4,749,997	4,654,187	203	95,607
International Equity	3,770,343	3,764,376	4,084	1,883
Foreign Currency Contracts, net	164	-	-	164
Invested securities lending collateral	201	-	-	201
Subtotal Employees' Retirement System Investments	<u>12,049,490</u>	<u>\$ 8,418,563</u>	<u>\$ 3,141,915</u>	<u>\$ 489,012</u>
<b>Investments measured at the net asset value (NAV)</b>				
Short Term Investments	18,157			
Fixed Income:				
U.S. Government & Agency Securities	360,546			
Other Fixed Income	886,658			
Equities:				
Domestic Equity	916,247			
International Equity	1,121,429			
Real Assets	2,975,974			
Private Equity	3,401,547			
Absolute Return	577,967			
Total investments measured at the NAV	<u>10,258,525</u>			
Total investments measured at fair value	<u>22,308,015</u>			
<b>Healthcare Trust (measurements at the NAV)</b>				
Fixed Income:				
U.S. Debt Index Fund	47,627			
Equities:				
Domestic:				
S&P 500 Equity Index Fund	67,690			
International:				
EAFE Equity Index Fund	67,584			
Money Market Investments				
Treasury Money Market Fund	2 *			
Subtotal Investments in Healthcare Trust	<u>182,903</u>			
<b>Total Investments</b>	<u>\$ 32,193,636</u>			

\* Not subject to fair value hierarchy



**CITY AND COUNTY OF SAN FRANCISCO**  
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**Investments Held in City Treasury**

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

U.S. Government Agencies, State and Local agencies, Negotiable Certificates of Deposit, Corporate Notes, 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 Held Outside City Treasury**

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy. U.S. Government Agencies 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. Commercial Paper, Money Market Funds, and Certificates of Deposit 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. 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. 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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)**

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.

**CITY AND COUNTY OF SAN FRANCISCO**  
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The fair value of the Retirement System's investments in private credit investments, opportunistic public equity, real assets, private equity, and absolute return 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 of the information 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.

Private Credit investments are held in commingled funds. These investments are mostly illiquid with distributions received over the life of the investments. They are typically not redeemed, nor do they have set redemption schedules. Two opportunistic public equity investments, valued at \$4.2 million, are currently being liquidated. These proceeds are expected to be received over the next 3-5 years. The remaining opportunistic public equity investments are subject to a 2-year lock up with liquidity provided every December 31 with 60 days' notice. The real asset holdings are illiquid. Distributions are received over the life of the investments, which could equal or exceed ten years. They are not redeemed, nor do they have set redemption schedules. Private equity investment strategies include buyout, venture capital, growth capital, and special situations. Investments in the asset class are achieved primarily through commingled fund and separate account partnerships, but may also include direct and co-investment opportunities. Private equity investments are illiquid and distributions are received over the life of the investments, which could equal or exceed ten years. These investments are not typically redeemed, nor do they have set redemption schedules.

Absolute return investment strategies include equity, credit, macro, emerging markets, quantitative, multi-strategy, special situations, and commodities. Investments are achieved through limited partnerships. The table below provides a summary of the terms and conditions upon which the Retirement System may redeem its absolute return investments. Investments have the potential to become illiquid under stressed market conditions and, in certain circumstances, investors may be subject to redemption restrictions that differ from the standard terms and conditions summarized here, which can impede the return of capital according to those terms and conditions.

Absolute Return Investment Measured at NAV as of June 30, 2017

% of NAV	Redemption Frequency	Redemption Notice Period
25%*	Quarterly	65-95 days
46%	Semi-annually	95 days
10%	Annually	95 days
19%	Greater than Annually	95 days
100%		

\* 5% subject to a lock-up that expires as of April 1, 2018

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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**Retiree Health Care Trust Fund**

**Investments, at Net Asset Value (NAV)**

At June 30, 2017 the Retiree Health Care Trust Fund had investments in equity and debt commingled index funds, the City Treasury Pool, and money market funds. 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, 2017, 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 110.0% of the type of collateral authorized in California Government Code, Section 53651 (a) through (j) 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, 2017, \$3.6 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

**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.

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**CITY AND COUNTY OF SAN FRANCISCO**  
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	S & P Rating	Fair Value	Investment Maturities	
			Less than 1 year	1 to 5 years
<b>Primary Government:</b>				
Investments in City Treasury:				
U.S. Treasury Notes	AA+	\$ 872,449	\$ 624,062	\$ 248,387
U.S. Agencies - Coupon	NR - AA+	4,708,081	1,872,278	2,835,803
Negotiable certificates of deposits	A-1 - A-1+	1,053,728	1,025,822	27,906
Money Market Mutual Funds	AAAm	301,857	301,857	-
Public time deposits	NR	960	960	-
State/Local Agencies	A-1+, AA- - AA+	334,967	170,852	164,115
Supranationals	AAA	358,801	204,996	153,805
Corporate notes	A+ - AA-	89,933	39,794	50,139
Commercial Paper	A-1-A-1+	836,967	836,967	-
Less: Treasure Island Development Authority				
Investments with City Treasury	n/a	(7,225)	-	(7,225)
Less: Employees' Retirement System				
Investments with City Treasury		(11,800)	-	(11,800)
Less: Health Care Trust				
Investments with City Treasury	n/a	(2,215)	-	(2,215)
Subtotal pooled investments		<u>8,536,503</u>	<u>\$ 5,077,588</u>	<u>\$ 3,458,915</u>
Investments Outside City Treasury:				
(Governmental and Business - Type)				
U.S. Treasury Notes	NR/AAA/AA+	\$ 297,460	\$ 93,751	\$ 203,709
U.S. Agencies - Coupon	AA+	8,031	-	8,031
U.S. Agencies - Discount	AA+/A-1+	226,854	31,739	195,115
Corporate notes		-	-	-
Money Market Mutual Funds	AAAm	513,349	513,349	-
U.S. Treasury Money Market Funds	AAAm	21,319	21,319	-
Commercial Paper	A-1+/A-1	77,697	77,697	-
Certificate of Deposit	NR	265	265	-
Subtotal investments outside City Treasury		<u>1,144,975</u>	<u>\$ 738,120</u>	<u>\$ 406,855</u>
Retiree Health Care Trust Investments		185,118		
Employees' Retirement System investments		22,319,815		
<b>Total Primary Government</b>		<u>\$ 32,186,411</u>		
<b>Component Units:</b>				
Treasure Island Development Authority:				
Investments with City Treasury	n/a	7,225	\$ -	\$ 7,225
<b>Total Investments</b>		<u>\$ 32,193,636</u>		

As of June 30, 2017, the investments in the City Treasury had a weighted average maturity of 471 days.

**CITY AND COUNTY OF SAN FRANCISCO**  
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**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, 2017, the City Treasurer has investments in U.S. Agencies that represent 5.0% or more of the total Pool in the following:

Federal Farm Credit Bank.....	21.9%
Federal Home Loan Mortgage Corporation.....	14.4%
Federal Home Loan Bank.....	9.5%

In addition, the following major funds hold investments with trustees that represent 5.0% or more of the funds' investments outside City Treasury as of June 30, 2017:

Airport:	
Federal National Mortgage Association.....	16.6%
Federal Home Loan Bank.....	14.0%
Federal Home Loan Mortgage Corporation.....	8.9%

Hetch Hetchy:	
Federal Farm Credit Bank.....	68.2%

**CITY AND COUNTY OF SAN FRANCISCO**  
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**(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, 2017:

**Statement of Net Position**

Net position held in trust for all pool participants.....	<u>\$8,628,146</u>
Equity of internal pool participants.....	\$7,765,530
Equity of external pool participants.....	862,616
Total equity.....	<u>\$8,628,146</u>

**Statement of Changes in Net Position**

Net position at July 1, 2016.....	\$7,916,658
Net change in investments by pool participants.....	711,488
Net position at June 30, 2017.....	<u>\$8,628,146</u>

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2017:

Type of Investment	Rates	Maturities	Par Value	Carrying Value
<b>Pooled Investments:</b>				
U.S. Treasuries.....	0.79% - 1.90%	07/06/17 - 11/30/21	\$ 875,000	\$ 872,449
U.S. Agencies.....	0.66% - 2.18%	07/03/17 - 09/02/22	4,713,145	4,708,081
State and local agencies.....	0.70% - 2.13%	07/01/17 - 05/15/21	334,319	334,967
Public time deposits.....	1.15% - 1.44%	02/21/18 - 05/16/18	960	960
Negotiable certificates of deposit.....	1.06% - 1.73%	07/03/17 - 03/08/19	1,052,838	1,053,728
Commercial paper.....	0.64% - 1.47%	07/03/17 - 03/23/18	839,400	836,967
Corporate notes.....	0.90% - 1.83%	08/18/17 - 01/09/19	89,775	89,933
Money market mutual funds.....	0.70% - 0.75%	07/01/17 - 07/01/17	301,857	301,857
Supranationals.....	1.00% - 1.90%	07/06/17 - 05/12/20	359,300	358,801
			<u>\$ 8,566,594</u>	<u>8,557,743</u>
Carrying amount of deposits with Treasurer.....				<u>70,403</u>
Total cash and investments with Treasurer.....				<u>\$ 8,628,146</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
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**(f) Retirement System's Investments**

The Retirement System's investments as of June 30, 2017, are summarized as follows:

Fixed Income Investments:	
Short-term investments	\$ 347,744
Investments in City Treasury	11,800
Debt securities:	
U.S. Government and agencies	1,555,180
Other debt securities	2,891,222
Subtotal debt securities	<u>4,446,402</u>
Total fixed income investments	<u>4,805,946</u>
Equity securities:	
Domestic	5,666,244
International	4,891,772
Total equity securities	<u>10,558,016</u>
Real assets	2,975,974
Private equity	3,401,547
Absolute return	577,967
Foreign currency contracts, net	164
Investment in lending agent's short-term investment pool	201
<b>Total Retirement System Investments</b>	<b><u>\$ 22,319,815</u></b>

**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, 2017:

Investment Type	Fair Value	Maturities			
		Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	\$ 163,350	\$ -	\$ 69,301	\$ 8,992	\$ 85,057
Bank Loans	148,645	1,870	79,302	67,473	-
City Investment Pool	11,800	-	11,800	-	-
Collateralized Bonds	184	-	-	-	184
Commercial Mortgage-Backed	425,755	-	5,124	4,298	416,333
Commingled and Other					
Fixed Income Funds	373,993	387,199	1,084	117	(14,407)
Corporate Bonds	1,421,430	532,928	401,830	321,188	165,484
Corporate Convertible Bonds	189,953	7,342	105,315	42,489	34,807
Foreign Currencies and Cash Equivalents	134,745	134,745	-	-	-
Government Agencies	371,575	360,801	-	544	10,230
Government Bonds	1,116,583	44,633	876,704	47,440	147,806
Government Mortgage-Backed Securities	144,202	11	10,387	4,210	129,594
Municipal/Provincial Bonds	33,513	2,618	3,052	1,551	26,292
Non-Government Backed					
Collateralized Mortgage Obligations	55,790	3	2,511	1	53,275
Options	(12)	(12)	-	-	-
Short Term Investment Funds	212,999	212,999	-	-	-
Swaps	1,441	1,034	11	271	125
<b>Total</b>	<b>\$ 4,805,946</b>	<b>\$ 1,686,171</b>	<b>\$ 1,566,421</b>	<b>\$ 498,574</b>	<b>\$ 1,054,780</b>

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**Credit Risk**

Fixed income investment managers typically are limited within their portfolios to no more than 5.0% 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, 2017. Investments issued or explicitly guaranteed by the U.S. government of \$1.02 billion as of June 30, 2017, are exempt from credit rating disclosures and are excluded from the table below.

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	\$ 166,573	4.4%
AA	46,442	1.2%
A	203,966	5.4%
BBB	708,834	18.7%
BB	239,996	6.3%
B	252,346	6.7%
CCC	53,906	1.4%
CC	2,424	0.1%
C	2,279	0.1%
D	1,766	0.0%
Not Rated	2,105,738	55.7%
<b>Total</b>	<b>\$ 3,784,270</b>	<b>100.0%</b>

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 20.2% for 2017.

**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 5.0% (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, 2017, the Retirement System had no investments of a single issuer that equaled or exceeded 5.0% 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, 2017, \$759.6 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 2017, 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

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held by the Retirement System's custodial bank. Securities in this separately managed account are not exposed to custodial credit risk.

**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. Derivatives are considered investments, rather than hedges, for accounting and financial reporting purposes.

The Retirement System's net exposures to foreign currency risk as of June 30, 2017, are as follows:

Currency	Cash	Equities	Fixed Income	Private Equities	Real Assets	Foreign Currency Contracts	Total
Argentine peso	\$ -	\$ -	\$ 3,528	\$ -	\$ -	\$ 149	\$ 3,677
Australian dollar	-	105,175	25	9,501	-	51	114,752
Brazilian real	-	20,912	23,388	-	-	(10,227)	34,073
British pound sterling	-	632,031	5,258	4,895	19,722	(5,307)	656,599
Canadian dollar	-	76,518	3,158	-	-	747	80,423
Chilean peso	-	532	2,384	-	-	(241)	2,675
Colombian peso	-	-	8,122	-	-	1,342	9,464
Czech koruna	-	1,582	2,758	-	-	1,209	5,549
Danish krone	-	43,245	-	-	-	(170)	43,075
Euro	-	944,005	79,140	150,551	103,487	(36,342)	1,240,841
Offshore Chinese yuan renminbi	-	-	-	-	-	(1,285)	(1,285)
Hong Kong dollar	-	181,729	-	-	-	(140)	181,589
Hungarian forint	-	-	-	-	-	2,166	2,166
Indian rupee	-	-	-	-	-	764	764
Indonesian rupiah	-	9,348	11,046	-	-	2,846	23,240
Japanese yen	89	688,598	-	-	43,686	(2,132)	730,241
Kenyan shilling	-	836	-	-	-	-	836
Malaysian ringgit	-	11,238	6,740	-	-	1,807	19,785
Mexican peso	-	10,314	9,232	-	-	5,338	24,884
New Israeli shekel	-	12,885	-	-	-	-	12,885
New Romanian leu	-	-	2,007	-	-	262	2,269
New Taiwan dollar	-	56,942	-	-	-	(2,332)	54,610
New Zealand dollar	-	2,233	-	-	-	-	2,233
Norwegian krone	-	12,969	-	-	-	-	12,969
Peruvian nuevo sol	-	-	4,648	-	-	168	4,816
Philippine peso	-	537	506	-	-	(57)	986
Polish zloty	-	-	10,316	-	-	5,803	16,119
Qatari riyal	-	3,114	-	-	-	-	3,114
Russian ruble	-	-	7,805	-	-	36	7,841
Singapore dollar	-	15,658	-	-	-	(592)	15,066
South African rand	-	22,378	11,508	-	-	(878)	33,008
South Korean won	-	104,362	-	-	-	(732)	103,630
Swedish krona	-	88,894	399	-	-	-	89,293
Swiss franc	-	250,421	243	-	-	(872)	249,792
Thai baht	-	7,125	118	-	-	9,928	17,171
Turkish lira	-	13,100	6,754	-	-	4,628	24,482
United Arab Emirates dirham	-	3,690	-	-	-	-	3,690
Uruguayan peso	-	-	-	-	-	-	-
Uruguayo	-	-	389	-	-	-	389
<b>Total</b>	<b>\$ 89</b>	<b>\$ 3,320,371</b>	<b>\$ 199,472</b>	<b>\$ 164,947</b>	<b>\$ 166,895</b>	<b>\$ (24,063)</b>	<b>\$ 3,827,711</b>

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**Derivative Instruments**

As of June 30, 2017, 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, 2017:

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
<b>Forwards</b>			
Foreign Exchange Contracts	(a)	\$ 167	\$ 167
Other Contracts	(a)	(153)	(151)
<b>Options</b>			
Foreign Exchange Contracts	\$ 3,900	(12)	76
<b>Swaps</b>			
Credit Contracts	5,000	(45)	73
Interest Rate Contracts	46,632	253	326
Total Return Contracts	80	1,233	1,233
<b>Rights/Warrants</b>			
Equity Contracts	12,458 shares	76	(2,306)
<b>Total</b>		<b>\$ 1,519</b>	<b>\$ (582)</b>

(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, 2017, the fair value of forward currency contracts in net positions (including foreign exchange contract options) to purchase and sell international currencies were \$1.0 million and \$0.8 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 85.3% and credit ratings of B on 14.0% of the positions as assigned by one or more of the major credit rating organizations (S&P and/or Moody's) while 0.7% were not rated.

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**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, 2017, 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, 2017.

Derivative Type / Contracts	Fair Value	Maturities			
		Less than 1 year	1-5 years	6-10 years	10+ years
Forwards					
Foreign Exchange Contracts	\$ 167	\$ 178	\$ (11)	\$ -	\$ -
Options					
Foreign Exchange Contracts	(12)	(12)	-	-	-
Swaps					
Credit Contracts	(45)	18	(63)	-	-
Interest Rate Contracts	253	(217)	74	271	125
Total Return Contracts	1,233	1,233	-	-	-
Total	\$ 1,598	\$ 1,200	\$ -	\$ 271	\$ 125

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, 2017:

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swap	Receive Fixed 1.93%, Pay Variable 6-Month THB	\$ 311	\$ 2
Interest Rate Swap	Receive Fixed 2.015%, Pay Variable 6-Month THB	589	6
Interest Rate Swap	Receive Fixed 2.115%, Pay Variable 6-Month THB	1,027	11
Interest Rate Swap	Receive Fixed 2.12%, Pay Variable 6-Month THB	386	5
Interest Rate Swap	Receive Fixed 2.175%, Pay Variable 6-Month THB	665	10
Interest Rate Swap	Receive Fixed 2.19%, Pay Variable 6-Month THB	206	3
Interest Rate Swap	Receive Fixed 2.22%, Pay Variable 6-Month THB	412	6
Interest Rate Swap	Receive Fixed 2.25%, Pay Variable 1-Day WIBOR	836	(6)
Interest Rate Swap	Receive Fixed 2.505%, Pay Variable 6-Month THB	321	7
Interest Rate Swap	Receive Fixed 2.56%, Pay Variable 6-Month THB	689	14
Interest Rate Swap	Receive Fixed 2.58%, Pay Variable 6-Month THB	386	10
Interest Rate Swap	Receive Fixed 2.625%, Pay Variable 6-Month THB	645	20
Interest Rate Swap	Receive Fixed 2.78%, Pay Variable 6-Month THB	27	1
Interest Rate Swap	Receive Fixed 5.23%, Pay Variable 3-Month CIBR	118	1
Interest Rate Swap	Receive Fixed 5.32%, Pay Variable 3-Month CIBR	540	6
Interest Rate Swap	Receive Fixed 5.33%, Pay Variable 3-Month CIBR	547	6
Interest Rate Swap	Receive Fixed 5.61%, Pay Variable 28-Day MXIBR	431	(17)
Interest Rate Swap	Receive Fixed 5.63%, Pay Variable 28-Day MXIBR	1,028	(42)
Interest Rate Swap	Receive Fixed 5.84%, Pay Variable 28-Day MXIBR	348	(11)
Interest Rate Swap	Receive Fixed 6.12%, Pay Variable 3-Month CIBR	107	3
Interest Rate Swap	Receive Fixed 6.20%, Pay Variable 3-Month CIBR	98	3
Interest Rate Swap	Receive Fixed 6.24%, Pay Variable 28-Day MXIBR	138	(2)
Interest Rate Swap	Receive Fixed 6.49%, Pay Variable 28-Day MXIBR	315	(13)
Interest Rate Swap	Receive Fixed 6.80%, Pay Variable 28-Day MXIBR	133	(1)
Interest Rate Swap	Receive Fixed 7.38%, Pay Variable 28-Day MXIBR	1,293	26
Interest Rate Swap	Receive Fixed 7.50%, Pay Variable 3-Month JIBAR	2,313	13

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Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swap	Receive Fixed 7.75%, Pay Variable 3-Month JIBAR	\$ 664	\$ 8
Interest Rate Swap	Receive Fixed 7.86%, Pay Variable 28-Day MXIBR	1,022	54
Interest Rate Swap	Receive Fixed 8.00%, Pay Variable 3-Month JIBAR	53	1
Interest Rate Swap	Receive Fixed 8.25%, Pay Variable 3-Month JIBAR	229	4
Interest Rate Swap	Receive Fixed 8.28%, Pay Variable 28-Day MXIBR	215	17
Interest Rate Swap	Receive Fixed 8.31%, Pay Variable 28-Day MXIBR	88	7
Interest Rate Swap	Receive Fixed 8.32%, Pay Variable 28-Day MXIBR	663	56
Interest Rate Swap	Receive Fixed 8.50%, Pay Variable 3-Month JIBAR	481	18
Interest Rate Swap	Receive Fixed 8.75%, Pay Variable 3-Month JIBAR	38	2
Interest Rate Swap	Receive Fixed 9.50%, Pay Variable 3-Month JIBAR	244	25
Interest Rate Swap	Receive Fixed 9.76%, Pay Variable 1-Day BIDOR	15	(1)
Interest Rate Swap	Receive Fixed 10.30%, Pay Variable 1-Day BIDOR	211	(4)
Interest Rate Swap	Receive Fixed 11.33%, Pay Variable 1-Day BIDOR	1,088	58
Interest Rate Swap	Receive Fixed 11.35%, Pay Variable 1-Day BIDOR	2,151	99
Interest Rate Swap	Receive Fixed 11.38%, Pay Variable 1-Day BIDOR	1,766	68
Interest Rate Swap	Receive Fixed 12.20%, Pay Variable 1-Day BIDOR	1,071	79
Interest Rate Swap	Receive Fixed 12.28%, Pay Variable 1-Day BIDOR	636	84
Interest Rate Swap	Receive Fixed 12.44%, Pay Variable 1-Day BIDOR	1,854	91
Interest Rate Swap	Receive Fixed 15.96%, Pay Variable 1-Day BIDOR	884	148
Interest Rate Swap	Receive Fixed 16.40%, Pay Variable 1-Day BIDOR	1,722	561
Interest Rate Swap	Receive Fixed 16.95%, Pay Variable 1-Day BIDOR	80	31
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 11.16%	93	1
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 11.26%	724	(38)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 12.06%	244	(16)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 12.44%	5,070	(248)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 12.86%	630	(5)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 15.50%	1,088	(85)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 15.77%	1,581	(135)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 15.96%	4,017	(671)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 16.15%	229	(71)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 4.65%	431	9
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.50%	249	18
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.71%	751	35
Interest Rate Swap	Receive Variable 3-Month CIBR, Pay Fixed 6.42%	69	(3)
Interest Rate Swap	Receive Variable 3-Month CIBR, Pay Fixed 6.43%	31	(1)
Interest Rate Swap	Receive Variable 3-Month JIBAR, Pay Fixed 8.09%	511	(3)
Interest Rate Swap	Receive Variable 3-Month JIBAR, Pay Fixed 8.25%	1,120	(18)
Interest Rate Swap	Receive Variable 3-Month JIBAR, Pay Fixed 8.50%	168	(6)
Interest Rate Swap	Receive Fixed 2.81%, Pay Return THB	542	23
Total Interest Rate Swaps		\$ 46,632	\$ 253

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**Foreign Currency Risk**

At June 30, 2017, 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, 2017:

Currency	Forwards	Rights/ Warrants	Swaps	Total
Argentine peso	\$ 149	\$ -	\$ -	\$ 149
Australian dollar	-	6	25	31
Brazilian real	(10,598)	-	(55)	(10,653)
British pound sterling	(6,219)	-	-	(6,219)
Canadian dollar	747	-	-	747
Chilean peso	(241)	-	-	(241)
Colombian peso	1,342	-	16	1,358
Czech koruna	1,273	-	-	1,273
Euro	(36,771)	41	567	(36,163)
Offshore Chinese yuan renminbi	(1,285)	-	-	(1,285)
Hong Kong dollar	(36)	-	-	(36)
Hungarian forint	2,166	-	-	2,166
Indian rupee	764	-	-	764
Indonesian rupiah	2,846	-	-	2,846
Japanese yen	(1,096)	-	-	(1,096)
Malaysian ringgit	1,807	-	-	1,807
Mexican peso	5,867	-	135	6,002
New Romanian leu	262	-	-	262
New Russian ruble	36	-	-	36
New Taiwan dollar	(2,332)	-	-	(2,332)
Peruvian nuevo sol	168	-	-	168
Philippine peso	(57)	-	-	(57)
Polish zloty	5,790	-	(6)	5,784
Singapore dollar	(592)	-	-	(592)
South African rand	(997)	-	45	(952)
South Korean won	(732)	-	-	(732)
Swedish krona	-	-	399	399
Swiss franc	(117)	-	243	126
Thai baht	9,928	-	118	10,046
Turkish lira	4,753	-	-	4,753
Total	\$ (23,175)	\$ 47	\$ 1,487	\$ (21,641)

**Contingent Features**

At June 30, 2017, the Retirement System held no positions in derivatives containing contingent features.

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**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 102.0% and 105.0% 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 (10.0%) 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. On April 12, 2017, the Retirement Board authorized Investment Staff to discontinue the Securities Lending Program in an orderly fashion.

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, 2017, 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, 2017, the Retirement System lent \$259 in securities and received collateral of \$106 and \$160 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 \$201. The net unrealized gain of \$95 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.

The Retirement System's securities lending transactions as of June 30, 2017, are summarized in the following table:

Investment Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Non- Cash Collateral
<b>Securities on Loan for Cash Collateral</b>			
U.S. Corporate Fixed Income	\$ 103	\$ 106	\$ -
<b>Securities on Loan for Non-Cash Collateral</b>			
U.S. Corporate Fixed Income	156	-	160
<b>Total</b>	<b>\$ 259</b>	<b>\$ 106</b>	<b>\$ 160</b>

The following table presents the segmented time distribution and credit risk for the reinvested cash collateral account, based upon the expected maturity (in years) as of June 30, 2017.

Investment Type	Credit Rating	Fair Value	Maturity Less Than 1 Year
Short-term Investment Funds	AA	\$ 201	\$ 201

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**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, 2017, are summarized as follows:

Beginning of the year	\$ 2,341,500
Capital investments	1,434,150
Equity in net earnings	26,959
Net appreciation in fair value	232,967
Capital distributions	<u>(1,059,602)</u>
End of the year	<u>\$ 2,975,974</u>

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 40.0% and 65.0%, 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 \$7.4 million as of June 30, 2017. 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, 2017, the weighted average maturities in years for the RHCTF's fixed income investments were as follows:

<u>Investment Type</u>	<u>Weighted Average Maturity in Years</u>
US Debt Index Fund	8.03
City Investment Pool	1.29
Treasury Money Market Fund	0.11

**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.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Securities issued or explicitly guaranteed by the U.S. government are excluded from this disclosure. As of June 30, 2017, the RHCTF held investments issued by Blackrock, Inc. and Northern Trust Company that exceeded 5% of the RHCTF's fiduciary net position.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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**Rate of return**

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 13.1 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**(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 1.0% 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 2.0% 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 1.0% 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 55.0% for school facilities-related bonds. These "override" taxes for the City's debt service amounted to approximately \$273.6 million for the year ended June 30, 2017.

Taxable valuation for the year ended June 30, 2017, (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Successor Agency) was approximately \$195.00 billion, an increase of 9.4%. The secured tax rate was \$1.1792 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 \$0.1792 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 0.52% and 5.10%, respectively, of the current year tax levy, for an average delinquency rate of 0.85% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100.0% 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, 2017, was \$24.9 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.



**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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**(7) CAPITAL ASSETS**

**Primary Government**

Capital asset activity of the primary government for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Increases *	Decreases *	Balance June 30, 2017
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land.....	\$ 334,261	\$ 42,550	\$ (16,209)	\$ 360,602
Intangible assets.....	31,170	25,134	(1,542)	54,762
Construction in progress.....	456,093	385,446	(216,828)	624,711
Total capital assets, not being depreciated.....	821,524	453,130	(234,579)	1,040,075
Capital assets, being depreciated:				
Facilities and improvements.....	4,439,663	55,029	(133,553)	4,361,139
Machinery and equipment.....	570,948	54,654	(48,759)	576,843
Infrastructure.....	857,203	122,086	(24,556)	954,733
Intangible assets.....	54,261	1,555	-	55,816
Total capital assets, being depreciated.....	5,922,075	233,324	(206,868)	5,948,531
Less accumulated depreciation for:				
Facilities and improvements.....	1,067,480	100,373	(68,850)	1,099,003
Machinery and equipment.....	369,615	44,886	(46,733)	367,768
Infrastructure.....	170,838	35,742	(5,766)	200,814
Intangible assets.....	10,314	3,031	-	13,345
Total accumulated depreciation.....	1,618,247	184,032	(121,349)	1,680,930
Total capital assets, being depreciated, net.....	4,303,828	49,292	(85,519)	4,267,601
Governmental activities capital assets, net.....	\$ 5,125,352	\$ 502,422	\$ (320,096)	\$ 5,307,676
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land.....	\$ 217,441	\$ 22,784	\$ (38)	\$ 240,187
Intangible assets.....	12,043	-	-	12,043
Construction in progress.....	3,120,461	1,573,581	(620,356)	4,073,686
Total capital assets, not being depreciated.....	3,349,945	1,596,365	(620,394)	4,325,916
Capital assets, being depreciated:				
Facilities and improvements.....	16,246,429	450,521	(68,039)	16,628,911
Machinery and equipment.....	2,569,041	248,340	(127,395)	2,689,986
Infrastructure.....	1,290,206	59,650	(736)	1,349,120
Property held under Lease.....	697	-	-	697
Intangible assets.....	219,000	25,066	(44,133)	199,933
Total capital assets, being depreciated.....	20,325,373	783,577	(240,303)	20,868,647
Less accumulated depreciation for:				
Facilities and improvements.....	5,762,094	447,183	(54,106)	6,155,171
Machinery and equipment.....	1,456,181	152,664	(118,224)	1,490,621
Infrastructure.....	589,177	37,844	(17)	627,004
Property held under lease.....	697	-	-	697
Intangible assets.....	171,352	31,847	(44,010)	159,189
Total accumulated depreciation.....	7,979,501	669,538	(216,357)	8,432,682
Total capital assets, being depreciated, net.....	12,345,872	114,039	(23,946)	12,435,965
Business-type activities capital assets, net.....	\$ 15,695,817	\$ 1,710,404	\$ (644,340)	\$ 16,761,881

\* The increases and decreases include transfers of categories of capital assets from construction in progress to depreciable categories.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
Public protection.....	\$ 30,486
Public works transportation and commerce.....	31,342
Human welfare and neighborhood development.....	756
Community Health.....	36,841
Culture and recreation.....	57,396
General administration and finance.....	23,917
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis.....	3,294
Total depreciation expense - governmental activities.....	\$ 184,032
<b>Business-type activities:</b>	
Airport.....	\$ 265,841
Water.....	118,826
Power.....	17,730
Transportation.....	146,595
Hospitals.....	40,914
Wastewater.....	55,441
Port.....	24,191
Total depreciation expense - business-type activities.....	\$ 669,538

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 \$3.80 billion as of June 30, 2017. 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, 2017. 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, 2017.

During the year ended June 30, 2017, the City's enterprise funds incurred total interest expense and interest income of approximately \$489.8 million and \$28.5 million, respectively. Of these amounts, interest expense of approximately \$80.3 million was capitalized. The Airport had write-offs and loss on disposal in the amount of \$21.6 million primarily due to disposal. The Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed \$2.4 million, \$1.5 million, and \$2.0 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued.

During the year ended June 30, 2017, the City entered into two sale-leaseback agreements for properties at 1660-1680 Mission Street and 30 Van Ness Avenue. Under the agreements, the City sold both properties with a book value of \$24.7 million for a total of \$122.0 million in gross proceeds and recognized a gain from the sale in the amount of \$97.3 million in the government-wide financial statements. In addition, the City agreed to leaseback the office space, from the new owners, for three years with an option for two one-year extensions through 2022.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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**Component Unit**

Capital asset activity of the component unit for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
<b>Treasure Island Development Authority:</b>				
Capital assets, not being depreciated:				
Land.....	\$ 5,529	\$ 14,861	\$ -	\$ 20,390
Capital assets, being depreciated:				
Machinery and equipment.....	22	-	-	22
Less accumulated depreciation for:				
Machinery and equipment.....	5	5	-	10
Total capital assets, being depreciated, net.....	17	(5)	-	12
Component unit capital assets, net.....	<u>\$ 5,546</u>	<u>\$ 14,856</u>	<u>\$ -</u>	<u>\$ 20,402</u>

During the year ended June 30, 2017, the Navy transferred approximately 7 acres of land to TIDA as part of the overall Treasure Island Development Project. Construction is anticipated to begin in late 2018, with the complete buildout of the project occurring over fifteen to twenty years. For additional information, refer to Note 15.

**(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, 2017, are as follows:

Type of Obligation	July 1, 2016	Additional Obligation	Current Maturities	June 30, 2017
<b>Governmental activities:</b>				
Commercial paper				
Multiple Capital Projects.....	\$ 102,778	\$ 1,350,670	\$ (1,246,509)	\$206,939
Direct placement revolving certificates of participation				
Transbay Transit Center Project.....	-	49,000	-	49,000
Governmental activities short-term obligations...	<u>\$ 102,778</u>	<u>\$ 1,399,670</u>	<u>\$ (1,246,509)</u>	<u>\$255,939</u>
<b>Business-type activities:</b>				
Commercial paper				
San Francisco General Hospital.....	\$ 28,572	\$ 21,399	\$ (30,169)	\$ 19,802
San Francisco International Airport.....	343,050	179,000	(344,050)	178,000
San Francisco Water Enterprise.....	236,000	145,736	(236,736)	145,000
Hetch Hetchy Water and Power.....	-	20,058	-	20,058
San Francisco Wastewater Enterprise.....	61,000	111,411	(61,000)	111,411
Business-type activities short-term obligations...	<u>\$ 668,622</u>	<u>\$ 477,604</u>	<u>\$ (671,955)</u>	<u>\$474,271</u>

**City and County of San Francisco Commercial Paper Program**

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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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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 2017, the City retired \$1.25 billion and issued \$1.35 billion 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) and Moscone Center expansion. As of June 30, 2017, the outstanding principal of tax exempt and taxable CP was \$205.5 million and \$1.4 million, with interest rates ranging from 0.85% to 0.90% and 1.15%, respectively.

**Transbay Transit Center Project Interim Financing**

In April 2001, the City, the Alameda-Contra Costa Transit District, and the Peninsula Corridor Joint Powers Board executed a Joint Powers Agreement which created and established the Transbay Joint Powers Authority (TJPA). The TJPA has primary jurisdiction with respect to all matters concerning financing, design, development, construction, and operation of the Transbay Transit Center. In order to address a temporary cash flow shortfall during the construction of the Transbay Transit Center project, the City, in partnership with the Metropolitan Transportation Commission (MTC), approved in May 2016 a short-term financing with the TJPA in an amount not to exceed \$260.0 million. The City has entered a Certificate Purchase Agreement with Wells Fargo to establish a revolving credit facility in an amount not to exceed \$160.0 million with an annualized floating rate based on the London Interbank Offered Rate (LIBOR) plus a spread of 0.56% for taxable certificates. In partnership with the MTC, the City also entered into a Certificate Purchase Agreement with the Bay Area Toll Authority (BATA) to establish a revolving credit facility in an amount not to exceed \$100.0 million with an annualized floating rate based on the LIBOR plus a spread plus 0.61%. The City would issue short term variable rate notes at times and in amounts necessary to meet construction funding needs for the project. As of June 30, 2017, the TJPA had drawn a total of \$49.0 million from the Wells Fargo financing facility, at a weighted average interest rate of 1.56%. The City has recorded a receivable, in the amount of \$49.0 million, from the TJPA along with a loan payable related to this financing activity. The short-term notes are expected to be repaid in part from CFD special taxes and tax increment. Long-term debt will be issued to retire the notes, and such long-term debt is also expected to be repaid from such sources.

**San Francisco General Hospital**

In July 2014, the Board of Supervisors authorized the execution and delivery of tax-exempt and/or taxable CP in an aggregate principal amount not to exceed \$41.0 million to provide financing for the costs of acquisition of furniture, fixtures, and equipment for the new hospital. As of June 30, 2017, the outstanding principal amount of CP is \$19.8 million. The weighted average interest rate for the CP was approximately 0.85%.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
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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 subordinate CP notes 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. In November 2016, the Airport adopted Resolution No. 16-0275 which amended the 1997 Note Resolution to increase the authorized maximum amount by \$100.0 million, from \$400.0 million to \$500.00 million.

The Airport issues CP in series that are divided into subseries according to the bank providing the applicable 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 1991 Master Bond Resolution).

Net Revenues are generally defined in the Note Resolution as all revenues earned by the Airport from or with respect to its construction, possession, management, supervision, maintenance, extension, operation, use 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 as 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 2017, 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, which, as of June 30, 2017, had 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 1, 2020; and a new LOC issued on June 22, 2017, by Sumitomo Mitsui Banking Corporation acting through its New York Branch, in the principal amount of \$100.0 million and with an expiration date of June 21, 2022. Each of the LOC supports separate subseries of CP and permits the Airport to issue CP up to a combined maximum principal amount of \$500.0 million as of June 30, 2017.

As of June 30, 2017, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2017, the Airport issued \$67.0 million of new money CP (AMT) and \$111.0 million (Non-AMT) to fund capital improvement projects. The Airport also issued and retired \$1.0 million of new money CP (taxable) during fiscal year 2017 to fund costs related to various bond and note transactions. As of June 30, 2017, the interest rates on taxable, AMT, and Non-AMT CP were 0.90%, 0.36% to 1.01%, and 0.46% to 0.99%, respectively.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
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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, 2017, no CP was outstanding under Proposition A. Amounts outstanding under Proposition E were \$145.0 million at June 30, 2017. CP interest rates ranged from 0.1% to 1.3%. 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 reconstruction or replacement of existing generation, transmission and distribution facilities of the Hetchy Power. Interest rates for the CP ranged from 0.72% to 0.93% in fiscal year 2017. The Hetch Hetchy Water and Power had \$20.1 million CP outstanding as of June 30, 2017.

San Francisco Wastewater Enterprise

Under the voter-approved 2002 Proposition E, in fiscal year 2017, the San Francisco Public Utilities Commission and Board of Supervisors authorized an increase in the CP authorization from \$500.0 million to \$750.0 million for reconstructing, expanding and repairing the Wastewater Enterprise's facilities. The Wastewater Enterprise had \$111.4 million CP outstanding as June 30, 2017.

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 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 had been drawn or outstanding as of June 30, 2017.

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
 June 30, 2017  
 (Dollars in Thousands)

**Long-Term Obligations**

The following is a summary of long-term obligations of the City as of June 30, 2017:

**GOVERNMENTAL ACTIVITIES**

Type Of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
<b>GENERAL OBLIGATION BONDS (a):</b>			
Affordable housing.....	2036	2.00% - 3.10%	\$ 53,060
Earthquake safety and emergency response.....	2035	2.25% - 5.00%	446,210
Parks and playgrounds.....	2035	2.00% - 6.26%	167,150
Public health and safety.....	2036	3.00% - 5.00%	125,760
Road repaving and street safety.....	2035	2.00% - 5.00%	169,060
San Francisco General Hospital.....	2033	3.25% - 6.26%	542,125
Seismic safety loan program.....	2035	1.631% - 5.83%*	45,462
Transportation and road improvement.....	2035	2.75% - 5.00%	45,375
Refunding.....	2030	4.00% - 5.00%	475,670
General obligation bonds.....			2,069,872
<b>LEASE REVENUE BONDS:</b>			
San Francisco Finance Corporation (b), (e) & (f).....	2034	0.83% - 5.75% **	182,030
<b>CERTIFICATES OF PARTICIPATION:</b>			
Certificates of participation (c) & (d).....	2047	1.347% - 5.00%	551,760
<b>OTHER LONG TERM OBLIGATIONS:</b>			
Loans (e) & (f).....	2045	2.00% - 4.5%	23,212
Revolving credit agreement loan - Transportation Authority (c).....	2018	1.036% ***	139,664
Lease Purchase Financing - Public Safety Radio Replacement.....	2027	1.6991%	32,586
Governmental activities total long-term obligations.....			\$ 2,999,124

- \* 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, 2017 was 1.631%.
- \*\* 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, 2017 for Series 2008 - 1 & 2 averaged to 0.83%.
- \*\*\* The Revolving credit agreement loan interest rate equals to the sum of 70% of 1-month LIBOR plus 0.30%.

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) Revenues recorded in the Special Revenue Funds.
- (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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
 June 30, 2017  
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**BUSINESS-TYPE ACTIVITIES**

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
<b>San Francisco International Airport:</b>			
Revenue bonds *.....	2046	2.12% - 6.00%*	\$ 4,757,529
<b>San Francisco Water Enterprise:</b>			
Revenue bonds.....	2051	0.87% - 6.95%	4,257,800
Certificates of participation.....	2042	2.00% - 6.49%	109,092
Accreted interest.....	2019	-	6,278
<b>Hetch Hetchy Water and Power:</b>			
Energy and revenue bonds.....	2046	0.00% - 5.00%	53,615
Certificates of participation.....	2042	2.00% - 6.49%	14,852
<b>Municipal Transportation Agency:</b>			
Revenue bonds.....	2047	3.00% - 5.00%	356,025
Loans.....	2046	2.86% - 3.30%	850
<b>San Francisco General Hospital Medical Center:</b>			
Certificates of participation.....	2026	5.55%	15,673
<b>San Francisco Wastewater Enterprise:</b>			
Revenue bonds.....	2047	1.00% - 5.82%	957,265
Certificates of participation.....	2042	2.00% - 6.49%	28,846
<b>Port of San Francisco:</b>			
Revenue bonds.....	2044	2.20% - 7.408%	52,860
Certificates of participation.....	2043	4.75% - 5.25%	32,275
Loans.....	2029	4.50%	2,113
<b>Laguna Honda Hospital:</b>			
Certificates of participation.....	2031	4.30% - 5.25%	125,570
Business-type activities total long-term obligations.....			\$ 10,770,643

- \* 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, 2017, the average interest rates on Issue 36A, 36B, 36C and 37C were 0.67%, 0.64%, 0.67%, & 0.67%, respectively; and for Issue 2010A, the average interest rates were 0.67%.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in the respective enterprise funds.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
(Dollars in Thousands)

**Debt Compliance**

The City believes it is in compliance with all significant limitations and restrictions contained in the various bond indentures.

**Legal Debt Limit and Legal Debt Margin**

As of June 30, 2017, the City's debt limit (3% of valuation subject to taxation) was \$6.37 billion. The total amount of debt applicable to the debt limit was \$2.28 billion. The resulting legal debt margin was \$4.09 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 actual earnings from the investment of tax-exempt bond proceeds, which exceed related interest earnings if such investments were invested at a rate equal to the yield of the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issuance. The City has evaluated each general obligation bonds and certificates of participation issued and the Finance Corporation has evaluated each lease revenue bonds. The City and the Finance Corporation do not have a rebatable arbitrage liability as of June 30, 2017. Each enterprise fund has performed similar analysis of its debt, 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.

**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 and below-market rate mortgage for first time homebuyers to facilitate affordable housing and the construction and rehabilitation in the City. These obligations were 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 are not considered obligations of the City. As of June 30, 2017, the total obligation outstanding was \$1.31 billion.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
(Dollars in Thousands)

**Changes in Long-Term Obligations**

The changes in long-term obligations for the year ended June 30, 2017, are as follows:

	July 1, 2016	Additional Obligations, and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2017	Amounts Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds .....	\$ 2,011,057	\$ 248,250	\$ (189,435)	\$ 2,069,872	\$ 123,873
Lease revenue bonds .....	196,055	-	(14,025)	182,030	10,880
Certificates of participation .....	589,580	28,320	(66,140)	551,760	39,710
Subtotal .....	2,796,692	276,570	(269,600)	2,803,662	174,463
Issuance premiums / discounts:					
Add: unamortized premiums .....	252,200	12,432	(20,718)	243,914	-
Less: unamortized discounts .....	(204)	-	64	(140)	-
Total bonds payable, net .....	3,048,688	289,002	(290,254)	3,047,436	174,463
Loans .....	143,059	46,000	(28,183)	162,876	140,078
Capital leases .....	-	34,184	(1,598)	32,586	3,189
Accrued vacation and sick leave pay .....	151,027	120,503	(115,390)	156,140	91,060
Accrued workers' compensation .....	227,825	62,977	(48,979)	241,823	42,621
Estimated claims payable .....	160,498	70,463	(28,472)	202,489	71,290
Governmental activities long-term obligations .....	\$ 3,731,097	\$ 623,129	\$ (510,876)	\$ 3,843,350	\$ 522,701
<b>Business-type Activities:</b>					
Bonds payable:					
Revenue bonds .....	\$ 9,528,710	\$ 2,218,920	\$ (1,366,151)	\$ 10,381,479	\$ 286,144
Clean renewable energy bonds .....	55,599	-	(1,984)	53,615	2,437
Certificates of participation .....	338,157	-	(11,849)	326,308	12,439
Subtotal .....	9,922,466	2,218,920	(1,379,984)	10,761,402	301,020
Issuance premiums / discounts:					
Add: unamortized premiums .....	500,168	347,495	(92,379)	755,284	-
Less: unamortized discounts .....	(570)	(191)	42	(719)	-
Total bonds payable, net .....	10,422,064	2,566,224	(1,472,321)	11,515,967	301,020
Accreted interest payable .....	5,860	418	-	6,278	-
Notes, loans, and other payables .....	2,320	806	(163)	2,963	169
Capital leases .....	266	-	(266)	-	-
Accrued vacation and sick leave pay .....	108,613	55,960	(55,537)	109,036	65,212
Accrued workers' compensation .....	189,603	43,208	(38,883)	193,928	32,875
Estimated claims payable .....	117,068	14,486	(36,874)	94,680	39,424
Business-type activities long-term obligations .....	\$ 10,845,794	\$ 2,681,102	\$ (1,604,044)	\$ 11,922,852	\$ 438,700

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, 2017  
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Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2017 for governmental and business-type activities are as follows:

Fiscal Year Ending June 30	Governmental Activities <sup>(1)</sup>							
	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest <sup>(2)</sup>	Principal	Interest <sup>(3)</sup>	Principal	Interest <sup>(4)</sup>	Principal	Interest
2018.....	\$ 123,873	\$ 90,722	\$ 10,880	\$ 4,962	\$ 182,977	\$ 25,883	\$ 317,730	\$ 121,567
2019.....	124,231	84,828	12,595	4,653	32,981	23,068	169,807	112,549
2020.....	123,541	78,798	6,110	4,345	24,791	21,860	154,442	105,003
2021.....	122,085	72,847	12,740	4,066	25,291	20,864	160,116	97,777
2022.....	128,083	67,258	13,380	3,735	23,962	19,855	165,425	90,848
2023-2027...	667,530	243,651	71,880	13,057	124,487	84,630	863,897	341,338
2028-2032...	620,813	97,090	49,900	4,148	124,694	58,664	795,407	159,902
2033-2037...	159,716	11,390	4,545	397	103,805	31,422	268,066	43,209
2038-2042...	-	-	-	-	71,531	14,344	71,531	14,344
2043-2047...	-	-	-	-	32,703	2,996	32,703	2,996
<b>Total.....</b>	<b>\$ 2,069,872</b>	<b>\$ 746,584</b>	<b>\$ 182,030</b>	<b>\$ 39,363</b>	<b>\$ 747,222</b>	<b>\$ 303,586</b>	<b>\$ 2,999,124</b>	<b>\$ 1,089,533</b>

Fiscal Year Ending June 30	Business-Type Activity <sup>(1)</sup>							
	Revenue Bonds <sup>(5) (6)</sup>		Certificates of Participation <sup>(6)</sup>		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018.....	\$ 286,144	\$ 512,558	\$ 14,876	\$ 20,611	\$ 169	\$ 123	\$ 301,189	\$ 533,292
2019.....	316,040	498,032	15,526	19,920	155	116	331,721	518,068
2020.....	351,225	482,829	16,229	19,172	149	108	367,603	502,109
2021.....	371,655	465,806	16,513	18,386	156	103	388,324	484,295
2022.....	382,030	447,846	17,153	17,583	163	96	399,346	465,525
2023-2027...	2,019,900	1,948,099	89,996	74,256	931	360	2,110,827	2,022,715
2028-2032...	1,675,785	1,455,257	86,642	49,334	434	162	1,762,861	1,504,753
2033-2037...	1,663,915	1,037,675	49,944	29,557	-	133	1,713,859	1,067,365
2038-2042...	2,006,660	594,285	61,989	12,700	-	133	2,068,649	607,118
2043-2047...	1,210,445	175,604	11,055	1,038	806	87	1,222,306	176,729
2048-2051...	97,680	13,961	-	-	-	-	97,680	13,961
<b>Total.....</b>	<b>\$ 10,381,479</b>	<b>\$ 7,631,952</b>	<b>\$ 379,923</b>	<b>\$ 262,557</b>	<b>\$ 2,963</b>	<b>\$ 1,421</b>	<b>\$ 10,764,365</b>	<b>\$ 7,895,930</b>

- (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 \$28.8 million and \$5.9 million, respectively, through the year ending 2030. The payment of subsidy by the IRS in fiscal year 2017 was reduced by 6.9% 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 0.83%, 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 8, 2018 and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus 0.30%. An assumed rate of 1.036% was used to project the interest rate payment in this table.
- (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 \$108.9 million less.
- (6) The interest is before federal subsidy for the San Francisco Water Enterprise, San Francisco Wastewater and Hetch Hetchy Water and Power of \$447.9 million, \$64.0 million and \$6.6 million through the fiscal year ending 2051 respectively. The payment of subsidy by the IRS in fiscal year 2017 was reduced by 6.9% due to federal sequestration. Future interest subsidy may be reduced as well.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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**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, 2017, are as follows:

**Governmental Activities - General Obligation Bonds**

Authorized and unissued as of June 30, 2016.....	\$ 1,623,225
Bonds issued:	
Series 2016F Affordable Housing .....	(75,130)
Series 2017A Public Health and Safety.....	(173,120)
<b>Net authorized and unissued as of June 30, 2017.....</b>	<b>\$ 1,374,975</b>

In November 2016, the City issued Affordable Housing General Obligation Bonds Series 2016F (the "Series 2016F") in the amount of \$75.1 million with interest rates ranging from 2.0% to 3.1% and maturity from June 2017 through June 2036. The proceeds of the Series 2016F will be used to finance certain affordable housing improvements, fund a middle-income rental program, provide for homeownership down payment assistance opportunities for educators and middle-income households and pay certain costs related to the issuance of the Series 2016F.

In February 2017, the City issued Public Health and Safety General Obligation Bonds Series 2017A (the "Series 2017A") in the amount of \$173.1 million to provide funds for certain public health and safety improvements and pay certain costs related to the issuance of the Series 2017A. The Series 2017A bears interest rates ranging from 2.0% to 5.0% with principal amortizing from June 2017 to June 2036.

The debt service payments are funded through ad valorem taxes on property.

Certificates of Participation

In June 2017, the City issued Certificates of Participation (Hope SF) Series 2017A for \$28.3 million to provide funds to: 1) 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 Hunters View project (Hope SF) and related improvements and equipment; 2) fund the 2017 Reserve Account of the Reserve Fund established under the Trust Agreement for the Series 2017A; and 3) pay costs of execution and delivery of the Series 2017A. The Series 2017A bears interest rates ranging from 3.2% to 4.0% with principal amortizing from April 2018 through April 2047.

As previously discussed, in May 2017, the City sold two City office buildings located at 30 Van Ness Avenue and 1660-1680 Mission Street for a combined amount of \$122.0 million. The sales proceeds will be used: 1) together with the residual fund balance of the reserve funds of \$22.7 million and \$1.6 million were deposited in June 2017 with the escrow agent and invested in Treasury Bills. The escrow fund will be held in trust solely for the benefit of the owners of the COP Series 2001A (30 Van Ness) and Series 2007A (City Office Buildings) and the moneys and securities held in the escrow fund will be irrevocably set aside for the payment of the COP Series 2001A and Series 2007A as provided in the escrow agreement. Accordingly, the \$24.8 million and \$2.3 million outstanding balance of COP Series 2001A and Series 2007A, respectively, are now considered retired and defeased; 2) and will be used to help fund the development costs of a new office building at 1500 Mission Street. The planned building at 1500 Mission Street will be a One-Stop Permitting Center that would improve service to planning, building, and street permit applicants by collocating the Departments of Building Inspection, City Planning, and Public Works.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
 June 30, 2017  
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As of June 30, 2017, the City has a total of \$551.8 million of certificates of participation payable by pledged revenues from the base rental payments payable by the City. The total debt service requirement on the certificates of participation is \$833.0 million payable through April 1, 2047. For the year ended June 30, 2017, principal and interest paid by the City totaled \$66.1 million and \$25.4 million, respectively.

**Lease Revenue Bonds**

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2017, were as follows:

<b>Governmental Activities - Lease Revenue Bonds</b>	
Authorized and unissued as of June 30, 2016.....	\$ 175,382
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program.....	3,386
Current year maturities in Finance Corporation's equipment program.....	4,495
Net authorized and unissued as of June 30, 2017.....	\$ 183,263

**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 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 \$221.4 million payable through June 2034. For the year ended June 30, 2017, principal and interest paid by the Corporation in the form of lease payments made by the City totaled \$14.0 million and \$4.8 million, respectively.

*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, 2017, the amount authorized and outstanding was \$71.1 million, and \$2.0 million, respectively.

**Public Safety Radio Lease Purchase Financing**

In December 2016, the City, as the lessee, entered into a lease purchase financing agreement in the amount of \$34.2 million with Banc of America Public Capital Corp through the Golden State Financial Marketplace, as the lessor to finance the City's public safety radio replacement project. This project is for the purchase and installation of a new citywide 800 MHz Radio public safety and service network

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with Motorola, Inc. and the maintenance and support necessary to maintain the old system during the transition and the new system once it is accepted by the City. The principal obligation bears interest rate of 1.6991% to be amortized semi-annually from June 2017 to December 2026.

**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 \$21.0 million of the outstanding balance in December 2016 and borrowed an additional \$46.0 million in April 2017. As of June 30, 2017, \$139.7 million of the Revolving Credit Agreement balance was outstanding, with an interest rate of 1.036%.

**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, 2016 and 2017, the Airport has authorized the issuance of up to \$7.80 billion of San Francisco International Airport Second Series Revenue Bonds (Capital Plan 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, 2017, \$5.50 billion of the authorized capital plan bonds remained unissued.

**On-Airport Hotel Second Series Revenue Bonds and Related Special Facility Bonds**

Pursuant to resolutions adopted in fiscal years 2016 and 2017, the Airport has authorized the issuance of \$278.0 million of Capital Plan Bonds and \$260.0 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. 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 \$278.0 million, which will be applied to the \$255.0 million construction costs of the hotel and AirTrain station, capitalized interest on the Hotel Special Facility Bonds and other costs of issuance. In fiscal years 2016 and 2017, 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.

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*Second Series Revenue Bonds, Series 2016B/C*

In September 2016, the Airport issued its long-term, fixed rate Capital Plan Bonds Series 2016B and 2016C in the aggregate principal amount of \$740.1 million to finance and refinance (through the repayment of CP notes) the following projects, among others: (a) redevelopment of Terminal 1 including the construction of an interim Boarding Area B and the design and construction of a new 24-gate Boarding Area B facility, (b) relocation of a firehouse and vehicle security checkpoint to accommodate the expansion of Boarding Area B and the related realignment of Taxiways H and M, (c) relocation of ground transportation facilities to accommodate the expansion of Boarding Area B, (d) construction of new administration campus to consolidate some Airport administrative departments, (e) upgrades to operating systems-related components for the AirTrain extension, (f) gate enhancements to accommodate larger aircraft and address demand-driven gate needs, and (g) various technology improvements to upgrade network services.

**Second Series Revenue Refunding Bonds**

Pursuant to resolutions adopted between fiscal years 2005 through 2016, the Airport has authorized the issuance of up to \$8.40 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Master Bond Resolution Bonds and outstanding subordinate CP notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums.

As of June 30, 2017, \$1.00 billion of such refunding bonds remained authorized but unissued.

During the fiscal year 2017, the Airport issued the following new refunding bonds under the 1991 Master Bond Resolution:

*Second Series Revenue Refunding Bonds, Series 2016D*

In September 2016, the Airport issued its Second Series Revenue Refunding Bonds, Series 2016D in the principal amount of \$147.8 million to advance refund and legally defease long-term fixed rate Series 2010C, 2011D and 2011G bonds. The Series 2016D bonds bear interest at a fixed rate of 5.0% and final maturity of May 1, 2031. The net proceeds of \$188.1 million were used to pay \$0.3 million underwriter's discount and \$0.2 million in costs of issuance and deposit \$187.6 million into irrevocable escrow funds with the Senior Trustee to defease and refund \$158.0 million in revenue bonds as described below.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond Issue:			
2010C (Non-AMT)	\$ 42,210	4.00%-5.00%	100%
2011D (Non-AMT)	39,245	5.00%	100%
2011G (Non-AMT)	76,535	5.00%-5.25%	100%
Total	<u>\$ 157,990</u>		

The refunded bonds were legally defeased and scheduled for redemption on May 1, 2020 (Series 2010C) and May 3, 2021 (Series 2011D and Series 2011G). Accordingly, the liability for these bonds has been removed from the accompanying statements of net position. The refunding resulted in the recognition of a deferred accounting gain of \$0.2 million for year ended June 30, 2017. The Airport reduced its aggregate debt service payments by approximately \$15.0 million over the next fourteen years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of \$13.5 million.

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**Variable Rate Demand Bonds**

As of June 30, 2017, the Airport had outstanding aggregate principal amount of \$460.8 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 of and interest on, and payment of purchase price of 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 table below. Amounts drawn under a LOC that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Bond 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, 2017, there were no unreimbursed draws under these facilities.

The LOC securing the Variable Rate Bonds included in long-term debt as of June 30, 2017, are as follows:

	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal Amount	\$93,130	\$37,820	\$33,655	\$86,930	\$209,240
Expiration Date	June 29, 2018	April 25, 2018	April 25, 2018	January 28, 2019	June 29, 2020
Credit Provider	Wells Fargo <sup>(1)</sup>	BTMU <sup>(2)</sup>	BTMU <sup>(2)</sup>	MUFJ Union Bank <sup>(3)</sup>	Bank of America <sup>(4)</sup>

- (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

**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.



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In December 2010, the Airport terminated a swap with Depfa Bank plc associated with the Series 2010A-3 Bonds, with a notional amount of \$72.0 million. 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. However, the swap associated with the Issue 37B Bonds is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes. As a practical matter, the swap associated with the Issue 37B Bonds also serves as an indirect hedge on the unhedged portions of the Issue 36B and Issue 36C Bonds when viewed alongside the Airport's other swaps, and only to the extent that the swap's notional amount exceeds the outstanding amount of 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 Refunding Bonds, Series 2011H and terminated the swap with JP Morgan Chase Bank, N.A. associated with Issue 36D, which had an initial notional amount of \$30.0 million. 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 any time upon making a market-based termination payment solely at the option of the Airport.

As of June 30, 2017, 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, 2017.

No.	Current Bonds	Initial Notional Amount	Notional Amount June 30, 2017	Effective Date
1	36AB	\$ 70,000	\$ 65,170	2/10/2005
2	36AB	69,930	65,135	2/10/2005
3	36C	30,000	27,930	2/10/2005
4	2010A (37B)**	79,684	77,061	5/15/2008
5	37C	89,856	86,899	5/15/2008
6	2010A**	143,947	140,230	2/1/2010
Total		<u>\$ 483,417</u>	<u>\$ 462,425</u>	

\* 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 2010A-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.

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In addition, pursuant to GASB 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 72 fair value hierarchy.

As of June 30, 2017, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport are as follows:

No.	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%	\$ (5,510)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.445%	(5,513)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.444%	(2,363)
4	2010A (37B)**	Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG	AA/Aa3/NR*	3.773%	(12,652)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.898%	(14,581)
6	2010A***	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	A+/A3/A*	3.925%	<u>(25,346)</u>
Total					<u>\$ (65,965)</u>

\* 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 Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

\*\*\* Hedges Series 2010A-1 and 2010A-2.

**Fair Value Hierarchy**

	Fair Value June 30, 2017	Fair value measurements using significant other observable inputs (Level 2)
Interest rate swaps	\$ (65,965)	\$ (65,965)

**Change in Fair Value**

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2017 is as follows:

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2016	\$ 83,614	\$ 96,132
Change in fair value to year-end	(28,744)	(30,167)
Balance as of June 30, 2017	<u>\$ 54,870</u>	<u>\$ 65,965</u>

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 statement 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 of resources (if a termination payment would be due to the counterparty) or inflow of resources (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, 2017.

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*Risks*

**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 year ended June 30, 2017, the Airport paid a total of \$0.6 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, 2017, 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 a market-based termination value, which may result in a payment to or from 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. 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, 2017, 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 the interest rate swaps are terminable at their termination price 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:

No.	Swap	Swap Insurer	Insurer Credit ratings June 30, 2017 (S&P/Moody's/Fitch)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	A/A3/NR
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	A/A3/NR
3	Issue 36C	Assured Guaranty Municipal Corp.	AA/A2/NR
4	Series 2010A (37B)	Assured Guaranty Municipal Corp.	AA/A2/NR
5	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR
6	Series 2010A	None	N/A

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If the Airport is rated between Baa1/BBB+ and Baa3/BBB- (Moody's/S&P), 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- (Moody's/S&P) 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 a specific rating threshold, 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.

In December 2016, S&P upgraded the credit rating of Goldman Sachs Bank USA, the swap counterparty on the Series 2010A Swap, from "A" to "A+" and upgraded the credit rating of Merrill Lynch Derivative Products AG, the guarantor on Issue 37B (2010A) Swap, from "AA-" to "AA".

The downgrade of any swap counterparty is an indicative of an increased 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 related to the fair value of such swap, depending on market conditions at the time. As of June 30, 2017, the fair value of each swap was negative to the Airport as shown above.

Water Enterprise

*Water Revenue Refunding Bonds 2016 Series AB*

In October 2016, the Water Enterprise issued tax-exempt revenue bonds, 2016 Series AB in the aggregate amount of \$893.8 million. The 2016 Series A bonds were issued for the purpose of refunding a portion of the outstanding 2009 Series A bonds maturing on and after November 1, 2020, a portion of the outstanding 2009 Series B bonds maturing on and after November 1, 2020, and a portion of the outstanding 2010 Series F bonds maturing on and after November 1, 2021. The 2016 Series B bonds were issued to refund, on a current basis, all the outstanding 2006 Series B and Series C bonds, and a portion of the outstanding 2010 Series A bonds maturing on and after November 1, 2020. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2016 Series AB bonds include serial bonds with interest rates ranging from 1.50% to 5.00% and have a final maturity in 2039. The Series AB bonds have a true interest cost of 2.85%. Unamortized bond issuance costs at the date of refunding were \$145 for 2006 Series B bonds and \$54 for 2006 Series C bonds. The refunding resulted in the recognition of a deferred accounting loss of \$106.2 million, gross debt service savings of \$136.0 million, and an economic gain of \$107.2 million or 11.52% of refunded principal. As of June 30, 2017, the principal amount of 2016 Series AB bonds outstanding was \$882.4 million.

*Water Revenue Bonds 2016 Series C*

In December 2016, the Water Enterprise issued taxable bonds, 2016 Series C in the amount of \$259.4 million. The bonds were issued as Green Bonds. The purpose of the bonds was to refund all the

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outstanding taxable commercial paper notes in the approximate amount of \$237.0 million, and to provide \$20.0 million of new money for WSIP capital projects. The bonds carried "Aa3" and "AA-" ratings from Moody's and S&P, respectively. The 2016 Series C bonds include serial bonds with interest rates ranging from 0.87% to 3.95% and have a final maturity in 2046, and two term bonds with 4.035% and 4.185% interest rates and final maturities of 2041 and 2046. The Series C bonds have a true interest cost of 3.97%. As of June 30, 2017, the principal amount of 2016 Series C bonds outstanding was \$259.4 million.

San Francisco Municipal Transportation Agency

In June 2017, the SFMTA issued Revenue Bonds, Series 2017 in the total amount of \$177.8 million to provide funds for the various transit and parking capital projects for the SFMTA. The Series 2017 bonds bear interest at fixed rates between 3.0% to 5.0% and have a final maturity on March 1, 2047.

**(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. Also see SFERS website at <http://mysfers.org>.

Replacement Benefits Plan – The Replacement Benefit Plan (RBP) is a qualified excess benefit plan established in October 1989. Internal Revenue Code Section 415(m) provides for excess benefit arrangements that legally permit benefit payments above the Section 415 limits, provided that the payments are not paid from the SFERS Trust. The RBP allows the City to pay SFERS retirees any portion of the Charter-mandated retirement allowance that exceeds the annual Section 415 (b) limit. The RBP plan does not meet the criteria of a qualified trust under GASB Statement No. 73 because RBP assets are subject to the claims of the employer's general creditors under federal and state law in the event of insolvency.

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 multiple-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, and the Successor Agency, a fiduciary component unit, are eligible to participate in a CalPERS Miscellaneous Plan or a CalPERS Public Employees' Pension Reform Act (PEPRA) Miscellaneous Plan, both are cost-sharing multiple-employer pension plans. In addition, 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](http://www.calpers.ca.gov).

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**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.

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*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 2.0%. The SFERS Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996, will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996, and were hired before January 7, 2012.

For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

**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 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.

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The CalPERS' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	City Miscellaneous Plan		City Safety Plan	
	Prior to January 1, 2013	On or after January 1, 2013*	Prior to January 1, 2013	On or after January 1, 2013
Hire date	2% @ 50	2% @ 57 or 55 or 3% @ 55	2% @ 50, 2% @ 55 or 3% @ 55	2% @ 57 or 2.7% @ 57
Benefit formula	2% @ 50	2% @ 57 or 55 or 3% @ 55	2% @ 50, 2% @ 55 or 3% @ 55	2% @ 57 or 2.7% @ 57
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	5.00%	7.00%	7.00% to 9.00%	10.75% to 13.00%
Required employer contribution rates	10.26%	27.39%	27.39%	21.33% to 26.25%
	Transportation Authority Miscellaneous Plan		Successor Agency Miscellaneous Plan	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date	2.0% @ 55	2% @ 62	2% @ 55	2% @ 62
Benefit formula	2.0% @ 55	2% @ 62	2% @ 55	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%	6.89%	6.50%
Required employer contribution rates	8.88%	6.56%	26.52%	7.08%

\* 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, 2017, the CalPERS' City Safety Plan had a total of 2,307 members who were covered by these benefits, which includes 991 inactive employees or beneficiaries currently receiving benefits, 313 inactive employees entitled to but not yet receiving benefits, and 1,003 active employees.

**Contributions**

For the years ended June 30, 2017 and 2016, the City's actuarial determined contributions were as follows:

	2017	2016
SFERS Plan.....	\$ 519,073	\$ 496,343
City CalPERS Miscellaneous Plan.....	35	33
City CalPERS Safety Plan.....	27,190	23,629
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans.....	293	280
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	970	828
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	2	2
Replacement Benefits Plan.....	-	-
Total.....	<u>\$ 547,563</u>	<u>\$ 521,115</u>

**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 2017 varied from 7.5% to 12.0% as a percentage of gross covered salary. For the year ended June 30, 2017, 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, 2015 actuarial report, the required employer contribution rates for fiscal year 2017 were 17.90% to 21.40%.

**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.

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Replacement Benefits Plan - The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid \$1.3 million replacement benefits in the year ended June 30, 2017.

**Net Pension Liability**

The table below shows how the net pension liability (NPL) as of June 30, 2017 is distributed.

Governmental activities.....	\$ 3,306,484
Business-type activities.....	2,501,732
Fiduciary funds.....	23,281
Component Unit - Treasure Island Development Authority....	27
Total.....	<u>\$ 5,831,524</u>

As of June 30, 2017, the City's NPL is comprised of the following:

	Proportionate Share	Share of Net Pension Liability (Asset)
SFERS Plan.....	94.2175%	\$ 5,476,654
City CalPERS Miscellaneous Plan.....	-0.1469%	(12,711)
City CalPERS Safety Plan.....	N/A	263,908
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans....	0.0204%	1,765
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	0.2691%	23,281
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	0.0003%	27
Replacement Benefits Plan.....	N/A	78,600
Total.....		<u>\$ 5,831,524</u>

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 for each of its cost-sharing plans is measured as of June 30, 2016, 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, 2015, rolled forward to June 30, 2016, 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
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The City's proportionate share and NPL of each of its cost-sharing plans as of June 30, 2016 and 2015 were as follows:

	June 30, 2016 (Measurement Date)		June 30, 2015 (Measurement Date)		Change
	Proportionate Share	Share of Net Pension Liability (Asset)	Proportionate Share	Share of Net Pension Liability (Asset)	
SFERS Plan.....	94.2175%	\$ 5,476,654	93.9032%	\$ 2,156,049	\$ 3,320,605
City CalPERS Miscellaneous Plan.....	-0.1469%	(12,711)	-0.2033%	(13,956)	1,245
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans....	0.0204%	1,765	0.0188%	1,288	477
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	0.2691%	23,281	0.2413%	16,583	6,718
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	0.0003%	27	0.0004%	24	3
Total.....		<u>\$ 5,489,016</u>		<u>\$ 2,159,968</u>	<u>\$ 3,329,048</u>

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, 2015 (VD).....	\$ 1,119,705	\$ 930,868	\$ 188,837
Change in year:			
Service cost.....	31,141	-	31,141
Interest on the total pension liability.....	85,094	-	85,094
Differences between expected and actual experience.....	950	-	950
Contributions from the employer.....	-	23,640	(23,640)
Contributions from employees.....	-	14,310	(14,310)
Net investment income.....	-	4,731	(4,731)
Benefit payments, including refunds of employee contributions.....	(47,774)	(47,774)	-
Administrative expense.....	-	(567)	567
Net changes during measurement period.....	<u>69,411</u>	<u>(5,660)</u>	<u>75,071</u>
Balance at June 30, 2016 (MD).....	<u>\$ 1,189,116</u>	<u>\$ 925,208</u>	<u>\$ 263,908</u>

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The City's NPL for the Replacement Benefits Plan is measured as the total pension liability as there are no assets in the plan. The change in the NPL for the City Replacement Benefits Plan is as follows:

	<b>Increase (Decrease)</b>
	<b>Net Pension</b>
	<b>Liability (Asset)</b>
Balance at June 30, 2015 (VD).....	\$ 55,038
Change in year:	
Service cost.....	956
Interest on the total pension liability.....	2,112
Changes of benefits.....	10,310
Changes of assumptions.....	11,516
Benefit payments, including refunds of employee contributions.....	(1,332)
Net changes during measurement period.....	23,562
Balance at June 30, 2016 (MD) .....	\$ 78,600

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2017, 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	
SFERS Plan.....	\$ 971,273	\$ 837,719	\$ -	\$ -	\$ 1,808,992
City CalPERS Miscellaneous Plan.....	322	-	-	-	322
City CalPERS Safety Plan.....	31,243	-	-	-	31,243
Transportation Authority CalPERS Classic & PEPRAMiscellaneous Plans.....	134	-	-	-	134
Successor Agency CalPERS Classic & PEPRAMiscellaneous Plans.....	-	-	3,900	-	3,900
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	-	-	-	8	8
Replacement Benefits Plan.....	14,349	-	-	-	14,349
Total pension expense.....	\$ 1,017,321	\$ 837,719	\$ 3,900	\$ 8	\$ 1,858,948

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At June 30, 2017, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	SFERS Plan		CaIPERS Miscellaneous Plans		City CaIPERS Safety Plan		Replacement Benefits 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	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date.....	\$ 519,073	\$ -	\$ 1,300	\$ -	\$ 27,190	\$ -	\$ -	\$ -	\$ 547,563	\$ -
Change in assumptions.....	942,132	27,630	-	422	-	10,671	9,213	-	951,345	38,723
Difference between expected and actual experience.....	-	201,818	44	10	712	7,606	-	-	756	209,434
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions.....	9,627	5,132	2,045	10,183	-	-	-	-	11,672	15,315
Net differences between projected and actual earnings on plan investments.....	748,804	-	2,197	-	50,227	-	-	-	801,228	-
<b>Total.....</b>	<b>\$ 2,219,636</b>	<b>\$ 234,580</b>	<b>\$ 5,586</b>	<b>\$ 10,615</b>	<b>\$ 78,129</b>	<b>\$ 18,277</b>	<b>\$ 9,213</b>	<b>\$ -</b>	<b>\$ 2,312,564</b>	<b>\$ 263,472</b>



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At June 30, 2017, the City reported \$547.6 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, 2018. 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
2018.....	\$ 213,134
2019.....	214,051
2020.....	613,203
2021.....	461,141
Total	\$ 1,501,529

**Actuarial Assumptions**

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2016, is provided below, including any assumptions that differ from those used in the July 1, 2015, actuarial valuation.

	<u>SFERS Plan and Replacement Benefits Plan (RBP)</u>	<u>CalPERS Miscellaneous and Safety Plans</u>
Valuation date.....	June 30, 2015 updated to June 30, 2016	June 30, 2015 updated to June 30, 2016
Measurement date.....	June 30, 2016	June 30, 2016
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 (SFERS)	7.50%, net of pension plan investment expense, including inflation
Municipal bond yield.....	Not applicable for RBP 3.85% as of June 30, 2015 2.85% as of June 30, 2016 Bond Buyer 20-Bond GO Index, July 2, 2015 and July 30, 2016	
Inflation.....	3.25%	2.75%
Projected salary increases.....	3.75% plus merit component based on employee classification and years of service	Varies by Entry Age and Service
Discount rate.....	7.50% as of June 30, 2016 (SFERS) 2.85% as of June 30, 2016 (RBP)	7.65% as of June 30, 2016
Basic COLA.....	Old Miscellaneous and All New Plans..... 2.00% Old Police and Fire: Pre 7/1/75 Retirements..... 2.70% Chapters AB 595 and AB 596..... 3.30% Chapters AB 559 and AB 585..... 4.40%	Miscellaneous: Contract COLA up to 2.75% until Purchasing Protection Allowance Floor on Purchasing Power applies. 2.75% thereafter. Safety standard COLA 2.0%

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

The actuarial assumptions used in the SFERS June 30, 2015, valuation was based upon the results of an experience study for the period July 1, 2009, through June 30, 2014.

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, 2015, valuation was 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.

For the Replacement Benefits Plan beginning of the year measurements are also based on the census data as of June 30, 2015. Because the beginning and ending values are based on the same census data, no liability gains or losses due to experience are reported this year.

**CITY AND COUNTY OF SAN FRANCISCO**  
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**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 7.46% as of June 30, 2015, and 7.50% as of June 30, 2016.

The discount rate used to measure SFERS Plan's total pension liability as of June 30, 2016 was 7.50%. 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. For the July 1, 2016 valuation, the increase in the Unfunded Actuarial Liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014, are amortized over 17-years and 5-years respectively. 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 actuarial valuation do not anticipate any future 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 members who worked after November 6, 1996, and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996, and before Proposition C passed, the Market Value of Assets must also exceed the Actuarial Liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

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, 2016, 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	96 - Prop C	Before 11/6/96 or After Prop C
2018	0.750%	0.000%
2023	0.750%	0.220%
2028	0.750%	0.322%
2033	0.750%	0.370%
2038+	0.750%	0.375%

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.



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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 2093 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 2.85% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2016, is 7.50%.

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 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	40.0%	5.1%
Fixed Income	20.0%	1.1%
Private Equity	18.0%	6.3%
Real Assets	17.0%	4.3%
Hedge Funds/Absolute Return	5.0%	3.3%

CalPERS - The discount rate used to measure each of the CalPERS Miscellaneous Plans and the Safety Plan total pension liability was 7.65%. 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% 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 for each fund. 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.

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The table below reflects long-term expected real rate of return by asset class adopted by the Board, effective on July 1, 2015. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1 - 10 <sup>(1)</sup></u>	<u>Real Return Years 11+ <sup>(2)</sup></u>
Global equity	51.00%	5.25%	5.71%
Global fixed income	20.00%	0.99%	2.43%
Inflation sensitive	6.00%	0.45%	3.36%
Private equity	10.00%	6.83%	6.95%
Real estate	10.00%	4.50%	5.13%
Infrastructure and forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

<sup>(1)</sup> An expected inflation of 2.5% used for this period.  
<sup>(2)</sup> An expected inflation of 3.0% used for this period.

Replacement Benefits Plan - The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 3.85% as of June 30, 2015, and 2.85% as of June 30, 2016. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of July 2, 2015 and June 30, 2016. These are the rates used to determine the total pension liability as of June 30, 2015, and June 30, 2016.

The inflation assumption of 3.25% compounded annually was used for projecting the annual IRC Section 415(b) limitations. However, the actual IRC Section 415(b) limitations published by the IRS of \$210 for 2015 and 2016 was used for both the 2015 and 2016 measurement dates.

The SFERS assumptions about Basic and Supplemental COLA previously discussed also apply to the Replacement Benefits Plan, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

Membership in the plan include 33,447 active members and 84 retirees and beneficiaries currently receiving benefits.

**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 1.0% lower or 1.0% higher than the current rate.

<u>Cost-Sharing Pension Plans</u>	<u>1% Decrease Share of NPL @ 6.50%</u>	<u>Current Share of NPL @ 7.50%</u>	<u>1% Increase Share of NPL @ 8.50%</u>
Proportionate Share of Net Pension Liability			
SFERS.....	\$ 8,678,794	\$ 5,476,654	\$ 2,828,104
	<u>1% Decrease Share of NPL @ 6.65%</u>	<u>Current Share of NPL @ 7.65%</u>	<u>1% Increase Share of NPL @ 8.65%</u>
City CalPERS Miscellaneous Plan.....	\$ (9,903)	\$ (12,711)	\$ (15,032)
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans.....	2,978	1,765	763
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	37,564	23,281	11,478
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	37	27	19

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The following presents the City's NPL for each of the City's agent multiple-employer plans, calculated using the discount rate, in effect as of the measurement date, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate:

<b>Agent Pension Plan</b>	<b>1% Decrease @ 6.65%</b>	<b>Measurement Date @ 7.65%</b>	<b>1% Increase @ 8.65%</b>
City CalPERS Safety Plan.....	\$ 425,527	\$ 263,908	\$ 130,402
	<b>1% Decrease @ 1.85%</b>	<b>Measurement Date @ 2.85%</b>	<b>1% Increase @ 3.85%</b>
Replacement Benefits Plan.....	\$ 96,762	\$ 78,600	\$ 56,782

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](http://www.calpers.ca.gov).

**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.

**(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 postemployment 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.

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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, 2017, the City paid \$165.5 million for postemployment healthcare benefits on behalf of its retirees and contributed \$18.4 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	\$ 362,700
Interest on Net OPEB obligation	98,562
Adjustment to annual required contribution	(39,860)
Annual OPEB cost	421,402
Contribution made	(183,898)
Increase in net OPEB obligation	237,504
Net OPEB obligation - beginning of year	2,147,434
Net OPEB obligation - end of year	<u>\$2,384,938</u>

The table below shows how the total net OPEB obligation as of June 30, 2017, is distributed.

Governmental activities	\$ 1,338,592
Business-type activities	974,031
Fiduciary funds	72,315
Net OPEB obligation - end of year	<u>\$2,384,938</u>

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
6/30/2015	\$ 363,643	46.0%	\$ 1,990,155
6/30/2016	326,133	51.8%	2,147,434
6/30/2017	421,402	43.6%	2,384,938

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 \$49.0 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%.

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**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 2015 through 2017 and an ultimate medical inflation rate of 8.00% to 4.50% from 2018 through 2032.

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 2.0% of pay and the employer to contribute 1.0% 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 10.0% of payroll expenses, and will be limited to no more than 10.0% 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, 2017. The Transportation Authority's most recent actuarial valuation was performed as of June 30, 2015, covering the year ended June 30, 2017. The Transportation Authority's OPEB plan is for retiree healthcare benefits and was 57.3% funded and the UAAL was \$0.9 million. As of the June 30, 2015, actuarial valuation, 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, 2017. Financial statements for the

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Transportation Authority can be obtained from their finance and administrative offices at 1455 Market Street, 22<sup>nd</sup> Floor, San Francisco, CA 94103 or the Transportation Authority's website.

As of June 30, 2017, the Transportation Authority's annual OPEB expense of \$200.5 was greater than the ARC. Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2015	\$ 138.4	100.0%	\$ -
6/30/2016	200.7	103.0%	(5.8)
6/30/2017	200.5	97.1%	-

**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 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](http://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 100.0% 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, 2017, 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.

The following table shows the components of the Successor Agency's annual OPEB cost for the year ended June 30, 2017, and the changes in the net OPEB obligation:

Annual required contribution	\$ 813
Interest on Net OPEB obligation	30
Adjustment to annual required contribution	(39)
Annual OPEB cost	804
Contribution made	(1,232)
Decrease in net OPEB obligation	(428)
Net OPEB obligation - beginning of year	430
Net OPEB obligation - end of year	<u>\$ 2</u>

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Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 918	104%	\$ 833
6/30/2016	796	151%	430
6/30/2017	804	153%	2

**Funded Status and Funding Progress** – 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)	\$ 10,998
Actuarial value of plan assets	2,833
Unfunded actuarial accrued liability (UAAL)	<u>\$ 8,165</u>
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%

**Actuarial Methods and Assumptions** – 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, 2017, 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 4.0%; (c) inflation rate of 2.75%; (d) payroll growth of 2.75%; and (e) 2014 CalPERS active mortality table 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.

**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 \$713.9 million in fiscal year 2016-17. 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 \$201.5 million to provide postemployment health care benefits for 27,561 retired participants, of which \$165.4 million related to City employees. 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.

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**(10) FUND EQUITY**

**(a) Governmental Fund Balance**

Fund balances for all the major and nonmajor governmental funds as of June 30, 2017, were distributed as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Imprest Cash, Advances, and Long Term Receivables	\$ 525	\$ 82	\$ 607
Restricted			
Rainy Day	125,689	44,248	169,937
Public Protection			
Police	-	18,536	18,536
Sheriff	-	1,084	1,084
Other Public Protection	-	11,264	11,264
Public Works, Transportation & Commerce	-	207,549	207,549
Human Welfare & Neighborhood Development	-	255,546	255,546
Affordable Housing	-	300,750	300,750
Community Health	-	23,850	23,850
Culture & Recreation	-	154,290	154,290
General Administration & Finance	-	24,218	24,218
Capital Projects	-	515,405	515,405
Debt Service	-	144,280	144,280
Total Restricted	<u>125,689</u>	<u>1,701,020</u>	<u>1,826,709</u>
Committed			
Budget Stabilization	323,204	-	323,204
Recreation and Parks Expenditure Savings	4,403	-	4,403
Total Committed	<u>327,607</u>	<u>-</u>	<u>327,607</u>
Assigned			
Public Protection			
Police	5,709	1,498	7,207
Sheriff	2,620	2,728	5,348
Other Public Protection	26,700	-	26,700
Public Works, Transportation & Commerce	75,662	36,902	112,564
Human Welfare & Neighborhood Development	73,064	9,761	82,825
Affordable Housing	34,615	-	34,615
Community Health	137,819	-	137,819
Culture & Recreation	4,738	13,445	18,183
General Administration & Finance	75,206	14,079	89,285
General City Responsibilities	96,534	-	96,534
Capital Projects	145,714	-	145,714
Litigation and Contingencies	136,080	-	136,080
Subsequent Year's Budget	273,827	-	273,827
Total Assigned	<u>1,088,288</u>	<u>78,413</u>	<u>1,166,701</u>
Unassigned	328,594	(245,445)	83,149
Total	<u>\$ 1,870,703</u>	<u>\$ 1,534,070</u>	<u>\$ 3,404,773</u>

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**(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 2017-18 through 2021-22.

***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 2017-18 through 2021-22.

***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, 2017, encumbrances recorded in the General Fund and nonmajor governmental funds were \$244.2 million and \$277.3 million, respectively.

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**(d) Restricted Net Position**

At June 30, 2017, the government-wide statement of net position reported restricted net position of \$1,473.2 million in governmental activities and \$690.6 million in business-type activities, of which \$16.2 million and \$90.9 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 \$386.5 million of unrestricted net position of governmental activities, of which \$304.2 million reduced net investment in capital assets and \$82.3 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 Human Welfare Fund and Senior Citizens' Program Fund had deficits of \$3.5 million, and \$0.8 million, respectively, as of June 30, 2017. The deficits relate to unavailable revenue in various programs which is expected to be collected beyond 60 days of the end of fiscal year 2017.

The Moscone Convention Center Fund had a \$241.2 million deficit as of June 30, 2017. The deficit is primarily related to the issuance of commercial paper for the construction of the Moscone Center Expansion and Improvement Project 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 \$14.8 million and \$23.1 million, respectively, as of June 30, 2017, 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, 2017, the Successor Agency has a deficit of \$388.8 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.

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**(11) UNAVAILABLE RESOURCES IN GOVERNMENTAL FUNDS**

The deferred inflows of resources balance in governmental funds as of June 30, 2017 consists of the following unavailable resources:

	General Fund	Other Governmental Funds	Total Governmental Funds
Grant and subvention revenues.....	\$ 83,757	\$ 56,126	\$ 139,883
Property Tax.....	62,512	15,843	78,355
Teeter Plan.....	38,469	-	38,469
SB 90.....	8,218	-	8,218
Advances to Successor Agency.....	-	13,149	13,149
PG&E franchise tax.....	3,346	-	3,346
Loans.....	9,666	79,759	89,425
Total.....	<u>\$ 205,968</u>	<u>\$ 164,877</u>	<u>\$ 370,845</u>

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 (Expenditure 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

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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 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). In May 2017, the Transportation Board approved the 2017 Proposition AA Strategic Plan and programmed revenues for projects over the five-year period, covering fiscal years 2017/18 to 2021/22. 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.

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**(13) DETAILED INFORMATION FOR ENTERPRISE FUNDS**

**(a) San Francisco International Airport**

San Francisco International Airport (the Airport or SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five-member Commission is responsible for the operation, development and management of the Airport. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County, between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to the 2016 North American Traffic Report from the Airports Council International (ACI), the Airport is the seventh busiest airport in the United States in terms of passengers and fifteenth in terms of cargo tonnage. The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

**Revenue Pledge** – The Airport has pledged all of the Net Revenues (as defined in bond resolutions adopted by the Airport Commission) to repay the following obligations, when due, in order of priority, (1) the San Francisco International Airport Second Series Revenue Bonds (Senior Bonds) and a portion of amounts due to reimburse drawings under the letters of credit securing the Senior Bonds, (2) the Subordinate Commercial Paper Notes and any other obligations (Subordinate Bonds) and amounts due to reimburse drawings under the letters of credit securing the Commercial Paper Notes, (3) remaining amounts due to reimburse drawings under the letters of credit securing the Senior Bonds, and (4) interest rate swap termination payments.

During fiscal year 2017, the original principal amount of the Senior Bonds and Commercial Paper Notes issued, principal and interest remaining due on outstanding Senior Bonds and Commercial Paper Notes, principal and interest paid on such obligations, and applicable Net Revenues are as set forth in the table below. There were no unreimbursed drawings under any letter of credit or interest rate swap termination payments due.

Bonds issued with revenue pledge .....	\$ 887,920
Bond principal and interest remaining due at end of the fiscal year .....	7,985,585
Commercial paper issued with subordinate revenue pledge .....	179,000
Commercial paper principal and interest remaining due at end of the fiscal year ...	178,564
Net revenues .....	489,378
Bond principal and interest paid in the fiscal year .....	408,750
Commercial paper principal, interest and fees paid in the fiscal year .....	4,106

**Debt Service Requirement** – Under the terms of the 1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the Airport's parity common account (the Issue 1 Reserve Account), the Airport is required to deposit with the trustee an amount equal to the maximum annual debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the Issue 1 Reserve Account. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified levels of insurance or self-insurance.

Under the terms of the 1991 Master Bond Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

- (i) Net revenues in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make the annual service payment to the City, and

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- (ii) Net revenues, together with any transfer from the Contingency Account to the Revenue Account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond Resolution for calculating debt service coverage differs from GAAP used to determine amounts reported in the Airport's financial statements.

**Passenger Facility Charges** – The Airport, as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), as amended, imposes a Passenger Facility Charge (PFC) of \$4.50 or \$3.00 for each enplaned passenger at the Airport. Under the Act, air carriers are responsible for the collection of PFC and are required to remit PFC revenues to the Airport in the following month after they are recorded by the air carrier. As of June 30, 2017, the FAA has approved Airport applications (PFC #2 to PFC #7) for collection with a total cumulative collection amount of \$2.04 billion while Airport applications (PFC #2 to PFC #6) has been approved for use with a total cumulative use amount of \$1.70 billion. The final charge expiration date is estimated to be February 1, 2030. The Airport is working with the FAA to change the expiration date for PFC #3 and the charge effective date for PFC #5 from January 1, 2017, to November 1, 2013, because PFC #3 was fully collected earlier than originally anticipated due to increased passenger levels. For the year ended June 30, 2017, the Airport reported approximately \$104.0 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements.

**Commitments and Contingencies** – In addition to the long-term obligations discussed in Note 8, there were \$68.2 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2017, which financed improvements to the Airport's aviation fuel storage and delivery system that is leased to SFO Fuel Company LLC (SFO Fuel), a special purpose limited liability company founded by certain airlines operating at the Airport. SFO Fuel agreed to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements. Rent from Fuel System Lease with SFO Fuel is pledged until the maturity of the SFO Fuel bonds on January 1, 2027, unless additional bonds (including refunding bonds) with a later maturity are issued.

Purchase commitments for construction, material and services as of June 30, 2017 are as follows:

Construction .....	\$ 188,826
Operating .....	28,896
Total .....	<u>\$ 217,722</u>

**Transactions with Other Funds** – Pursuant to the Lease and Use Agreement between the Airport and most of the airlines operating at the Airport, the Airport makes an annual service payment to the City's General Fund equal to 15% of concession revenue (net of certain adjustments), but not less than \$5.0 million per fiscal year, in order to compensate the City for all indirect services provided to the Airport. The annual service payment for the year ended June 30, 2017 was \$45.0 million and was recorded as a transfer. In addition, the Airport compensates the City's General Fund for the cost of certain direct services provided by the City to the Airport, including those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. The cost of direct services paid for by the Airport for the year ended June 30, 2017, was \$147.4 million.

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**Business Concentrations** - In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. For the year ended June 30, 2017, revenues realized from the following Airport tenant exceeded five percent of the Airport's total operating revenues:

United Airlines ..... 23.9%

**(b) Port of San Francisco**

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). In February 1969, the Port was transferred in trust to the City under the terms and conditions of State legislation ("Burton Act") ratified by the electorate of the City. Prior to 1969, the Port was operated by the State of California. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

**Pledged Revenues** – The Port's revenues, derived primarily from property rentals to commercial and industrial enterprises and from maritime operations, which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities, are held in a separate enterprise fund and appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, Port revenues may be spent only for uses and purposes of the public trust.

The Port pledged future net revenues to repay its revenue bonds. Annual principal and interest payments through 2044 are expected to require less than 11% of net pledged revenues as calculated in accordance with the bond indenture. The total principal and interest remaining to be paid on the bonds is \$91.4 million. The principal and interest payments made in 2017 were \$4.2 million and pledged revenues (total net revenues calculated in accordance with the bond indenture) for the year ended June 30, 2017, were \$39.0 million.

The Port has entered into a loan agreement with the California Department of Boating and Waterways for \$3.5 million to finance certain Hyde Street Harbor improvements. The loan is subordinate to all bonds payable by the Port and is secured by gross revenues as defined in the loan agreement. Total principal and interest remaining to be paid on this loan is \$2.8 million. Annual principal and interest payments were \$0.23 million in 2017 and pledged harbor revenues were \$0.12 million for the year ended June 30, 2017.

**Commitments and Contingencies** – The Port is presently planning various development and capital projects that involve a commitment to expend significant funds. As of June 30, 2017, the Port had purchase commitments for construction-related services, materials and supplies, and other services were \$13.7 million for capital projects and \$3.2 million for general operations.

Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to \$30.0 million over a 20-year period for pier removal, parks and plazas, and other public access improvements. Through June 30, 2017, \$46.6 million expended for projects under the agreement. In addition to work directly funded by the Port, the deck and pilings that form the valley between Piers 15 and 17 and a portion on non-historic sheds were removed as part of the construction work completed by The Exploratorium project.

**Transactions with Other Funds** – The Port receives from, and provides services to, various City departments. In 2017, the \$19.0 million in services provided by other City departments included \$2.7 million of insurance premiums and \$0.6 million in workers' compensation expense.

In connection with the planning phase of the Seawall Resiliency Project which commenced July 2016, the Port received \$0.5 million from the San Francisco Municipal Transportation Agency (SFMTA) and \$0.5 million from the Planning Department in support of the project.

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The Port and SFMTA entered into an MOU dated January 25, 2001, which granted the SFMTA the right to use an approximately 17-acre portion of certain Port property for permitted uses, as defined therein. Pursuant to the MOU, SFMTA paid to the Port \$29.7 million in 2001 for the perpetual use and future jurisdictional transfer of this property, subject to the satisfaction of various conditions. With the jurisdiction transfer conditions satisfied and the necessary approvals in place, the Board of Supervisors in July 2017 approved the interdepartmental jurisdictional transfer of this property from the Port Commission to the SFMTA for no additional consideration. The transfer price of \$29.7 million paid in 2001 was the estimated fair market value determined by an independent appraisal at the time it was paid.

**South Beach Harbor Project Obligations** – A portion of the Rincon Point South Beach Redevelopment Project Area is within the Port Area and the former Redevelopment Agency held leasehold interests to certain Port properties. In 2015, the Port and the Office of Community Investment and Infrastructure, Successor Agency to the Redevelopment Agency, completed discussions concerning the transition, termination of Port agreements, and the transfer of operations, assets, and certain associated obligations. The resultant memorandum of agreement has received essential approvals and is in executory status, pending the completion of several closing conditions.

Under BCDC Permit Amendment No. 17 for the South Beach Harbor Project, certain public access and other improvements must be completed by December 31, 2017. Construction estimates prepared by a Port consultant in 2014 indicate that this uncompleted work would cost approximately \$7.9 million, including certain structural repairs, soft costs and recommended contingencies. The Port is working with the water recreation community to develop an alternative public access improvement proposal for BCDC consideration. An extension of time will also be sought to complete the necessary public access improvements. Port management believes that the alternate proposal will provide significant public access improvements that are relevant to the project area and at lower cost.

**Pollution Remediation Obligations** – The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable GAAP, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination. As future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and accrues a liability, if necessary. It is, therefore, reasonably possible that in future reporting periods current estimates of environmental liabilities could materially change.

Port lands are subject to environmental risk elements typical of sites with a mix of light industrial activities dominated by transportation, transportation-related and warehousing activities. Due to the historical placement of fill of varying quality, and widespread use of aboveground and underground tanks and pipelines containing and transporting fuel, elevated levels of petroleum hydrocarbons and lead are commonly found on Port properties. Consequently, any significant construction, excavation or other activity that disturbs soil or fill material may encounter hazardous materials and/or generate hazardous waste.

A 65-acre area commonly known as "Pier 70" has been used for over 150 years for iron and steel works, ship building and repair, and other heavy industrial operations. Much of the site was owned and/or occupied by the U.S. Navy or its contractors for at least 60 years. A long history of heavy industrial use has turned this area into a "brownfield" – an underutilized property area where reuse is hindered by actual or suspected contamination. Fifteen acres remain occupied by an on-going ship repair facility. Environmental conditions exist that require investigation and remediation prior to any rehabilitation or development for adaptive reuse. The lack of adequate information about environmental conditions has hindered previous development proposals for Pier 70.

Investigation work completed in 2011 reduced the uncertainty regarding the nature and extent of contamination, potential need for remediation, and costs associated with implementation of a risk management plan. The Regional Water Quality Control Board approved the Risk Management Plan in January 2014. The Risk Management Plan provides institutional controls (e.g. use restrictions, health



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and safety plans) and engineering controls (e.g. capping contaminated soil) to protect current and future users and prevent adverse impact to the environment. The Risk Management Plan specifies how future development, operation, and maintenance will implement the remedy, by covering existing site soil with buildings, streets, plazas, hardscape or new landscaping, thereby minimizing or eliminating exposure to contaminants in soil.

Previous investigation of the northeast shoreline of Pier 70, in an area for development as the future "Crane Cove Park", found that near-shore sediment is contaminated with metals, petroleum hydrocarbons and polychlorinated biphenyls at concentrations that pose a potential risk to human health or the environment, and will likely require removal or capping of sediment before development of the area for public access and recreation. The accrued cost for pollution remediation at Pier 70, including Crane Cove Park, is estimated at \$11.0 million at June 30, 2017.

Other environmental conditions on Port property include asbestos and lead paint removal and oil contamination. The Port may be required to perform certain clean-up work if it intends to develop or lease such property, or at such time as may be required by the City or State.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30, 2017, is as follows:

	Environmental Remediation	Miscellaneous Compliance	Total
Environmental liabilities at July 1, 2016	\$ 10,969	\$ 60	\$ 11,029
Current year claims and changes in estimates	242	255	497
Vendor payments	-	(84)	(84)
Environmental liabilities at June 30, 2017	<u>\$ 11,211</u>	<u>\$ 231</u>	<u>\$ 11,442</u>

**(c) San Francisco Water Enterprise**

The San Francisco Water Enterprise (Water Enterprise) was established in 1930. The Water Enterprise, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. In fiscal year 2017, the Water Enterprise sold water, approximately 63,717 million gallons annually, to a total population of approximately 2.7 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The San Francisco Public Utilities Commission (Commission), established in 1932, provides the operational oversight for the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy and CleanPowerSF), and the San Francisco Wastewater Enterprise. Under Proposition E, the City's Charter Amendment approved by the voters in June 2008, the Mayor nominates candidates subject to qualification requirements to the Commission and the Board of Supervisors votes to approve the nominees by a majority (at least six members).

**Pledged Revenues** – The Water Enterprise has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from revenues of the Water Enterprise and are payable through fiscal year 2051.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2017 and applicable revenues for 2017 are as follows:

Bonds issued with revenue pledge .....	\$ 4,455,785
Bond principal and interest remaining due at end of the fiscal year .....	7,673,811
Net revenues .....	251,405
Bond principal and interest paid in the fiscal year .....	207,812
Funds available for revenue debt service .....	394,440

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During fiscal year 2017, the wholesale revenue requirement, net of adjustments, charged to wholesale customers was \$205.9 million. Such amounts are subject to final review by wholesale customers, along with a trailing wholesale balancing account compliance audit of the wholesale revenue requirement calculation. As of June 30, 2017, the City owed the Wholesale Customers \$43.5 million under the Water Supply Agreement.

**Commitments and Contingencies** – As of June 30, 2017, the Water Enterprise had outstanding commitments with third parties of \$279.8 million for various capital projects and for materials and supplies.

**Environmental Issue** – As of June 30, 2017, the total pollution remediation liability was \$2.5 million, consisting of \$1.5 million for the excavation of contaminated soil that contained polycyclic aromatic hydrocarbons from a gun club site in the Lake Merced area, \$1.0 million for the 17<sup>th</sup> and Folsom site.

**Transactions with Other Funds** – The Water Enterprise purchases water from Hetch Hetchy Water and electricity from Hetch Hetchy Power at market rates. These amounts, totaling approximately \$34.6 million and \$8.5 million, respectively, for the year ended June 30, 2017, are included in the operating expenses for services provided by other departments in the Water Enterprise's financial statements.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Water Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately \$16.1 million for the year ended June 30, 2017 and have been included in services provided by other departments.

**(d) Hetch Hetchy Enterprise**

San Francisco Hetch Hetchy Water and Power (Hetch Hetchy or the Enterprise) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City and County of San Francisco (the City). CleanPowerSF, launched in May 2016, provides green electricity from renewable sources to residential and commercial customers in San Francisco and was reported as part of Hetchy Power in fiscal year 2016. Hetch Hetchy is a stand-alone enterprise comprised of three funds, Hetchy Power (aka the Power Enterprise), CleanPowerSF and Hetchy Water, the portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service. Hetch Hetchy accounts for the activities of Hetch Hetchy Water and Power and is engaged in the collection and conveyance of approximately 85.0% of the City's water supply and in the generation and transmission of electricity from that resource, as well as the City Power services including energy efficiency and renewables.

Approximately 80.0% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, San Francisco General Hospital, streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 20% balance of electricity is sold to other utility districts, such as the Turlock and Modesto Irrigation Districts (the Districts). As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to the Districts to cover their agricultural pumping and municipal load needs and any remaining energy is either sold to other municipalities and/or government agencies (not for resale) or sold into the California Independent System Operator (CAISO). Hetch Hetchy operation is an integrated system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the CAISO, and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO, and FERC forums and continues to monitor regulatory proceedings.

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**Segment Information** – Hetch Hetchy Power issued debt to finance its improvements. The Hetch Hetchy Water fund, the Hetch Hetchy Power and CleanPowerSF fund are reported for in a single enterprise (i.e., Hetch Hetchy Enterprise). CleanPowerSF is presented as a fund of the Enterprise for the year ended 2017. However, investors in the debt rely solely on the revenue generated by the individual activities for repayment. Summary financial information for Hetch Hetchy is presented below:

<b>Condensed Statements of Net Position</b>	Hetch Hetchy Water	Hetch Hetchy Power	CleanPower SF	Elimination	Total
<b>Assets:</b>					
Current assets.....	\$ 76,027	\$ 187,635	\$ 19,600	\$ -	\$ 283,262
Receivables from other funds and component units...	-	18,673	-	(7,250)	11,423
Noncurrent restricted cash and investments.....	4,154	35,998	-	-	40,152
Other noncurrent assets.....	169	1,100	-	-	1,269
Capital assets.....	127,731	316,990	-	-	444,721
Total assets.....	208,081	560,396	19,600	(7,250)	780,827
Deferred outflows of resources related to pensions	12,659	15,473	-	-	28,132
<b>Liabilities:</b>					
Current liabilities.....	6,293	40,543	6,032	(2,000)	50,868
Noncurrent liabilities.....	44,753	132,005	5,350	(5,250)	176,858
Total liabilities.....	51,046	172,548	11,382	(7,250)	227,726
Deferred inflows of resources related to pensions.....	1,338	1,635	-	-	2,973
<b>Net position:</b>					
Net investment in capital assets.....	127,731	260,681	-	-	388,412
Restricted for debt service.....	-	485	-	-	485
Unrestricted.....	40,625	140,520	8,218	-	189,363
Total net position.....	\$ 168,356	\$ 401,686	\$ 8,218	\$ -	\$ 578,260

<b>Condensed Statements of Revenues, Expenses, and Changes in Fund Net Position</b>	Hetch Hetchy Water	Hetch Hetchy Power	CleanPower SF	Total
Operating revenues.....	\$ 35,150	\$ 120,962	\$ 33,867	\$ 189,979
Depreciation expense.....	(4,505)	(13,225)	-	(17,730)
Other operating expenses.....	(45,594)	(103,710)	(27,096)	(176,400)
Operating income (loss).....	(14,949)	4,027	6,771	(4,151)
<b>Nonoperating revenues (expenses):</b>				
Federal grants.....	-	37	-	37
Interest and investment income.....	46	1,718	89	1,853
Interest expense, net of amortization of premium, discount, and issuance costs.....	-	(2,945)	(70)	(3,015)
Other nonoperating revenues net of expenses.....	548	10,319	4	10,871
Transfers in (out), net.....	60,000	51	-	60,051
Change in net position.....	45,645	13,207	6,794	65,646
Net position at beginning of year.....	122,711	388,479	1,424	512,614
Net position at end of year.....	\$ 168,356	\$ 401,686	\$ 8,218	\$ 578,260

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<b>Condensed Statements of Cash Flows</b>	Hetch Hetchy Water	Hetch Hetchy Power	CleanPower SF	Total
Net cash provided by (used in):				
Operating activities.....	\$ (2,920)	\$ 29,975	\$ 5,859	\$ 32,914
Noncapital financing activities.....	61,067	12,486	(66)	73,487
Capital and related financing activities.....	(15,080)	(25,205)	-	(40,285)
Investing activities.....	112	1,742	87	1,941
Increase in cash and cash equivalents.....	43,179	18,998	5,880	68,057
Cash and cash equivalents at beginning of year.....	36,367	192,923	8,174	237,464
Cash and cash equivalents at end of year.....	\$ 79,546	\$ 211,921	\$ 14,054	\$ 305,521

**Pledged Revenues** – Hetch Hetchy Power has pledged future power revenues to repay the 2008 Clean Renewable Energy Bonds (CREBs), the 2011 Qualified Energy Conservation Bonds (QECBs), the 2012 New Clean Renewable Energy Bonds (NCREBs), and the 2015 NCREBs. Additionally, Hetch Hetchy Power has pledged future power revenues for 2015 Series AB power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. The Series 2015 AB power revenue bonds are payable through fiscal year 2046 and are solely payable from net revenues of Hetch Hetchy Power on a senior lien basis to the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid, during 2017, and applicable revenues for 2017 are as follows:

<b>Hetch Hetchy Power (excluding CleanPowerSF)</b>	
Bonds issued with revenue pledge.....	\$ 64,871
Bond principal and interest remaining due at end of the fiscal year.....	91,177
Net revenues.....	31,229
Bond principal and interest paid in the fiscal year.....	2,293
Funds available for revenue debt service.....	63,428

**Commitments and Contingencies** – As of June 30, 2017, Hetch Hetchy had outstanding commitments with third parties of \$72.7 million for various capital projects and other purchase agreements for materials and services.

**Hetch Hetchy Water**

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto Irrigation District (MID) and Turlock Irrigation District (TID) in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City. Total payments were \$4.7 million in fiscal year 2017. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries, in the lower Tuolumne River, for the duration of the license. A maximum monitoring expense of \$1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52.0% and the Districts are responsible for 48.0% of the costs.

**Hetch Hetchy Power**

In April 1988, Hetch Hetchy Power entered into two separate long-term power sales agreements (the Agreement) with the two irrigation districts, the MID and TID, which expired June 30, 2015. In April 2015, the Commission and the Board of Supervisors approved the extension of both agreements for one year to June 30, 2016. A second extension agreement has been subsequently approved to continue the current terms and conditions for MID through June 30, 2017. The second extension agreement for TID proposes to remove the district's rights to excess energy from the project and terminate those conditions with the first extension agreement on June 30, 2016. The Commission will continue to comply with the Raker Act by making Hetch Hetchy generated hydropower available at cost

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to MID and TID for their agricultural pumping and municipal loads as energy from the Hetch Hetchy project is available after meeting the Commission's municipal load obligations. For fiscal year 2017, energy sales to the Districts totaled 152,321 Megawatt hours (MWh) or \$7.8 million.

In 1987, the City entered into an interconnection agreement with PG&E to provide transmission, distribution, and other support services for the City's use of PG&E's transmission and distribution system to deliver power to the City's customers. The renegotiated agreement in 2007 expired on July 1, 2015. In December 2014, PG&E filed several separate replacement service and facilities agreements with the FERC for its approval. By FERC order, the City is currently taking transmission service on PG&E's transmission system using the CAISO Open-Access Transmission Tariff and is taking distribution service under PG&E's Wholesale Distribution Tariff pursuant to PG&E's replacement agreements, but subject to waiver of certain terms and conditions and subject to refund by PG&E, pending the FERC's final decision. During fiscal year 2017, Hetch Hetchy Power purchased \$8.6 million of transmission, distribution services, and other support services from PG&E under the terms of the replacement agreements and the 1987 Interconnection Agreement.

Hetchy Power may purchase or sell energy and other related products (such as ancillary services, spinning reserves, resource adequacy products, and congestion revenue rights) with different market entities through the Western System Power Pool (WSPP) and the CAISO. During fiscal year 2017, Hetchy Power did not purchase power and other related products. Sales of excess power, after meeting Hetch Hetchy's obligations, were 29,050 MWh, or \$0.8 million, for 2017. Sales in fiscal year 2017 were higher due to increased water flows resulting from higher precipitation levels, and fewer planned maintenance outages.

Hetchy Power (Buyer) purchases energy, capacity, and environmental attributes from a solar photovoltaic project located at Sunset Reservoir (the facility) pursuant to the 2009 25-year PPA with SFCity1, LP, owned by Duke Energy (Seller). In November 2010, the facility commenced commercial operation and began to provide Hetchy Power energy generated by the facility.

The PPA sets the purchase price of generated energy at \$235/MWh, increased by 3.0% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year. In fiscal year 2017, the facility generated 6,505 MWh. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120.0% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50.0% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal years 2017, purchases of energy under the Agreement were \$1.8 million, or 6,505 MWh.

**CleanPowerSF**

CleanPowerSF launched in May 2016 and entered into contracts with Calpine Energy Services L.P. (Calpine) and Shiloh I Wind Project LLC (Shiloh) to purchase renewable and conventional energy and resource adequacy capacity to meet its retail sales obligations. Both contracts feature 10-year master agreements under which multiple transactions may be executed. CleanPowerSF has executed two multi-year transactions with Calpine (three-year term) and Shiloh (five-year term). The Calpine transaction requires a reserve balance of \$2.6 million as of June 30, 2017, which is equivalent to two months' worth of estimated payment obligations. At June 30, 2017, total electricity purchased from Calpine and Shiloh were \$17.3 million and \$1.6 million, respectively.

CleanPowerSF entered into contract with Noble Americas in November 2015 for a three-year term, not to exceed \$5.6 million to provide administrative and customer care services related to electricity data management, billing, call center and related services. During fiscal year 2017, amount paid was \$1.0 million. Prior year costs were included in Hetchy Power's start-up costs for CleanPowerSF.

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During fiscal year 2017, there was a letter of credit outstanding that guarantees certain payment obligations of CleanPowerSF. The Letter of Credit is secured by Hetchy Power revenue at the 11<sup>th</sup> priority lien level under the Hetchy Power Indenture. The letter of credit, issued by JP Morgan Chase, was in the amount of \$13.9 million as of June 30, 2017. There were no draws against the letter of credit during fiscal year 2017.

**Transactions with Other Funds** – The Water Enterprise purchases water from Hetch Hetchy Water and power from Hetch Hetchy Power. Included in the operating revenues are the water assessment fees totaling \$34.6 million and purchased electricity for \$8.5 million for the year ended June 30, 2017. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling \$10.7 million for the year ended June 30, 2017. Included in 2017 operating revenues are sales of power to departments within the City of \$87.7 million.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to Hetch Hetchy Water and Power and charge amounts designed to recover those departments' costs. These charges total approximately \$8.7 million for the year ended June 30, 2017, and have been included in services provided by other departments.

As of June 30, 2017, operating revenues in sales of power from CleanPowerSF to Hetchy Power were \$0.01 million. Operating expenses in purchase of power from Hetchy Power to CleanPowerSF were \$1.9 million.

CleanPowerSF received program support services from Hetchy Power. This amount totaled \$0.2 million for the fiscal years ended June 30, 2017.

**(e) San Francisco Municipal Transportation Agency**

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors who are appointed by the Mayor and Board of Supervisors. The SFMTA financial statements include the entire San Francisco's (the City's) surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and off and on street parking, regulation of the taxi industry, and three nonprofit parking garage corporations operated by separate nonprofit corporations, whose operations are interrelated. All significant inter entity transactions have been eliminated.

The SFMTA was established by voter approval of the addition of Article VIII A to the Charter of the City (the Charter) in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all surface transportation functions within a single City department, and to provide the transportation System with the resources, independence, and focus necessary to improve transit service. The voters approved additional Charter amendments: (1) in 2007 (Proposition A), which increased the autonomy of and revenue to the SFMTA; (2) in 2010 (Proposition G), which increased management flexibility related to labor contracts; (3) in 2014 (Proposition A) which provided \$500 million in General Obligation Bonds for transportation and street infrastructure; and (4) in 2014 (Proposition B) which increases General Fund allocation to SFMTA based on the City's population increase.

Muni is one of America's oldest public transit agencies and the largest in the Bay Area. It currently has about 226 million boardings annually. Operating historic streetcars, modern light rail vehicles, diesel buses, alternative fuel vehicles, electric trolley coaches, and the world-famous cable cars, Muni's fleet is among the most diverse in the world.

The SFMTA's Sustainable Streets initiates and coordinates improvements to City's streets, transit, bicycles, pedestrians, and parking infrastructure. It manages 19 City owned garages and 20 parking lots. In March 2009, the former Taxi Commission was merged with the SFMTA, which then has assumed responsibility for taxi regulation to advance industry reforms.

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Three nonprofit corporations provide operational oversight to four garages, namely Japan Center, Sutter-Stockton, Union Square, and Portsmouth. Of these four garages, Portsmouth and Union Square are owned by the Recreation and Park Department but managed by the SFMTA. The activities of these nonprofit garages are accounted for in the SFMTA's parking garages account.

**Pledged Revenue** – In 2007, San Francisco voters approved Proposition A, which authorized the SFMTA to issue revenue bonds and other forms of indebtedness without further voter approval but with approval by the SFMTA Board of Directors and concurrence by the Board of Supervisors. The SFMTA has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable from all SFMTA revenues except for City General Fund allocations and restricted sources and are payable through the fiscal year 2047.

Annual principal and interest payments for fiscal year 2017 were 38.9% of funds available for revenue bond debt service. The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2017 and applicable revenues are as follows:

Bonds issued with revenue pledge .....	\$ 387,670
Bond principal and interest remaining due at end of the fiscal year .....	596,359
Net revenues .....	25,952
Bond principal and interest paid in the fiscal year .....	16,505
Funds available for revenue debt service .....	42,457

**Operating and Capital Grants and Subsidies** – The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of SFMTA and Sustainable Streets as determined by the City's budgetary accounting procedures and subject to the appropriation process. The amount of General Fund subsidy to the SFMTA was \$415.0 million in fiscal year 2017. The General Fund subsidy includes a total revenue baseline transfer of \$312.6 million, as required by the City Charter, \$68.4 million from an allocation of the City's parking tax. Proposition B, approved by the voters in November 2014, provides additional City General Funds to address transportation needs tied to the City population growth. In fiscal year 2017, SFMTA received \$31.0 million from this source. In fiscal year 2017, SFMTA also received additional City General Fund allocation of \$3.0 million to fund various capital projects such as the planning and design on Warriors Arena transportation improvements.

The SFMTA also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds, diesel fuel, and sales tax allocations. As of June 30, 2017, the SFMTA had various operating grants receivable of \$32.8 million. In fiscal year 2017, the SFMTA's operating assistance from BART's Americans with Disability Act (ADA) related support of \$1.7 million, and other federal, state, and local grants of \$59.5 million, to fund project expenses that are operating in nature.

Proposition 1B is a ten-year \$20 billion transportation infrastructure bond that was approved by state voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) and the Transit Security & Safety Account that are funding solely for public transit projects. The SFMTA received cash totaling \$14.1 million in fiscal year 2017 for different projects. Proposition 1B funds do not require matching funds. The original legislation required funds to be obligated within three years of the date awarded. SB87 extended the date to June 30, 2017 for funds awarded between fiscal years 2008 and 2010. The Budget Act of 2013 extended the date to June 30, 2018. Subsequently, the Budget Act of 2014 re-appropriated the remaining balances of fiscal years 2009, 2010 and 2011 to be further extended to June 30, 2019, and the remaining balance of fiscal year 2015 to be further extended to June 30, 2020. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal year 2017, \$76.6 million in drawdowns were made from the funds for various eligible projects costs.

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**Commitments and Contingencies** – The SFMTA has outstanding contract commitments of approximately \$579.8 million with third parties, for various capital projects. Grant funding is available for a majority of this amount. The SFMTA also has outstanding commitments of approximately \$74.8 million with third parties for non-capital expenditures. Various local funding sources are used to finance these expenditures.

**Leveraged Lease-Leaseback of BRED A Vehicles – Tranches 1 and 2**

In April 2002 and in September 2003, following the approval of the Federal Transit Administration, SFMTA Board of Directors, and the City's Board of Supervisors, Muni entered into separate leveraged lease-leaseback transactions for over 118 and 21 Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment, respectively, and collectively, the "Equipment"). Each transaction, also referred to as a "sale in lease out" or "SILO", was structured as a head lease of the Equipment to a special purpose trust and a sublease of the Equipment back from such trust. Under each sublease, Muni retained an option to purchase the Equipment on specified dates between November 2026 through January 2030 in the case of the Tranche 1 Equipment and in January 2030 in the case of the Tranche 2 Equipment. During the terms of the subleases, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment.

Muni received an aggregate of \$388.2 million and \$72.6 million, respectively in 2002 and 2003, from the equity investors in full prepayment of the head leases. Muni deposited a portion of the prepaid head lease payments into separate escrows that were invested in U.S. agency securities with maturities that correspond to the purchase option dates for the Equipment as specified in each sublease. Muni also deposited a portion of the head lease payments with a debt payment undertaker whose repayment obligations are guaranteed by Assured Guaranty Municipal Corp. (AGM) as successor to Financial Security Assurance (FSA), a bond insurance company, that was rated "AAA" by Standard & Poor's ("S&P") and "Aaa" by Moody's Investor Services ("Moody's") at the time the Tranche 1 and Tranche 2 Equipment transactions were entered into. Although these escrows do not represent a legal defeasance of Muni's obligations under the subleases, management believes that these transactions are structured in such a way that it is not probable that Muni will need to access other monies to make sublease payments. Therefore, the assets and the sublease obligations have not been recorded on the financial statements of the SFMTA.

As a result of the cash transactions above, Muni recorded \$35.5 million and \$4.4 million in fiscal year 2002 and 2003 respectively, representing the difference between (a) the amounts received of \$388.2 million and \$72.6 million, and (b) the amounts of \$352.7 million and \$67.5 million paid to the escrows, the debt payment undertaker and for certain transaction expenses. These amounts have been classified as deferred inflows of resources in fiscal year 2017 and will be amortized over the life of each sublease unless the purchase option is executed or sublease is otherwise terminated before its expiration date.

As of June 30, 2017, one leveraged lease transaction with respect to 29 items of Tranche 1 Equipment having an initial transaction value of \$98.7 million remains outstanding. All other lease transactions were terminated in prior fiscal years.

The deferred inflows of resources amortized amount was \$0.3 million for the Tranche 1 Equipment in fiscal year 2017.

**(f) Laguna Honda Hospital**

**General Fund Subsidy** - The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred

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back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2017, the subsidy for LHH was \$62.3 million.

**Net Patient Service Revenue** - Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractals and bad debt. These allowances are based on current payment rates, including per diems, Diagnosis-Related Group (DRG) reimbursement amounts and payment received as a percentage of gross charges.

**Third-Party Payor Agreements** - LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been established. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. LHH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the year ended June 30, 2017, LHH's patient receivables and charges for services were as follows:

	<b>Patient Receivables, net</b>			
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	\$ 56,281	\$ 3,480	\$ 1,822	\$ 61,583
Less:				
Provision for Contractual Allowances	(36,348)	(2,247)	(1,177)	(39,772)
Total, net	\$ 19,933	\$ 1,233	\$ 645	\$ 21,811

	<b>Net Patient Service Revenue</b>			
	Medi-Cal	Medicare	Other	Total
Gross Revenue	\$ 396,316	\$ 22,337	\$ 11,697	\$ 430,350
Less:				
Provision for Contractual Allowances	(230,130)	(15,345)	(11,438)	(256,913)
Total, net	\$ 166,186	\$ 6,992	\$ 259	\$ 173,437

Because Medi-Cal reimbursement rates are less than LHH's established charges rates, LHH is eligible to receive supplemental federal funding. As of June 30, 2017, LHH recorded \$38.1 million of subvention receivable for matching federal funds to local funds.

**Unearned Credits and Other Liabilities** - As of June 30, 2017, LHH recorded \$29.6 million in other liabilities for third-party payor settlements payable.

**Transactions with Other Funds** - A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, human resources, and public protection to LHH and charge amounts designed to recover those departments' costs. These charges totaled \$10.9 million for the year ended June 30, 2017, and have been included in services provided by other departments.

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**Commitments and Contingencies** - As of June 30, 2017, LHH has entered into various purchase contracts totaling \$1.0 million that are related to the old building remodel phase of the Replacement Project.

The California Department of Health Care Services (DHCS) is currently in discussions with the Centers for Medicare and Medicaid Services (CMS) regarding a potential disallowance of approximately \$56 million, related to payments made to LHH.

**(g) San Francisco General Hospital**

**General Fund Subsidy** - San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2017, the subsidy for SFGH was \$62.7 million.

**Net Patient Service Revenue** - Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractals, bad debt, and administrative write-offs. These allowances are based on current payment rates, including per diems, DRG amounts and payment received as a percentage of gross charges.

**Third-Party Payor Agreements** - SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, and the State of California through the Section 1115 Medicaid Waiver and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. SFGH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the year ended June 30, 2017, SFGH's patient receivables and charges for services were as follows (in thousands):

	<b>Patient Receivables, Net</b>			
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable.....	\$ 286,908	\$ 156,878	\$ 129,071	\$ 572,857
Less:				
Contractual Allowances.....	(263,858)	(143,121)	(75,755)	(482,734)
Provision for Bad Debt.....	-	-	(21,318)	(21,318)
Total, Net Accounts Receivable.....	\$ 23,050	\$ 13,757	\$ 31,998	\$ 68,805

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	<b>Net Patient Service Revenue</b>			
	Medi-Cal	Medicare	Other	Total
Gross Patient Service Revenue.....	\$ 1,782,843	\$ 798,047	\$ 856,242	\$ 3,437,132
Less:				
Contractual Allowance.....	(1,629,125)	(671,156)	(367,437)	(2,667,718)
Bad Debt Write Off.....	-	-	(79,292)	(79,292)
<b>Total, Net Patient Service Revenue.....</b>	<b>\$ 153,718</b>	<b>\$ 126,891</b>	<b>\$ 409,513</b>	<b>\$ 690,122</b>

California's Section 1115 Medicaid Waiver (Waiver), titled the "Bridge to Health Care Reform" began in November 2010. The Waiver is intended to help sustain the state's Medicaid Program (known as Medi-Cal), test new innovations to help improve care and reduce costs, and to support the safety net in advance of health reform. Under the Waiver, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursements for inpatient hospital services; 2) Disproportionate Share Hospital payments; 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP); 4) Delivery System Reform Incentive Program (DSRIP); and 5) the Low Income Health Program (LIHP). The non-federal share of these payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Waiver approximated \$33.6 million for the year ended June 30, 2017. The DSRIP is a pay-for-performance initiative that challenges public hospital systems to meet specific benchmarks related to improving health care access, quality and safety and outcomes.

The Bridge to Health Care Reform waiver expired October 31, 2015. On December 30, 2015, the Centers for Medicare and Medicaid Services (CMS) approved Medi-Cal 2020, a five-year renewal of California's Section 1115 Medicaid Waiver, which provides California public hospitals new federal funding through programs that are designed to shift focus away from hospital-based and inpatient care, towards outpatient, primary and preventative care. A renewal of California's Medicaid Waiver was a fundamental component of public hospital's ability to continue to successfully implement the Affordable Care Act (ACA) beyond the primary step of coverage expansion.

The Medi-Cal 2020 waiver features four new programs: (1) a pay-for-performance delivery system transformation and alignment program that is considered the successor to the 2010 Bridge to Reform waiver's DSRIP, known as PRIME (Public Hospital Redesign and Incentives in Medi-Cal); (2) Global Payment Program (GPP) for services to the uninsured in designated public hospital systems; (3) Whole Person Care Pilot Program which would be a county-based, voluntary program to target providing more integrated care for high-risk, vulnerable populations; and (4) Dental Transformation Incentive Program, an optional incentive program to increase the frequency and quality of dental care provided to children.

Payments received under Medi-Cal 2020 Waiver's GPP are utilization based and not dependent on Certified Public Expenditures (CPEs). However, GPP claims are subject to State and Federal audit and final reconciliation. SFGH has established reserves for the uncertainty of future financial impact of potential audit and reconciliation adjustments. Revenues recognized under Medi-Cal 2020 approximated \$98.6 million for the year ended June 30, 2017.

In addition, SFGH was reimbursed by the State of California, under the Short-Doyle Program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2017, reimbursement under the Short-Doyle Program amounted to approximately \$6.4 million and is included in net patient service revenue.

**Unearned Credits and Other Liabilities** - As of June 30, 2017, SFGH recorded approximately \$315.0 million in unearned credits and other liabilities, which was comprised of \$275.8 million in unearned

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credits mainly related to receipts under DSH/Safety Net Care Pool, the LIHP, and AB915 programs, and \$39.2 million in Third Party Settlements payable.

**Charity Care** - SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were \$227.7 million and estimated costs and expenses to provide charity care were \$61.2 million in fiscal year 2016-2017.

**Other Revenues** - SFGH recognized \$66.1 million of realignment funding for the year ended June 30, 2017. With California electing to implement a State-run Medicaid Expansion afforded by the Affordable Care Act, the State anticipates that counties' costs and responsibilities for the health care services for the indigent population will decrease as much of the population becomes eligible for coverage through Medi-Cal or Covered California. Starting July 1, 2013, there is a mechanism that provides for the State to redirect health realignment funds to fund social service programs. The redirected amount will be determined according to a formula that takes into account a county's cost and revenue experience and redirects 80% of the savings realized by the county. The State predetermined an amount of health realignment to be redirected \$3.9 million in fiscal year 2014-2015 and \$12 million in fiscal year 2015-2016 for the City and County of San Francisco and withheld those amounts from health realignment remittances to the City. A final reconciliation has been conducted for fiscal year 2014-15 showing \$0 realignment to be redirected.

**Contracts with the University of California San Francisco** - The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2017, was approximately \$166.6 million.

**SFGH Rebuild** - The Rebuild projects have been completed and the General Obligation Bonds are accounted for as governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds.

**Gift** - From fiscal year 2014-2015 through fiscal year 2015-2016, SFGH has received \$62.4 million from the San Francisco General Hospital Foundation for the acquisition of furniture, fixtures and equipment (FF&E) for the new hospital. As of June 30, 2017, SFGH has spent \$38.8 million from the gift on acquisition of FF&E as stipulated by the donor and recorded the remaining \$23.6 million as Restricted Net Position.

**Commitments and Contingencies** - As of June 30, 2017, SFGH had outstanding commitments with third parties for capital projects totaling \$16.6 million.

**(h) San Francisco Wastewater Enterprise**

The San Francisco Wastewater Enterprise (Wastewater Enterprise) was established in 1977, following the transfer of all sewage-system-related assets and liabilities of the City to the Wastewater Enterprise pursuant to bond resolution, to account for the City's municipal sewage treatment and disposal system.

The Wastewater Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows, generated within the City, for the protection of public health and environmental safety. In addition, the Wastewater Enterprise serves, on a contractual basis, certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Wastewater Enterprise recovers, cost of service, through user fees based on the volume and strength of sanitary flow. The Wastewater Enterprise serves approximately 147,591 residential accounts, which discharge about 16.1 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 16,141 non-residential accounts, which discharge about 7.8 million units of sanitary flow per year.

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**Pledged Revenues** – Wastewater Enterprise’s revenues, which consist mainly of sewer service charges, are pledged for the payment of principal and interest on various revenue bonds. Proceeds, from the bonds, provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from net revenues of Wastewater Enterprise and are payable through fiscal year ending 2047.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during fiscal year 2017, applicable net revenues, and funds available for bond debt service are as follows:

Bonds issued with revenue pledge .....	\$ 1,072,950
Bond principal and interest remaining due at end of the fiscal year .....	1,666,275
Net revenues .....	119,989
Bond principal and interest paid in the fiscal year .....	60,407
Funds available for revenue debt service .....	251,543

**Commitments and Contingencies** – As of June 30, 2017, the Wastewater Enterprise had outstanding commitments, with third parties, for capital projects and for materials and services totaling \$229.7 million.

**Pollution Remediation Obligations** – As of June 30, 2017, the Wastewater Enterprise recorded \$2.7 million in pollution remediation liability, consisting of \$2.0 million cleanup cost estimate at the Yosemite Creek site, \$0.6 million at the Southeast and Oceanside Treatment sites, and \$0.1 million for the hazardous materials at the Southeast plant. The pollution remediation obligation reported in the accompanying statements of net position is based on estimated contractual costs.

**Transactions with Other Funds** –The Wastewater Enterprise purchased power from Hetch Hetchy Power totaling \$10.7 million for the year ended June 30, 2017. A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those departments’ costs. These charges total approximately \$12.5 million for the year ended June 30, 2017, and have been included in services provided by other departments.

**(14) SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO**

As discussed in Note 1, the financial statements present the Successor Agency and its component unit, an entity 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’s 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.

Pursuant to the Redevelopment Dissolution Law, funds that would have been distributed to the former Agency as tax increment, hereafter referred to as redevelopment property tax revenues, are deposited into the Successor Agency’s Redevelopment Property Tax Trust Fund (Trust Fund) administered by the City’s Controller for the benefit of holders of the former Agency’s enforceable obligations and the taxing entities that receive pass-through payments. Any remaining funds in the Trust Fund, plus any unencumbered redevelopment cash and funds from asset sales are distributed by the City to the local agencies in the project area unless needed to pay enforceable obligations.

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On May 29, 2013, the California Department of Finance (DOF) granted a Finding of Completion for the Successor Agency. Pursuant to Health and Safety Code (HSC) section 34179.7, the DOF verified that the Successor Agency does not owe any amounts to the taxing entities as determined under HSC section 34179.6, subdivisions (d) or (e) and HSC section 34183.5. With a Finding of Completion, the Successor Agency may proceed with (1) placing loan agreements between the former Agency and the City on the Recognized Obligation Payments Schedule (ROPS) as enforceable obligations, provided the Oversight Board makes a finding that the loan was for legitimate redevelopment purposes per HSC, and (2) utilize proceeds derived from bonds issued prior to January 1, 2011, in a manner consistent with the original bond covenants.

In addition, the receipt of the Finding of Completion allowed the Successor Agency to submit a Long Range Property Management Plan (LRPMP) to the Oversight Board and the DOF for approval. The LRPMP pertains to the disposition and use of real properties held by the Successor Agency. Part 1 of the LRPMP, which addresses the disposition of property located at 706 Mission Street, was approved by the DOF on October 4, 2013. During fiscal year 2016, the property was transferred in accordance with the terms and closing conditions of the 706 Mission Purchase and Sale Agreement. After incorporating feedback from the DOF, the remainder of the LRPMP was approved by the Oversight Board on November 23, 2015, and by the DOF on December 7, 2015.

In September 2015, the State passed Senate Bill 107 (SB 107) which clarifies and updates existing law governing the dissolution of redevelopment agencies. SB 107 includes specific language that allows the Successor Agency to issue bonds or other indebtedness for the purposes of low and moderate income housing and infrastructure in the City by allowing the pledge of revenues available in the Trust Fund that are not otherwise pledged subject to the approval of the Oversight Board. SB 107 also declares that Mission Bay North, Mission Bay South, Hunters Point Shipyard Phase 1, Candlestick Point - Hunters Point Shipyard Phase 2, and Transbay projects are finally and conclusively approved as enforceable obligations.

**(a) Capital Assets Held by the Successor Agency**

For the year ended June 30, 2017, the summary of changes in capital assets is as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land held for lease	\$ 54,769	\$ -	\$ (10,034)	\$ -	\$ 44,735
Construction in progress	1,820	2,224	-	(3,791)	255
Total capital assets not being depreciated	56,589	2,224	(10,034)	(3,791)	44,988
Capital assets being depreciated:					
Furniture and equipment - General	8,144	-	-	-	8,144
Building and improvements	202,052	-	-	3,791	205,843
Total capital assets being depreciated	210,196	-	-	3,791	213,987
Less accumulated depreciation for:					
Furniture and equipment	(8,164)	(9)	-	-	(8,173)
Building and improvements	(93,483)	(4,949)	-	-	(98,432)
Total accumulated depreciation	(101,647)	(4,958)	-	-	(106,605)
Total capital assets being depreciated, net	108,549	(4,949)	-	3,791	107,395
Total capital assets, net	\$ 165,138	\$ (2,725)	\$ (10,034)	\$ -	\$ 152,379

During the year ended June 30, 2017, the Successor Agency transferred land with a book value of \$10.0 million to a developer for an affordable housing development project at the Transbay Project Area. The transfer of the property was recorded as a deduction in the statement of changes in fiduciary net position.

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**(b) Summary of the Successor Agency's Long-Term Obligations**

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
Hotel tax revenue bonds <sup>(a)</sup>	2025	5.00%	\$ 30,995
Tax allocation revenue bonds <sup>(b)</sup>	2047	1.45% - 9.00%	970,381
California Department of Boating and Waterways Loan <sup>(c)</sup>	2037	4.50%	6,630
Total long-term bonds and loans			<u>\$ 1,008,006</u>

Debt service payments are made from the following sources:

- (a) Hotel taxes from the occupancy of guest rooms in the hotels within the City.
- (b) Redevelopment property tax revenues from the Bayview Hunters Point, Western Addition, Rincon Point South Beach, Yerba Buena Center, India Basin, South of Market, Golden Gateway, Mission Bay South, Transbay, and Mission Bay North project areas.
- (c) South Beach Harbor Project revenues (subordinated to Refunding Bonds).

**Issuance of Successor Agency Bonds** – On December 24, 2013, the DOF released its letter approving the issuance of bonds by the Successor Agency. On September 20, 2016, the Successor Agency issued Tax Allocation Revenue Bonds Series 2016 D (2016 Series D Bonds) for \$74.7 million. On March 29, 2017, the Successor Agency issued three revenue bonds, Tax Allocation Revenue Bonds Series 2017 A (2017 Series A Bonds) for \$89.8 million, Tax Allocation Revenue Bonds Series 2017 B (2017 Series B Bonds) for \$19.9 million and Tax Allocation Revenue and Refunding Bonds Series 2017 C (2017 Series C Bonds) for \$43.4 million.

Proceeds from the 2016 Series D Bonds were used to finance certain redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area. The 2016 Series D Bonds bear fixed interest rates ranging from 3.00% to 5.00% and reach final maturity on August 1, 2043.

Proceeds from the 2017 Series A Bonds were used to finance certain affordable housing projects of the Successor Agency within or of benefit to the Bayview Hunters Point Redevelopment Project Area. The 2017 Series A Bonds bear fixed interest rates ranging from 2.19% to 4.38% and reach final maturity on August 1, 2044.

Proceeds from the 2017 Series B Bonds were used to finance certain infrastructure projects of the Successor Agency within or of benefit to the Transbay Redevelopment Project Area. The 2017 Series B Bonds bear fixed interest rates of 5.00% and reach final maturity on August 1, 2046.

Proceeds of \$22.0 million of the 2017 Series C Bonds will be used to finance certain redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area. The remaining proceeds from the 2017 Series C Bonds were used to refund Tax Allocation Bonds Series 2006 A, Series 2009 E, and Series 2011 E in the amount of \$3.2 million, \$5.0 million, and \$9.4 million, respectively. The refunding resulted in net present value savings of \$2.2 million and an accounting loss of \$3.1 million. The 2017 Series C Bonds bear fixed interest rates ranging from 1.45% to 4.38% and reach final maturity on August 1, 2043.

**Pledged Revenues for Bonds** – The Tax Allocation Bonds are equally and ratably secured by the pledge and lien of the redevelopment property tax revenues (i.e., the former tax increment). These revenues have been pledged until the year 2047, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$1.72 billion. The redevelopment property tax revenues recognized during the year ended June 30, 2017, were \$129.2 million against the total debt service payment of \$84.1 million.

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The Hotel Tax Revenue Bonds are secured by the pledge and lien of the hotel tax revenue received by the Successor Agency from the City. These revenues have been pledged until the year 2025, the final maturity of the bonds. The total principal and interest remaining on the Hotel Tax Revenue Bonds is approximately \$38.2 million. The hotel tax revenue recognized during the year ended June 30, 2017 was \$4.9 million which equaled the total debt service payment.

The changes in long-term obligations for the Successor Agency for the year ended June 30, 2017, are as follows:

	July 1, 2016	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2017
<b>Bonds payable:</b>				
Tax revenue bonds	\$ 839,594	\$ 227,667	\$ (66,885)	\$ 1,001,376
Less unamortized amounts:				
For issuance premiums	49,781	2,623	(2,749)	49,655
For issuance discounts	(2,948)	(945)	207	(3,686)
Total bonds payable	886,427	229,345	(68,427)	1,047,345
Accreted interest payable	42,215	7,226	-	49,441 <sup>(1)</sup>
Notes, loans, and other payables	6,857	-	(227)	6,630
Accrued vacation and sick leave pay	901	486	(657)	730
Other postemployment benefits obligation	430	804	(1,232)	2
Successor Agency - long term obligations	\$ 936,830	\$ 237,851	\$ (70,543)	\$ 1,104,148

<sup>(1)</sup> Amounts represent interest accretion Capital Appreciation Bonds.

As of June 30, 2017, the debt service requirements to maturity for the Successor Agency, excluding accrued vacation and sick leave, are as follows:

Fiscal Year Ending June 30	Tax Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest*	Principal	Interest	Principal	Interest
2018.....	\$ 53,605	\$ 44,907	\$ 238	\$ 298	\$ 53,843	\$ 45,205
2019.....	65,495	43,206	248	288	65,743	43,494
2020.....	65,162	43,456	259	276	65,421	43,732
2021.....	60,022	41,683	272	265	60,294	41,948
2022.....	58,006	41,564	283	253	58,289	41,817
2023-2027.....	183,433	209,256	1,620	1,059	185,053	210,315
2028-2032.....	153,858	149,025	2,019	661	155,877	149,686
2033-2037.....	159,270	113,978	1,691	178	160,961	114,156
2038-2042.....	136,522	51,687	-	-	136,522	51,687
2043-2047.....	66,003	14,236	-	-	66,003	14,236
Total.....	\$ 1,001,376	\$ 752,998	\$ 6,630	\$ 3,278	\$ 1,008,006	\$ 756,276

\* Includes payment of accreted interest

During the year ended June 30, 2010, the former Agency borrowed \$16.5 million from the Low and Moderate Income Housing Fund (LMIHF) to make payment of \$28.7 million to the Supplemental Education Revenue Augmentation Funds (SERAF) to meet the State's Proposition 98 obligations to schools. Upon dissolution of the former Agency, the City elected to become the Housing Successor Agency and retained the former Agency's housing assets and functions, rights, powers, duties, and obligations. In accordance with HSC Section 34191.4(b)(3), interest is accrued quarterly at an annual



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rate of 3% on the principal balance due to the City. For the year ended June 30, 2017, interest in the amount of \$0.3 million was accrued, and the Successor Agency made payments in the amount of \$1.8 million to the City. The outstanding payable balance at June 30, 2017, was \$13.1 million, which was comprised of principal of \$10.0 million and accrued interest of \$3.1 million.

As of June 30, 2017, the Successor Agency also has a payable to the City in the amount of \$0.6 million for services provided.

**(c) Commitments and Contingencies Related to the Successor Agency**

**Encumbrances** - At June 30, 2017, the Successor Agency had outstanding encumbrances totaling approximately \$46.6 million.

**Risk Management** - The Successor Agency obtained coverage for personal injury, automobile liability, public official errors and omissions and employment practices liability with limits of \$10.0 million per occurrence (\$5.0 million for employment practices liability) and a \$0.03 million deductible per occurrence.

**Operating Lease** - The Successor Agency has noncancelable operating leases for its office sites and a Master Lease Option Agreement with the San Francisco Port Commission; these are enforceable obligations of the Successor Agency. As of June 30, 2017, the Successor Agency has exercised several of the lease options. The leases require the following minimum annual payments:

<u>Fiscal Years</u>		<u>Fiscal Years</u>	
2018.....	\$ 870	2023-2027.....	\$ 4,351
2019.....	870	2028-2032.....	4,351
2020.....	870	2033-2037.....	4,351
2021.....	870	2038-2042.....	4,351
2022.....	870	2043-2047.....	4,351
		2048-2051.....	1,958
		<u>Total.....</u>	<u>\$ 28,063</u>

Rent payments totaling \$1.4 million are included in the Successor Agency's financial statements for the year ended June 30, 2017.

Regarding rental income, the Successor Agency has noncancelable operating leases on various facilities within project areas. The minimum future rental income are as follows:

<u>Fiscal Years</u>		<u>Fiscal Years</u>	
2018.....	\$ 3,716	2028-2032.....	\$ 18,172
2019.....	3,596	2033-2037.....	19,198
2020.....	3,582	2038-2042.....	20,292
2021.....	3,590	2043-2047.....	18,515
2022.....	3,633	2048-2050.....	1,482
2023-2027.....	18,047		
		<u>Total.....</u>	<u>\$ 113,823</u>

For the year ended June 30, 2017, operating lease rental income for noncancelable operating leases was \$10.3 million, of which \$6.5 million represents contingent rental income received. At June 30, 2017, the leased assets had a net book value of \$34.9 million.

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**Notes and Mortgages Receivable** – During the process of selling land to developers and issuing mortgage revenue bonds, the Successor Agency may defer receipt of land sale proceeds and mortgage revenue bond financing fees from various private developers in exchange for notes receivable, which aids the developers' financing arrangements. The Successor Agency recognizes all revenues and interest on the above-described arrangements when earned, net of any amounts deemed to be uncollectible. During the year ended June 30, 2017, the Successor Agency disbursed \$66.0 million to the developers through this arrangement and recorded an allowance against these receivables. This allowance is recorded as deductions in the financial statements. At June 30, 2017, the gross value of the notes and mortgage receivable was \$176.7 million and the allowance for uncollectible amounts was \$175.0 million.

**Conduit Debt** - Various community facility district bonds and mortgage revenue bonds have been issued by the former Agency on behalf of various developers and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Successor Agency or the City and are therefore not included in the financial statements. Debt service payments will be made by developers or property owners. All of the mortgage revenue bonds issued by the former Agency were transferred to the City upon the dissolution of the former Agency. At June 30, 2017, the Successor Agency had outstanding community facility district bonds totaling \$188.6 million.

**Transbay Transit Center Agreements** - In July 2003, the City, the Transbay Joint Powers Authority (TJPA), and the State of California acting through its Department of Transportation (Caltrans) entered into the Transbay Transit Terminal Cooperative Agreement (Cooperative Agreement) in which Caltrans agreed to transfer approximately 10 acres of State-owned property in and around the then-existing Transbay Terminal to the City and the TJPA to help fund the development of the Transbay Transit Center (TTC). The Cooperative Agreement requires that the TJPA sell certain State-owned parcels and use the revenues from the sales and the net tax increments to finance the TTC.

In 2008, the City and the former Agency entered into a binding agreement with the TJPA that irrevocably pledges all sales proceeds and net tax increments from the State-owned parcels to the TJPA for a period of 45 years (Pledge Agreement). At the same time, the City, the TJPA and the former Agency entered into an Option Agreement which grants options to the former Agency to acquire the State-owned parcels, arrange for development of the parcels, and distribute the net tax increments to the TJPA to use for the TTC. During the year ended June 30, 2017, the Successor Agency received \$5.4 million from a developer and distributed the funds to the TJPA. The payment was recorded as a neighborhood development deduction on the statement of changes in fiduciary net position.

**(15) TREASURE ISLAND DEVELOPMENT AUTHORITY**

The Treasure Island Development Authority (TIDA) is a nonprofit public benefit corporation. TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997. TIDA is governed by seven members of the TIDA Board of Directors who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors. The specific purpose of 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 services provided by TIDA include administering the acquisition of former Naval Station Treasure Island with the U.S. Navy and implementing the Treasure Island Development Project; renting existing Treasure Island facilities including commercial facilities and approximately 700 housing units to generate revenues to cover operating costs; maintaining Treasure Island utilities, facilities and other infrastructure; and overseeing the U.S. Navy's remediation activities on the former naval base.

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In early 2000, TIDA initiated a master developer selection process, culminating in the selection of Treasure Island Community Development, LLC (TICD) in March 2003. TIDA and TICD entered into an Exclusive Negotiating Agreement in 2003, and began work on the Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island (Development Plan). The Development Plan was endorsed by the TIDA Board and the San Francisco Board of Supervisors in December 2006. In May 2010, the TIDA Board and Board of Supervisors both unanimously endorsed a package of legislation that included an Update to the Development Plan and Term Sheet, terms of an Economic Development Conveyance Memorandum of Agreement (EDC MOA Term Sheet), and a Term Sheet between TIDA and the Treasure Island Homeless Development Initiative (TIHDI).

In April 2011, the TIDA Board and the Planning Commission certified the environmental impact report for the project and approved various project entitlements, including amendments to the Planning Code, Zoning Maps and General Plan, as well as a Development Agreement, Disposition and Development Agreement and Interagency Cooperation Agreement. These entitlements include detailed plans for land uses, phasing, infrastructure, transportation, sustainability, housing – including affordable housing, jobs and equal opportunity programs, community facilities and project financing. In June 2011, the Board of Supervisors unanimously upheld the certification of the project's environmental impact report and approved the project entitlements. These project approvals established the framework and cleared the way for realization of a new environmentally sustainable community on Treasure Island and the thousands of construction and permanent jobs the construction will bring.

On May 29, 2015, the Navy made the first transfer of property to TIDA consisting of 275 acres on Yerba Buena and Treasure Islands and the offshore submerged lands. Existing structures on Yerba Buena were demolished between February and August 2016, and structures in the first area of development on Treasure Island were demolished between July 2016 and February 2017. The first infrastructure construction projects – new water reservoirs and new roadways, utilities, and related facilities on Yerba Buena Island – were awarded and the contractor has mobilized, with vertical construction beginning in late 2018, and the first new homes ready for occupancy in 2020. A second transfer from the Navy to TIDA of roughly 7 acres on Treasure Island was completed in September of 2016. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

In July 2008, and amended several times over the intervening years, the Transportation Authority entered into a loan agreement with TIDA in the amount of \$11.0 million for the repayment of costs related to the Yerba Buena Island (YBI) Interchange Improvement Project. Under the terms of the agreement, TIDA was to repay the Transportation Authority for all project costs incurred by the Transportation Authority and accrued interest, less federal government reimbursements to the Transportation Authority. Under the Disposition and Development Agreement the loan repayment obligation was assumed by TICD. The repayment to the Transportation Authority was structured to be paid by TIDA in three installments with the first installment equal to 50% of the current balance being due 30 days after the first close of escrow for transfer of the Naval Station Treasure Island to TIDA from the Navy. The second installment was due on the anniversary of the first installment in an amount of 50% of the then current balance, and a final payment of the remaining balance of the loan was due on December 31, 2016. The initial loan and all accrued interest have been repaid. The Transportation Authority will invoice TIDA quarterly for any future project costs not eligible for federal reimbursement.

As of June 30, 2017, TIDA has the following payables to other City departments:

Payable to	Purpose	6/30/2017		Total
		Current	Noncurrent	
Transportation Authority	YBI and mobility management expenses	\$ 1,389	\$ -	\$ 1,389
Hetch Hetchy	Utility operations under MOU	200	28	228
Hetch Hetchy	Energy efficiency project	-	2,599	2,599
		<u>\$ 1,589</u>	<u>\$ 2,627</u>	<u>\$ 4,216</u>

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**(16) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash or when there are short-term loans between funds. The composition of interfund balances as of June 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 10,108
	San Francisco Water Enterprise	7
	Municipal Transportation Agency	627
	San Francisco Wastewater Enterprise	84
	Port of San Francisco	100
		<u>10,926</u>
Nonmajor Governmental Funds	General Fund	178
	Nonmajor Governmental Funds	1,806
	Internal Service Funds	1,787
	Municipal Transportation Agency	2,853
		<u>6,624</u>
General Hospital Medical Center	Nonmajor Governmental Funds	2
		<u>2</u>
San Francisco Water Enterprise	General Fund	20
	Nonmajor Governmental Funds	342
		<u>362</u>
Hetch Hetchy Water and Power Enterprise	Nonmajor Governmental Funds	6,618
	General Hospital Medical Center	350
	San Francisco Wastewater Enterprise	1,166
	CleanPower Enterprise	387
		<u>8,521</u>
Municipal Transportation Agency	General Fund	225
	Nonmajor Governmental Funds	31,517
		<u>31,742</u>
San Francisco Wastewater Enterprise	General Fund	137
		<u>137</u>
<b>Total</b>		<u>\$ 58,314</u>

In addition to routine short-term loans, Hetch Hetchy serves as the City's agency for energy efficiency projects and maintains the Sustainable Energy Account (SEA) to sponsor and financially support such projects at various City departments. In this role, Hetch Hetchy may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2017, Hetch Hetchy loaned \$6.9 million to other City funds. Hetch Hetchy is also due \$1.2 million from the Wastewater Enterprise for its share of costs relating to 525 Golden Gate Headquarters project for equipment.

The SFMTA has a receivable from nonmajor governmental funds of \$31.5 million for capital and operating grants.

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**Due from component units:**

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	\$ 200 <sup>(1)</sup>
Nonmajor Governmental Funds	Component unit – TIDA	1,389 <sup>(1)</sup>
Nonmajor Governmental Funds	Successor Agency	192 <sup>(2)</sup>
San Francisco Water Enterprise	Successor Agency	270 <sup>(2)</sup>
Hetch Hetchy Water and Power Enterprise	Successor Agency	75 <sup>(2)</sup>
San Francisco Wastewater Enterprise	Successor Agency	23 <sup>(2)</sup>

**Advance to component units:**

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	\$ 2,627 <sup>(1)</sup>
Nonmajor Governmental Funds	Successor Agency	13,149 <sup>(2)</sup>

<sup>(1)</sup> See discussion at Note 15.

<sup>(2)</sup> See discussion at Note 14(b) related to the Due to/Advances from the Primary Government.

**Transfers in: Funds (in thousands)**

<u>Transfers Out: Funds</u>	San Francisco										Total
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Water Enterprise	Hetch Hetchy Water and Power Enterprise	Municipal Transportation Agency	San Francisco General Hospital Medical Center	Wastewater Enterprise	Laguna Honda Hospital		
General Fund.....	\$ -	\$ 315,285	\$ 2,153	\$ 100	\$ -	\$ 415,014	\$ 62,701	\$ 40	\$ 62,336	\$ 857,629	
Nonmajor governmental funds.....	29,566	183,743	-	28	100	148,646	9	-	2,442	364,534	
Internal Service Funds.....	136	-	-	-	-	-	-	-	-	138	
San Francisco International Airport.....	45,037	-	-	-	-	-	-	-	-	45,037	
Water Enterprise.....	-	116	-	-	60,000	-	-	-	-	60,116	
Hetch Hetchy Water and Power Enterprise.....	17	32	-	-	-	-	-	-	-	49	
Municipal Transportation Agency.....	-	996	-	-	-	-	-	-	-	996	
San Francisco General Hospital Medical Center.....	33,258	-	-	-	-	-	-	-	508	33,766	
Wastewater Enterprise.....	30,100	647	-	-	-	-	-	-	-	30,747	
Port of San Francisco.....	-	32	-	-	-	-	-	-	-	32	
Laguna Honda Hospital.....	2,156	-	-	-	-	-	-	-	-	2,156	
Total transfers out	\$ 140,272	\$ 500,851	\$ 2,153	\$ 128	\$ 60,100	\$ 563,660	\$ 62,710	\$ 40	\$ 65,286	\$ 1,395,200	

The \$857.6 million General Fund transfer out includes a total of \$540.0 million in operating subsidies to SFMTA, SFGH, and Laguna Honda Hospital (note 13). The transfer of \$315.3 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the Public Library and Children and Families Fund, as well as to provide resources for the payment of debt service.

The transfers between the nonmajor governmental funds in the amount of \$65.5 million are to provide support for various City programs and to provide resources for the payment of debt service. In addition in fiscal year 2017, the proceeds from the sale of properties at 30 Van Ness Avenue and 1660-1680 Mission Street in the amount of \$93.9 million were transferred to nonmajor capital projects fund for the 1500 Mission Street development project and \$24.3 million were transferred to nonmajor debt service fund to pay down outstanding certificates of participation as previously discussed.

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San Francisco International Airport transferred \$45.0 million to the General Fund, representing a portion of concession revenues (note 13(a)). The General Fund received transfers in of \$3.0 million for interest earned by the SFGH but credited to the General Fund and \$7.2 million from SFGH's return of excess project funds. SFGH transferred to the General Fund \$0.1 million and Laguna Honda Hospital \$0.5 million, respectively, for equipment lease payments. The General Fund also received \$23.0 million from SFGH and \$2.0 million from Laguna Honda Hospital to fund the DPH project and \$0.2 million for interest earned by the Laguna Honda Hospital funds but credited to the General Fund. Laguna Honda Hospital funds received \$2.4 million from nonmajor governmental funds for the Laguna Honda Hospital improvement project close out.

SFMTA received \$148.6 million transfers from nonmajor governmental funds, of which \$97.1 million was for capital activities, \$23.4 million was for operating activities, and \$28.1 million to fund various street improvement projects. In turn, the SFMTA transferred \$1.0 million to nonmajor governmental funds to pay for various street improvement projects. SFMTA also received \$68.9 million transfer of capital assets from governmental functions for various capital projects and improvements, mainly related to Sustainable Street activities, which is recorded in the governmental activities in the statement of activities.

The Water Enterprise transferred \$60.0 million to Hetch Hetchy Water and Power Enterprise to fund various upcountry projects, \$100 to San Francisco Recreation and Parks Department mainly for water saving improvements at Alamo Square Park, \$16 credited to the transfer out from Laguna Honda Hospital funds for excess project funds, and \$32 to the Office of the City Administrator for the Surety Bond Program. In turn, the Water Enterprise received \$100 from the City mainly for the San Francisco War Memorial Veterans Building project and \$28 from Recreation and Parks Department for return of excess project funds.

The Wastewater Enterprise transferred \$30.1 million to the City related to the purchase of the property adjacent to the Southeast Water Pollution Control Plant ("Southeast Plant"), \$0.6 million to Art Commission for art enrichment and \$32 to the Office of the City Administrator for the Surety Bond Program. On the other hand, the Wastewater Enterprise received \$40 transfer from General Fund for community projects.

**(17) COMMITMENTS AND CONTINGENT LIABILITIES**

**Operating Leases**

The City has noncancelable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments (in thousands):

Governmental Activities

<u>Fiscal Years</u>	
2018.....	\$ 54,745
2019.....	46,951
2020.....	42,078
2021.....	28,023
2022.....	23,785
2023-2027.....	54,234
2028-2032.....	839
2033-2037.....	135
Total.....	<u>\$ 250,790</u>

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Operating leases expense incurred for governmental activities for fiscal year 2016-2017 was approximately \$41.0 million.

Business-type Activities

<u>Fiscal Years</u>	<u>San Francisco International Airport</u>	<u>Port of San Francisco</u>	<u>Municipal Transportation Agency (MTA)</u>	<u>Total Business-type Activities</u>
2018	\$ 148	\$ 2,680	\$ 14,281	\$ 17,109
2019	-	2,680	14,318	16,998
2020	-	2,680	14,242	16,922
2021	-	2,680	14,449	17,129
2022	-	2,680	13,190	15,870
2023-2027	-	13,402	66,531	79,933
2028-2032	-	13,402	77,468	90,870
2033-2037	-	13,402	73,428	86,830
2038-2042	-	13,402	85,395	98,797
2043-2047	-	13,402	104,600	118,002
2048-2052	-	13,402	-	13,402
2053-2057	-	13,402	-	13,402
2058-2062	-	13,402	-	13,402
2063-2067	-	5,584	-	5,584
Total	\$ 148	\$ 126,200	\$ 477,902	\$ 604,250

Operating lease expense incurred for the Airport, Port, and MTA for fiscal year 2016-2017 was \$0.2 million, \$2.7 million, and \$19.1 million, respectively.

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments:

Governmental Activities

<u>Fiscal Years</u>	
2018	\$ 1,306
2019	1,035
2020	1,014
2021	864
2022	416
2023-2027	1,430
2028-2032	854
2033-2037	504
2038-2042	504
2043-2047	504
2048-2052	504
2053-2057	504
2058-2062	504
2063-2067	504
2068-2072	504
2073-2077	504
Thereafter	1,655
Total	\$ 13,110

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Business-type Activities

<u>Fiscal Years</u>	<u>San Francisco International Airport</u>	<u>Port of San Francisco</u>	<u>San Francisco General Hospital</u>	<u>Municipal Transportation Agency</u>	<u>Total Business-type Activities</u>
2018	\$ 92,170	\$ 43,279	\$ 1,559	\$ 5,968	\$ 142,976
2019	54,136	38,589	1,606	5,864	100,195
2020	26,371	33,865	1,654	4,946	66,836
2021	20,021	30,873	1,704	3,658	56,256
2022	16,277	27,785	1,755	2,297	48,114
2023-2027	16,576	98,619	9,598	8,357	133,150
2028-2032	-	83,220	-	6,250	89,470
2033-2037	-	72,471	-	6,250	78,721
2038-2042	-	47,794	-	6,250	54,044
2043-2047	-	38,841	-	6,250	45,091
2048-2052	-	27,889	-	6,250	34,139
2053-2057	-	18,683	-	4,583	23,266
2058-2062	-	16,694	-	-	16,694
2063-2067	-	12,630	-	-	12,630
2068-2072	-	4,941	-	-	4,941
2073-2077	-	4,291	-	-	4,291
Total	\$ 225,551	\$ 600,464	\$ 17,876	\$ 66,923	\$ 910,814

The Airport and Port have certain rental agreements with concessionaires, which specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees for the Airport and Port were approximately \$29.6 million and \$17.7 million, respectively, in fiscal year 2016-17. The Airport also exercised a five-year car rental lease agreement option effective January 1, 2014. Under this agreement the rental car companies will pay 10% of gross revenues or a minimum guaranteed rent, whichever is higher; also in accordance with the terms of their concession agreement, the minimum annual guarantee (MAG) for the rental car operators does not apply if the actual enplanements achieved during a one-month period is less than 80% of the actual enplanements of the same reference month in the reference year, and such shortfall continues for three consecutive months. The MAG attributable to the rental car companies was approximately \$42.5 million for fiscal year 2016-17.

Other Commitments

The Retirement System has unfunded commitments to contribute capital for real assets in the amount of \$2.1 billion, private equity in the amount of \$2.6 billion, private credit investments (formerly known as opportunistic fixed income) in the amount of \$0.6 billion, and absolute return investments in the amount of \$73.8 million, which totaled \$5.31 billion at June 30, 2017.

In February 2011, the Asian Art Museum Foundation (Foundation) entered into an agreement with JP Morgan Chase Bank to refinance its obligations of \$97.0 million. To facilitate the refinancing, the City entered into an assurance agreement which, in the event of nonpayment by the Foundation, requires the City to seek an appropriation to make debt payments as they become due. Since the City has not legally guaranteed the debt, and the City believes that the likelihood of nonpayment by the Foundation is remote, no amount is recorded in the City's financial statements related to this agreement.

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**(18) RISK MANAGEMENT**

**Risk Retention Program Description**

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for SFMTA); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The Airport carries general liability insurance coverage of \$1.00 billion with \$250.0 million in War Perils Liability, subject to a deductible of \$10 per single occurrence and commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport, subject to a limit of \$1.00 billion per single occurrence and a deductible of \$500 per single occurrence. The Airport carries public officials liability and employment practices liability coverage of \$5.0 million, subject to a deductible of \$100 per single occurrence for each wrongful act other than employment practices' violations, and \$250 per each occurrence for each employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment, and watercraft liability for Airport fire and rescue vessels and target range liability for the San Francisco Police Department's firearms range located at the Airport. The Airport does not have liability insurance coverage for losses due to land movement or seismic activity, war, terrorism and hijacking.

The Port carries the following insurance: 1) marine general liability coverage of \$100.0 million, subject to a deductible of \$100 per occurrence; 2) hull and machinery liability coverage of \$1.1 million, subject to a deductible of \$100 per occurrence; 3) commercial property insurance for losses up to the insured appraised value of Port facilities, subject to a maximum of \$1.00 billion and a deductible of \$750 per occurrence (\$150 per occurrence for the Port's cargo cranes); and 4) public officials and employee liability coverage of \$5.0 million, subject to a deductible of \$50 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution, and data processing equipment. Tenants whose operations pose a significant environment risk are also required to post an environmental oversight deposit and an environmental performance deposit.

The SFMTA risk treatment program encompasses both self-insured and insured methods. Insurance purchase is generally coordinated through the City's Risk Management Division, and in some specific cases, directly by the agency. Self-insurance is when the City manages the risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources, i.e., pay-as-you-go. SFMTA's general policy is to first evaluate self-insurance for the risks of loss to which it is exposed. When economically more viable or when required by debt financing covenants, SFMTA purchases insurance as necessary or required.

Risks	Coverage
a. General/Transit Liability	Self-insure
b. Property	Self-insure and purchase insurance
c. Workers' Compensation	Self-insure
d. Employee (transit operators)	Purchase insurance
e. Directors and Officers	Purchase insurance

The SFMTA is self-insured for general liability. Through coordination with the Controller and City Attorney's Office, the SFMTA general liability payments are addressed through pay-as-you-go funding as part of the budgetary process as well as a reserve that is increased each year by approximately \$3.0 million. As of June 30, 2017, the reserve was \$22.4 million. Claim liabilities are actuarially determined

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
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anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation, and other economic social factors.

The SFMTA purchases property insurance on scheduled facilities, Breda light rail cars, and personal property. Also, insurance is purchased for scheduled City parking garages covering blanket property and business interruptions. Damages to facilities and property outside of the specified schedules are self-insured. SFMTA has purchased group life insurance and a Group Felonious Assault Coverage Insurance on transit operators per a Memorandum of Understanding with the Transport Workers' Union and has purchased insurance to cover errors and omissions of its board members and senior management.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

**Estimated Claims Payable**

Numerous lawsuits are pending or threatened against the City. The City's liability as of June 30, 2017 has been actuarially determined and includes an estimate of incurred but not reported losses and allocated loss adjustment expenses.

Changes in the reported estimated claims payable since July 1, 2015, resulted from the following activity:

Fiscal Year	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2015-2016	\$ 264,830	\$ 68,815	\$ (56,079)	\$ 277,566
2016-2017	277,566	84,949	(65,346)	297,169

Breakdown of the estimated claims payable at June 30, 2017 is follows:

<b>Governmental activities:</b>	
Current portion of estimated claims payables.....	\$ 71,290
Long-term portion of estimated claims payable.....	131,199
Total .....	<u>\$ 202,489</u>
<b>Business-type activities:</b>	
Current portion of estimated claims payables.....	\$ 39,424
Long-term portion of estimated claims payable.....	55,256
Total .....	<u>\$ 94,680</u>

**Workers' Compensation**

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2017 has been actuarially determined and includes an estimate of incurred but not reported losses. The total amount estimated to be payable for claims incurred as of June 30, 2017 was \$435.8 million, which is reported in the appropriate individual funds in accordance with the City's accounting policies.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
(Dollars in Thousands)

Changes in the reported accrued workers' compensation since July 1, 2015, resulted from the following activity:

Fiscal Year	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2015-2016	\$ 395,574	\$ 108,760	\$ (86,906)	\$ 417,428
2016-2017	417,428	106,185	(87,862)	435,751

Breakdown of the accrued workers' compensation liability at June 30, 2017 is as follows:

<u>Governmental activities:</u>	
Current portion of accrued workers' compensation liability.....	\$ 42,621
Long-term portion of accrued workers' compensation liability.....	199,202
Total .....	<u>\$ 241,823</u>
<u>Business-type activities:</u>	
Current portion of accrued workers' compensation liability.....	\$ 32,875
Long-term portion of accrued workers' compensation liability.....	161,053
Total .....	<u>\$ 193,928</u>

**(19) SUBSEQUENT EVENTS**

**(a) Long-term Debt Issuance**

In July 2017, the City issued Certificates of Participation (Moscone Convention Center Expansion Project) Series 2017B (Certificates) in the amount of \$412.4 million, the proceeds of which will be used to: (1) retire certain commercial paper certificates of the City, the proceeds of which financed a portion of the cost of acquisition, construction, renovation, equipping of improvements to the existing site and facilities of Moscone Center; (2) finance or refinance the costs of certain capital improvements to the Moscone Center; (3) pay capitalized interest payable with respect to the Certificates through April 1, 2018; (4) fund the Reserve Account of the Reserve Fund established under the Trust Agreement for the Certificates; and (5) pay for costs of execution and delivery of the Certificates. The Certificates bear interest rates ranging from 3.0% and 5.0% and will mature from April 2019 through April 2042.

In July 2017, the City issued a total of \$19.8 million tax-exempt commercial paper (CP) with interest rates of 0.90% and 0.93% and maturing in September and October 2017. The CP was issued to refund \$19.8 million of maturing CP for capital equipment for the San Francisco General Hospital and Trauma Center.

In September 2017, the City issued \$14.3 million tax-exempt CP to refinance \$11.8 million maturing CP for the San Francisco General Hospital capital equipment project and finance \$2.0 million for the Animal Care and Control project. The CP bears an interest rate of 0.85% and will mature on December 2017.

In September 2017, the San Francisco Public Utilities Commission (SFPUC) entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund (CWSRF) Loan and Grant to fund the Water Enterprise's SF Westside Recycled Water Project. The CWSRF loan is in the amount of \$171.2 million and will bear interest rate of 1.0% for a 30-year term, with repayments beginning one year after substantial completion of project construction. The CWSRF loan is secured on a parity lien basis with the Water Enterprise's outstanding revenue bonds. The grant is in the amount of \$15.0 million.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
(Dollars in Thousands)

In September 2017, the SFPUC entered into Installment Sale Agreements with the State Water Resources Control Board for three CWSRF Loans to fund certain projects of the Wastewater Enterprise's Sewer System Improvement Program. The aggregate amount of the CWSRF loans is \$94.7 million, each of which will bear an interest rate equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost. The CWSRF loans will each have a 30-year term, with repayment beginning one year after substantial completion of each project's construction. The CWSRF loans are secured on a parity lien basis with the Wastewater Enterprise's outstanding revenue bonds.

In October 2017, the City issued \$8.0 million tax-exempt CP with interest rate of 0.94% and maturity of December 2017. The CP will refinance \$8.0 million maturing CP for the San Francisco General Hospital capital equipment project, the 1500 Mission project, and the Animal Care and Control project.

In November 2017, the Transportation Authority issued Senior Sales Tax Revenue Bonds Series 2017 (Series 2017) in the amount of \$248.3 million. The Series 2017 was issued to (1) finance a portion of the costs of construction, acquisition and improvement of certain transit, street and traffic facilities and other transportation projects, including engineering, inspection, legal, fiscal agents, financial consultant and other fees and working capital; (2) repay a portion of the outstanding obligation of a revolving loan and a promissory note of the Transportation Authority; (3) pay a portion of the capitalized interest of the Series 2017; and (4) pay costs of issuance of the Series 2017. The Series 2017 matures from February 2020 through February 2034 with interest rates ranging from 3.0% to 4.0% and will be repaid through sales tax collection in the subsequent years.

In November 2017, the City, on behalf of the Community Facilities District No. 2014-1 (Transbay Transit Center) issued Special Tax Bonds Series 2017A and 2017B (2017 Bonds) in the amount of \$36.1 million and \$171.4 million, respectively. The 2017 Bonds were issued to fund: 1) various capital improvements; including streets and sidewalk improvement in the vicinity of the transit building (the "Salesforce Transit Center," formerly known as the Transbay Transit Center) and the development and improvement of the adjacent open space; 2) the planning, design, engineering and construction of the core and shell of the two below-grade levels of the Salesforce Transit Center; 3) a portion of the design, engineering and construction of the transit center rooftop park; 4) a debt service reserve fund; 5) capitalized interest for a portion of the interest on the 2017 Bonds; and 6) cost of issuance of the 2017 Bonds. The 2017 Bonds mature from September 2018 through September 2048 with interest rate ranging from 1.5% to 4.0%. The 2017 Bonds are limited obligations of the City, secured and payable solely from the Special Tax Revenues pledged under the Fiscal Agent Agreement and are not payable from any other source of funds. The General Fund of the City is not liable for the payment of the principal or interest on the 2017 Bonds, and neither the credit nor the taxing power of the City or the State of California or any its political subdivision is pledged to the payment of the 2017 Bonds.

In December 2017, the City issued \$21.0 million tax-exempt CP with an interest rate of 1.04% and maturity of February 2018. The CP will refinance \$20.7 million maturing CP for the San Francisco General Hospital capital equipment project, 1500 Mission Street project, and Animal Care and Control project.

**Issuance of Capital Plan Bonds and Refunding Bonds and Swaps Termination**

In October 2017, the Airport issued \$571.6 million in Second Series Revenue Bonds, Series 2017A and 2017B, a portion of which will be used to finance and refinance (through the repayment of \$300.5 million of commercial paper notes) a portion of the costs of capital improvements to the Airport; \$45.1 million in Second Series Revenue Refunding Bonds, Series 2017C, to fund a deposit to the Contingency Account, to finance a \$12.6 million termination payment on a portion of the interest rate swaps associated with the Second Series Revenue Refunding Bonds, Issue 36A, 36B, and 36C, and to pay costs of issuance of its Second Series Revenue Refunding Bonds, Series 2017D; and \$144.8 million in Second Series Revenue Refunding Bonds, Series 2017D, to refund the remaining \$164.6 million principal amount of the Second Series Revenue Refunding Bonds, Issue 36A, 36B, and 36C. The Airport also expects to issue in February 2018, \$115.4 million in Second Series Revenue

**CITY AND COUNTY OF SAN FRANCISCO**  
**Notes to Basic Financial Statements (Continued)**  
June 30, 2017  
(Dollars in Thousands)

Refunding Bonds, Series 2018A, under a forward purchase agreement executed on October 11, 2017, for the purpose of refunding \$140.1 million in outstanding Second Series Revenue Refunding Bonds, Issue 34E. Moody's, S&P, and Fitch assigned credit ratings of "A1", "A+", and "A+" to these bonds.

The Airport issued an additional \$152.4 million in subordinate CP notes in July 2017, for a total of \$330.4 million subordinate commercial paper notes outstanding.

**Interest Rate Swaps - LIBOR**

In July 2017, the United Kingdom (UK) Financial Conduct Authority, the UK markets regulator, indicated that the London Interbank Overnight Rate (LIBOR) would be phased out by the end of 2021. The Airport's interest rate swap agreements calculate the variable rate payment owed from each counterparty to the Airport each month using LIBOR plus a certain spread. At least a portion of the Airport's swaps are not scheduled to terminate until May 1, 2030. The Airport expects its interest rate swap agreements to be modified to reflect the permanent discontinuation of LIBOR and its substitution with a new variable rate benchmark or variable rate-setting mechanism.

**Credit Ratings Changes**

In October 2017, Fitch downgraded the long-term credit rating of Wells Fargo Bank, N.A. ("Wells Fargo"), which provides a \$100.0 million principal amount irrevocable letter of credit in support of the Airport's Second Series Variable Rate Revenue Refunding Bonds, Issue 36A. As a result, on October 4, 2017, Fitch lowered its long-term jointly supported rating on the Issue 36A Bonds from "AAA" to "AA+." Fitch's short-term rating on the Issue 36A Bonds ("F1+") remained unchanged. Fitch's underlying long-term rating on the Issue 36A Bonds ("A+") also remained unchanged.

**Property Purchase**

In July 2017, the City purchased property at 1500 Mission Street in San Francisco for \$56.2 million, which will be developed into a mixed-use complex for housing, retail, and City office space. The purchase was partially funded by the sales of City property at 1660-1680 Mission Street and 30 Van Ness Avenue.

In September 2017, the Water Enterprise purchased property at 1657-1663 Rollins Road in Burlingame, CA that has served as the primary work location for various staff of the Water Enterprise. The \$9.1 million purchase was funded by proceeds from Water Enterprise Revenue Bonds.

**Insurance Settlement for Pacific Rod & Gun Club**

In October 2017, the Board of Supervisors approved the settlement of a lawsuit between the Water Enterprise and the Pacific Rod & Gun Club. The Ordinance was signed by the Mayor on November 3, 2017. The Water Enterprise will receive an insurance settlement for \$8.3 million relating to the excavation of contaminated soil that contained polycyclic aromatic hydrocarbons from the Pacific Rod & Gun Club site in the Lake Merced area.



**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of the City's Proportionate Share of the Net Pension Liability**  
June 30, 2017 \*  
(Dollars in Thousands)

	For the year ended June 30, 2017				
	CalPERS Miscellaneous Plans				
	City SFERS Plan	City	Transportation Authority Classic & PEPRA	Successor Agency Classic & PEPRA	Treasure Island
Proportion of net pension liability	94.2175%	-0.1469%	0.0204%	0.2691%	0.0003%
Proportionate share of the net pension liability (asset)	\$ 5,476,654	\$ (12,711)	\$ 1,765	\$ 23,281	\$ 27
Covered payroll	\$ 2,681,695	\$ 329	\$ 3,644	\$ 3,769	\$ -
Proportionate share of the net pension liability as a percentage of covered payroll	204.22%	-3863.53%	48.44%	617.70%	0.00%
Plan fiduciary net position as a percentage of total pension liability	77.61%	74.06%	74.06%	74.06%	74.06%

	For the year ended June 30, 2016				
	CalPERS Miscellaneous Plans				
	City SFERS Plan	City	Transportation Authority Classic & PEPRA	Successor Agency Classic & PEPRA	Treasure Island
Proportion of net pension liability	93.9032%	-0.2033%	0.0188%	0.2413%	0.0004%
Proportionate share of the net pension liability (asset)	\$ 2,156,049	\$ (13,956)	\$ 1,288	\$ 16,563	\$ 24
Covered payroll	\$ 2,529,879	\$ 319	\$ 3,684	\$ 3,427	\$ -
Proportionate share of the net pension liability as a percentage of covered payroll	85.22%	-4374.92%	34.96%	483.31%	0.00%
Plan fiduciary net position as a percentage of total pension liability	89.90%	78.40%	78.40%	78.40%	78.40%

	For the year ended June 30, 2015				
	CalPERS Miscellaneous Plans				
	City SFERS Plan	City	Transportation Authority Classic & PEPRA	Successor Agency Classic & PEPRA	Treasure Island
Proportion of net pension liability	93.7829%	-0.1829%	0.0208%	0.2550%	N/A
Proportionate share of the net pension liability (asset)	\$ 1,660,365	\$ (11,381)	\$ 1,299	\$ 15,870	-
Covered payroll	\$ 2,398,979	\$ 303	\$ 3,264	\$ 3,962	-
Proportionate share of the net pension liability as a percentage of covered payroll	69.21%	-3756.11%	39.80%	400.56%	-
Plan fiduciary net position as a percentage of total pension liability	91.84%	80.43%	80.43%	80.43%	-



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**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of the City's Proportionate Share of the Net Pension Liability (Continued)**  
 June 30, 2017  
 (Dollars in Thousands)

**Notes to Schedule:**

SFERS Plan

Benefit Changes – The impact of benefit changes for the year ended June 30, 2017, which was \$1.22 billion, was recognized immediately as pension expense.

Changes of Assumptions – For the year ended June 30, 2017, the discount rate was increased from 7.46% to 7.50%. For the year ended June 30, 2016, the discount rate was reduced from 7.58% to 7.46%.

CalPERS Miscellaneous Plans

Benefit Changes – The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions – There were no changes of assumptions during the measurement period ended June 30, 2016. The discount rate was changed from 7.50% (net of administrative expense) in 2015 to 7.65% in 2016.

\* Fiscal year 2014-15 was the first year of implementation of GASB No. 68, therefore only three years of information is shown.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of Changes in Net Pension Liability and Related Ratios**  
 June 30, 2017\*  
 (Dollars in Thousands)

<u>City CalPERS Safety Plan</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total pension liability:</b>			
Service cost.....	\$ 31,141	\$ 30,987	\$ 32,688
Interest on the total pension liability.....	85,094	80,057	76,177
Changes of assumptions.....	-	(19,949)	-
Differences between expected and actual experience	950	(14,218)	-
Benefit payments, including refunds of employee contributions.....	(47,774)	(44,699)	(41,387)
Net change in total pension liability.....	69,411	32,178	67,478
Total pension liability, beginning.....	<u>1,119,705</u>	<u>1,087,527</u>	<u>1,020,049</u>
Total pension liability, ending.....	<u>\$ 1,189,116</u>	<u>\$ 1,119,705</u>	<u>\$ 1,087,527</u>
<b>Plan fiduciary net position:</b>			
Plan to plan resource movement.....	\$ -	\$ (4)	\$ -
Contributions from the employer.....	23,640	20,718	20,613
Contributions from employees.....	14,310	15,061	15,216
Net investment income.....	4,731	20,469	138,628
Benefit payments, including refunds of employee contributions.....	(47,774)	(44,699)	(41,387)
Administrative expenses.....	(567)	(1,048)	-
Net change in plan fiduciary net position.....	(5,660)	10,497	133,070
Plan fiduciary net position, beginning.....	<u>930,868</u>	<u>920,371</u>	<u>787,301</u>
Plan fiduciary net position, ending.....	<u>\$ 925,208</u>	<u>\$ 930,868</u>	<u>\$ 920,371</u>
<b>Plan net pension liability, ending.....</b>	<u>\$ 263,908</u>	<u>\$ 188,837</u>	<u>\$ 167,156</u>
 Plan fiduciary net position as a percentage of the total pension liability.....	 77.81%	 83.14%	 84.63%
 Covered payroll.....	 \$ 110,139	 \$ 109,462	 \$ 111,311
 Plan net pension liability as a percentage of the covered payroll.....	 239.61%	 172.51%	 150.17%

**Notes to Schedule:**

Benefit Changes – There were no changes to benefit terms that applied to all members of the Public Agency Pool as of valuation date June 30, 2015.

Changes of Assumptions – There were no changes of assumptions during the measurement period ended June 30, 2016. The discount rate remained the same as prior year, at 7.65%. The discount rate was changed from 7.50% (net of administrative expense) in fiscal year 2015 to 7.65% in fiscal year 2016.

\* Fiscal year 2014-15 was the first year of implementation of GASB No. 68, therefore only three years of information is shown.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of Changes in Net Pension Liability and Related Ratios (Continued)**  
 June 30, 2017 \*  
 (Dollars in Thousands)

<u>City Replacement Benefits Plan*</u>	<u>2017</u>
<b>Net pension liability:</b>	
Service cost.....	\$ 956
Interest.....	2,112
Changes of benefits.....	10,310
Changes of assumptions.....	11,516
Benefit payments.....	<u>(1,332)</u>
Net change in net pension liability.....	23,562
Net pension liability, beginning.....	55,038
<b>Plan net pension liability, ending.....</b>	<b>\$ 78,600</b>
Covered payroll.....	\$ 2,681,695
Plan net pension liability as a percentage of the covered payroll.....	2.93%

**Notes to Schedule:**

No assets are accumulated in a trust that meet the criteria in GASB Statement No. 73 to pay related benefits.

Benefit Changes – The impact of benefit changes, which was \$10.3 million, was recognized immediately in fiscal year 2017 as pension expense.

Changes of Assumptions – The discount rate was changed from 3.85% in the measurement period ended June 30, 2015 to 2.85% in the measurement period ended June 30, 2016.

\* Fiscal year 2016-17 was the first year of implementation of GASB Statement No. 73, therefore only one year of information is shown.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of Employer Contributions – Pensions**  
 June 30, 2017\*  
 (Dollars in Thousands)

	For the year ended June 30, 2017					
	CalPERS Miscellaneous Plans					
	City SFERS Plan	City	Transportation Authority	Successor Agency	Treasure Island	CalPERS Safety Plan
Actuarially determined contributions <sup>(1)</sup>	\$ 519,073	\$ 35	\$ 293	\$ 970	\$ 2	\$ 27,190
Contributions in relation to the actuarially determined contributions <sup>(1)</sup>	(519,073)	(35)	(293)	(970)	(2)	(27,190)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,881,014	\$ 344	\$ 4,202	\$ 5,042	\$ -	\$ 99,281
Contributions as a percentage of covered payroll	18.02%	10.17%	6.97%	19.24%	0.00%	27.39%
	For the year ended June 30, 2016					
	CalPERS Miscellaneous Plans					
	City SFERS Plan	City	Transportation Authority	Successor Agency	Treasure Island	CalPERS Safety Plan
Actuarially determined contributions <sup>(1)</sup>	\$ 496,343	\$ 33	\$ 280	\$ 828	\$ 2	\$ 23,640
Contributions in relation to the actuarially determined contributions <sup>(1)</sup>	(496,343)	(33)	(280)	(828)	(2)	(23,640)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,681,695	\$ 329	\$ 3,644	\$ 3,769	\$ -	\$ 110,139
Contributions as a percentage of covered payroll	18.51%	10.03%	7.68%	21.97%	0.00%	21.46%
	For the year ended June 30, 2015					
	CalPERS Miscellaneous Plans					
	City SFERS Plan	City	Transportation Authority	Successor Agency	Treasure Island	CalPERS Safety Plan
Actuarially determined contributions <sup>(1)**</sup>	\$ 556,511	\$ 31	\$ 400	\$ 598	\$ 2	\$ 20,718
Contributions in relation to the actuarially determined contributions <sup>(1)</sup>	(556,511)	(31)	(400)	(598)	(2)	(20,718)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,529,879	\$ 319	\$ 3,684	\$ 3,427	\$ -	\$ 109,462
Contributions as a percentage of covered payroll	22.00%	9.72%	10.86%	17.45%	0.00%	18.93%

\* Fiscal year 2014-15 was the first year of implementation of GASB No. 68, therefore only three years of information is shown.

\*\* In fiscal year 2014-15, the actuarially determined contributions were based on an estimate. The City made a \$0.1 million adjustment to align the estimated employer contribution amount with the actual employer contribution per the 2015 agent-multiple employer CalPERS report for the CalPERS Safety Plan. Due to the early implementation of GASB Statement No. 82, the City decreased the actuarially determined contributions for the City SFERS plan to deduct the employer pickup in the amount of \$8.6 million.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of Employer Contributions – Pensions (Continued)**  
 June 30, 2017\*  
 (Dollars in Thousands)

**Methods and assumptions used to determine FY 2016-17 contribution rates to SFERS Plan**

Valuation date.....	July 1, 2015
Actuarial cost method.....	Entry-age normal cost method
Amortization method.....	Level annual percentage of payroll
Remaining amortization period.....	Closed 15-year period
Asset valuation method.....	5 year smoothed market
Investment rate of return.....	7.50% (net of investment expenses)
Inflation.....	3.25% compounded annually
Projected salary increase.....	Wage inflation component: 3.75%

**Methods and assumptions used to determine FY 2015-16 contribution rates to SFERS Plan**

Valuation date.....	July 1, 2014
Actuarial cost method.....	Entry-age normal cost method
Amortization method.....	Level annual percentage of payroll
Remaining amortization period.....	Closed 15-year period
Asset valuation method.....	5 year smoothed market
Investment rate of return.....	7.50% (net of investment expenses)
Inflation.....	3.25% compounded annually
Projected salary increase.....	Wage inflation component: 3.75%

**Methods and assumptions used to determine FY 2014-15 contribution rates to SFERS Plan**

Valuation date.....	July 1, 2013
Actuarial cost method.....	Entry-age normal cost method
Amortization method.....	Level annual percentage of payroll
Remaining amortization period.....	Rolling 15-year period
Asset valuation method.....	5 year smoothed market
Investment rate of return.....	7.58% (net of investment expenses)
Inflation.....	3.33% compounded annually
Projected salary increase.....	Wage inflation component: 3.83%

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of Employer Contributions – Pensions (Continued)**  
 June 30, 2017\*  
 (Dollars in Thousands)

**Methods and assumptions used to determine FY 2016-17 contribution rates to CalPERS plans**

Valuation date.....	June 30, 2015 updated to June 30, 2016
Actuarial cost method.....	Entry-age normal cost method
Amortization method.....	Level percent of payroll
Amortization period.....	Gains and losses over a fixed 30-year period with increases or decreases in the rate spread directly over a 5-year period (Miscellaneous)
	Experience gains and losses over a fixed 30-year period and spread rate increases or decreases over a 5-year period (Safety)
Asset valuation method.....	Actuarial Value of Assets
Investment rate of return.....	7.50% (net of pension plan investment expense, including inflation)
Projected salary increase.....	Varies by Entry-Age and Service
Inflation.....	2.75%
Payroll growth.....	3.00%

**Methods and assumptions used to determine FY 2015-16 contribution rates to CalPERS plans**

Valuation date.....	June 30, 2014 updated to June 30, 2015
Actuarial cost method.....	Entry-age normal cost method
Amortization method.....	Level percent of payroll
Amortization period.....	Gains and losses over a fixed 30-year period with increases or decreases in the rate spread directly over a 5-year period (Miscellaneous)
	Experience gains and losses over a fixed 30-year period and spread rate increases or decreases over a 5-year period (Safety)
Asset valuation method.....	Market Value
Investment rate of return.....	7.50% (net of pension plan investment expense, including inflation)
Projected salary increase.....	3.30% to 14.20% depending on age, service, and type of employment
Inflation.....	2.75%
Payroll growth.....	3.00%
Individual salary growth.....	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

**Methods and assumptions used to determine FY 2014-15 contribution rates to CalPERS plans**

Valuation date.....	June 30, 2013 updated to June 30, 2014
Actuarial cost method.....	Entry-age normal cost method
Amortization method.....	Level percent of payroll
Amortization period.....	7 years as of the valuation date (Miscellaneous)
	25 years as of the valuation date (Safety)
Asset valuation method.....	15-year smoothed market
Investment rate of return.....	7.50% (net of pension plan investment expense, including inflation)
Projected salary increase.....	3.30% to 14.20% depending on age, service, and type of employment
Inflation.....	2.75%
Payroll growth.....	3.00%
Individual salary growth.....	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of Funding Progress and Employer Contributions**  
**Other Postemployment Healthcare Benefits**  
 June 30, 2017  
 (Dollars in Thousands)

The schedules of funding progress presented below provide consolidated snapshots of the entity's ability to meet current and future liabilities with plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the OPEB plans. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

**Schedule of Funding Progress – City and County of San Francisco – Other Postemployment Health Care Benefits**

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
07/01/10 <sup>(1)</sup>	\$ -	\$ 4,420,146	\$ (4,420,146)	0.0%	\$ 2,393,930	184.6%
07/01/12	17,852	3,997,762	(3,979,910)	0.4%	2,457,633	161.9%
07/01/14	48,988	4,260,256	(4,211,268)	1.1%	2,618,426	160.8%

<sup>(1)</sup> As of July 1, 2010, the City set-aside approximately \$3.2 million in assets for the OPEB plan. However, the Retiree Health Care Trust Fund was not established until December 2010.

**Schedule of Employer Contributions – City and County of San Francisco – Other Postemployment Health Care Benefits**

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2015	\$ 350,389	47.7%
2016	354,540	47.6%
2017	362,700	50.7%

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Schedules of Funding Progress and Employer Contributions**  
**Other Postemployment Healthcare Benefits (Continued)**  
 June 30, 2017  
 (Dollars in Thousands)

**Schedule of Funding Progress – San Francisco County Transportation Authority – Other Postemployment Health Care Benefits**

Actuarial Valuation Date <sup>(1)</sup>	Actuarial Asset Value	Actuarial Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/11	\$ 405	\$ 671	\$ (266)	60.4%	\$ 3,251	8.2%
06/30/13	760	1,124	(364)	67.6%	3,253	11.2%
06/30/15	1,170	2,042	(872)	57.3%	3,930	22.2%

<sup>(1)</sup> The actuarial valuation report is conducted once every two years.

**Schedule of Employer Contributions – San Francisco County Transportation Authority**

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
06/30/15	\$ 138	\$ 138	100.0%
06/30/16	201	207	102.9%
06/30/17	201	195	97.1%

**Schedule of Funding Progress – Successor Agency – Other Postemployment Health Care Benefits**

Actuarial Valuation Date <sup>(1)</sup>	Actuarial Asset Value	Actuarial Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/11	\$ 1,856	\$ 14,390	\$ (12,534)	12.9%	\$ 4,185	299.5%
06/30/13	2,154	11,378	(9,224)	18.9%	4,048	227.9%
07/01/15	2,833	10,998	(8,165)	25.8%	4,261	191.6%

<sup>(1)</sup> The actuarial valuation report is conducted once every two years.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Budgetary Comparison Schedule - General Fund**  
Year Ended June 30, 2017  
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>Budgetary Fund Balance, July 1</b>	<b>\$ 178,109</b>	<b>\$ 1,526,830</b>	<b>\$ 1,526,830</b>	<b>\$ -</b>
<b>Resources (Inflows):</b>				
Property taxes.....	1,412,000	1,412,000	1,481,132	69,132
Business taxes.....	669,450	669,450	700,536	31,086
Other local taxes:				
Sales and use tax.....	237,545	237,545	189,473	(48,072)
Hotel room tax.....	409,250	409,250	370,344	(38,906)
Utility users tax.....	94,310	94,310	101,203	6,893
Parking tax.....	92,820	92,820	84,278	(8,542)
Real property transfer tax.....	235,000	244,000	410,561	166,561
Other local taxes.....	48,320	48,320	47,728	(592)
Licenses, permits and franchises:				
Licenses and permits.....	11,941	11,941	12,081	140
Franchise tax.....	16,935	16,935	17,255	320
Fines, forfeitures, and penalties.....	4,580	4,671	2,734	(1,937)
Interest and investment income.....	13,970	13,971	24,185	10,214
Rents and concessions:				
Garages - Recreation and Park.....	9,843	9,843	8,711	(1,132)
Rents and concessions - Recreation and Park.....	5,259	4,974	5,557	583
Other rents and concessions.....	1,038	1,038	1,299	261
Intergovernmental:				
Federal grants and subventions.....	253,346	249,608	230,221	(19,387)
State subventions:				
Social service subventions.....	115,121	114,444	109,517	(4,927)
Health / mental health subventions.....	173,430	198,331	200,551	2,220
Health and welfare realignment.....	252,930	252,930	255,753	2,823
Public safety sales tax.....	102,018	102,018	100,427	(1,591)
Other grants and subventions.....	56,798	57,267	58,569	1,302
Other.....	5,456	3,654	2,847	(807)
Charges for services:				
General government service charges.....	77,368	77,368	77,153	(215)
Public safety service charges.....	42,163	42,163	45,769	3,606
Recreation charges - Recreation and Park.....	20,169	20,170	21,552	1,382
MediCal, MediCare and health service charges.....	96,402	95,790	78,042	(17,748)
Other financing sources:				
Transfers from other funds.....	161,995	246,779	246,779	-
Repayment of loan from Component Unit.....	881	881	-	(881)
Other resources (inflows).....	61,334	58,776	35,010	(23,766)
<b>Subtotal - Resources (Inflows)</b>	<b>4,681,672</b>	<b>4,791,247</b>	<b>4,919,267</b>	<b>128,020</b>
<b>Total amounts available for appropriation.....</b>	<b>4,859,781</b>	<b>6,318,077</b>	<b>6,446,097</b>	<b>128,020</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Budgetary Comparison Schedule - General Fund (continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>Charges to Appropriations (Outflows):</b>				
<b>Public Protection</b>				
Adult Probation.....	\$ 30,380	\$ 30,469	\$ 28,296	\$ 2,173
District Attorney.....	51,067	50,521	50,023	498
Emergency Communications.....	64,265	52,498	52,175	323
Fire Department.....	343,785	340,907	340,907	-
Juvenile Probation.....	39,620	36,073	33,024	3,049
Police Department.....	506,000	503,375	501,540	1,835
Public Defender.....	33,516	33,670	33,273	397
Sheriff.....	196,495	188,023	186,831	1,192
Superior Court.....	30,614	30,612	30,420	192
<b>Subtotal - Public Protection</b>	<b>1,295,742</b>	<b>1,266,148</b>	<b>1,256,489</b>	<b>9,659</b>
<b>Public Works, Transportation and Commerce</b>				
Board of Appeals.....	970	887	877	10
Business and Economic Development.....	36,145	32,421	32,421	-
General Services Agency - Public Works.....	139,653	129,129	129,129	-
Public Utilities Commission.....	-	2,644	2,644	-
Municipal Transportation Agency.....	-	1,214	1,214	-
<b>Subtotal - Public Works, Transportation and Commerce</b>	<b>176,768</b>	<b>166,295</b>	<b>166,285</b>	<b>10</b>
<b>Human Welfare and Neighborhood Development</b>				
Children, Youth and Their Families.....	39,089	39,138	37,908	1,230
Commission on the Status of Women.....	6,732	6,802	6,802	-
County Education Office.....	116	116	116	-
Environment.....	-	35	35	-
Homelessness and Supportive Housing.....	177,756	150,583	144,842	5,741
Human Rights Commission.....	3,079	2,760	2,760	-
Human Services.....	743,908	717,974	703,297	14,677
Mayor - Housing/Neighborhoods.....	93,300	60,718	60,718	-
<b>Subtotal - Human Welfare and Neighborhood Development</b>	<b>1,063,980</b>	<b>978,126</b>	<b>956,478</b>	<b>21,648</b>
<b>Community Health</b>				
Public Health.....	786,218	763,496	711,410	52,086
<b>Culture and Recreation</b>				
Academy of Sciences.....	6,175	5,413	5,413	-
Arts Commission.....	10,548	11,257	11,257	-
Asian Art Museum.....	10,094	10,153	10,138	15
Fine Arts Museum.....	15,778	15,961	15,869	92
Law Library.....	1,727	1,715	1,411	304
Recreation and Park Commission.....	105,527	94,974	94,974	-
<b>Subtotal - Culture and Recreation</b>	<b>149,849</b>	<b>139,473</b>	<b>139,062</b>	<b>411</b>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Budgetary Comparison Schedule - General Fund (continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>General Administration and Finance</b>				
Assessor/Recorder.....	\$ 24,865	\$ 23,329	\$ 21,425	\$ 1,904
Board of Supervisors.....	14,454	14,372	13,903	469
City Attorney.....	14,448	14,899	14,899	-
City Planning.....	45,172	43,762	41,602	2,160
Civil Service.....	851	1,000	677	323
Controller.....	12,447	17,136	16,237	899
Elections.....	14,364	14,829	14,829	-
Ethics Commission.....	4,436	4,342	3,517	825
General Services Agency - Administrative Services.....	58,157	52,972	50,552	2,420
General Services Agency - Technology.....	5,715	3,986	3,986	-
Health Service System.....	427	318	77	241
Human Resources.....	15,741	18,273	17,706	567
Mayor.....	5,985	6,100	6,100	-
Retirement Services.....	1,168	1,160	1,160	-
Treasurer/Tax Collector.....	37,777	36,520	31,393	5,127
Subtotal - General Administration and Finance	<u>256,007</u>	<u>252,998</u>	<u>238,063</u>	<u>14,935</u>
<b>General City Responsibilities</b>				
General City Responsibilities.....	126,861	134,153	121,448	12,705
<b>Other financing uses:</b>				
Debt service.....	11,548	133	-	133
Transfers to other funds.....	944,856	857,528	857,528	-
Budgetary reserves and designations.....	47,952	9,868	-	9,868
Total charges to appropriations.....	<u>4,859,781</u>	<u>4,568,218</u>	<u>4,446,763</u>	<u>121,455</u>
Total Sources less Current Year Uses.....	<u>\$ -</u>	<u>\$ 1,749,859</u>	<u>\$ 1,999,334</u>	<u>\$ 249,475</u>
<b>Budgetary fund balance, June 30 before reserves and designations</b>				
			\$ 1,999,334	
Reserves and designations made from budgetary fund balance not available for appropriation			(1,222,178)	
Reserves for Litigation and Contingencies and General Reserves			(231,236)	
<b>Net Available Budgetary Fund Balance, June 30</b>			<u>\$ 545,920</u>	
<b>Sources/inflows of resources</b>				
Actual amounts (budgetary basis) *available for appropriation*			\$ 6,446,097	
Difference - budget 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.....				
			(1,526,830)	
Property tax revenue - Teeter Plan net change from prior year.....			(2,461)	
Change in unrealized gain/(loss) on investments.....			(1,540)	
Interest earnings / charges from other funds assigned to General Fund as interest adjustment.....			(8,206)	
Interest earnings from other funds assigned to General Fund as other revenues.....			3,471	
Grants, subventions and other receivables received after 60-day recognition period.....			(27,049)	
Pregail lease revenue, Civic Center Garage.....			84	
Transfers from other funds are inflows of budgetary resources, but are not				
revenues for financial reporting purposes.....			(246,779)	
Total revenues as reported on the statement of revenues, expenditures and changes				
in fund balance - General Fund.....			<u>\$ 4,636,787</u>	
<b>Uses/outflows of resources</b>				
Actual amounts (budgetary basis) *total charges to appropriations*			\$ 4,446,763	
Difference - budget to GAAP:				
Capital asset purchases funded under capital leases with				
Finance Corporation and other vendors.....			1,785	
Recognition of expenditures for advances and imprest cash and capital asset acquisition				
for internal service fund.....			(3)	
Intergovernmental expense offset.....			(111,343)	
Transfers to other funds are outflows of budgetary resources but are not				
expenditures for financial reporting purposes.....			(857,528)	
Total expenditures as reported on the statement of revenues, expenditures and changes				
in fund balance - General Fund.....			<u>\$ 3,479,654</u>	

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Budgetary Comparison Schedule - General Fund (continued)**  
Year Ended June 30, 2017  
(In Thousands)

**Notes to Budgetary Schedule:**

**(a) 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Budgetary Comparison Schedule - General Fund (continued)**  
Year Ended June 30, 2017  
(In Thousands)

**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.

**(b) 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 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Required Supplementary Information (Unaudited) –**  
**Budgetary Comparison Schedule - General Fund (continued)**  
Year Ended June 30, 2017  
(In Thousands)

The fund balance of the General Fund as of June 30, 2017, on a Budget basis is reconciled to the fund balance on a GAAP basis as follows:

Fund Balance - Budget Basis.....	\$ 1,999,334
Unrealized Gains/ (Losses) on Investments.....	(1,197)
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis.....	(38,469)
Cumulative Excess Health, Human Services, Franchise and Other Revenues Recognized on a Budget Basis.....	(83,757)
Pre-paid lease revenue.....	(5,733)
Nonspendable Fund Balance (Assets Reserved for Not Available for Appropriation).....	525
<b>Fund Balance - GAAP basis.....</b>	<b><u>\$ 1,870,703</u></b>

General Fund budget basis fund balance as of June 30, 2017 is composed of the following:

Not available for appropriations:	
Restricted Fund Balance:	
Rainy Day - Economic Stabilization Reserve.....	\$ 78,336
Rainy Day - One Time Spending Account.....	47,353
Committed Fund Balance:	
Budget Stabilization Reserve.....	323,204
Recreation and Parks Expenditure Saving Reserve.....	4,403
Assigned for Encumbrances.....	244,158
Assigned for Appropriation Carryforward.....	434,223
Assigned for Subsequent Years' Budgets:	
Budget Savings Incentive Program City-wide.....	67,450
Salaries and benefits costs (MOU).....	23,051
Subtotal.....	\$ 1,222,178
Available for appropriations:	
Assigned for Litigation and Contingencies.....	136,080
Assigned balance subsequently appropriated as part of the General Fund budget for use in fiscal year 2017-18.....	183,326
Unassigned - General Reserve.....	95,156
Unassigned - Budget for use in fiscal year 2018-19.....	288,185
Unassigned - Contingency for fiscal year 2017-18.....	60,000
Unassigned - Available for future appropriations.....	14,409
Subtotal.....	777,156
<b>Fund Balance, June 30, 2017 - Budget basis.....</b>	<b><u>\$ 1,999,334</u></b>



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**COMBINING FINANCIAL  
STATEMENTS AND SCHEDULES**



CITY AND COUNTY OF SAN FRANCISCO  
NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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.

*Building Inspection Fund* – Accounts for the revenues and expenditures of the Bureau of Building Inspection which provides enforcement and implementation of laws regulating the use, occupancy, location and maintenance of buildings. This fund shall be used by the Department of Building Inspection to defray the costs of the Bureau of Building Inspection in processing and reviewing permits applications and plans, filed inspections, code enforcement and reproduction of documents.

*Children and Families Fund* – Accounts for property tax revenues, tobacco tax funding from Proposition 10 and interest earnings designated by Charter provision. Monies in this fund are used as specified in the Charter and Proposition 10 to provide services to children less than eighteen years old, and to promote, support and improve the early development of children from the prenatal stage to five years of age.

*Community/Neighborhood Development Fund* – Accounts for various grants primarily from the Department of Housing and Urban Development including federal grants administered by the former Redevelopment Agency to provide for community development of rundown areas; to promote new housing, child care centers and public recreation areas; to provide a variety of social programs for the underprivileged and provide loans for various community development activities. This fund also includes proceeds from a bond issuance to benefit the Seismic Safety Loan Program which provides loans for seismic strengthening of privately-owned unreinforced masonry buildings in the City.

*Community Health Services Fund* – Accounts for state and federal grants used to promote public health and mental health programs.

*Convention Facilities Fund* – Accounts for operating revenues of the convention facilities: Moscone Center, Brooks Hall and Civic Auditorium. In addition to transfers for lease payments of the Moscone Center, this fund provides for operating costs of the various convention facilities and the San Francisco Convention and Visitors Bureau.

*Court's Fund* – Accounts for a portion of revenues from court filing fees that are specifically dedicated for Courthouse costs.

*Culture and Recreation Fund* – Accounts for revenues received from a variety of cultural and recreational funds such as Public Arts, Youth Arts and Yacht Harbor with revenues used for certain specified operating costs.

*Environmental Protection Fund* – Accounts for revenues received from state, federal and other sources for the preservation of the environment, recycling, and reduction of toxic waste from the City's waste stream.

*Gasoline Tax Fund* – Accounts for the subventions received from state gas taxes under the provision of the Streets and Highways Code and for operating transfers from other funds which are used for the same purposes. State subventions are restricted to uses related to local streets and highways, acquisitions of real property, construction and improvements, and maintenance and repairs.

*General Services Fund* – Accounts for the activities of several non-grant activities, generally established by administrative action.

*Gift and Other Expendable Trusts Fund* – Accounts for certain cash gifts which have been accepted by the Board of Supervisors on behalf of the City and the operations of two smaller funds that cannot properly be grouped into the Gift Fund because of their specific terms. Disbursements are made by departments, boards and commissions in accordance with the purposes, if any, specified by the donor. Activities are controlled by project accounting procedures maintained by the Controller.

*Golf Fund* – Accounts for the revenue and expenditures related to the City's six golf courses.

*Human Welfare Fund* – Accounts for state and federal grants used to promote education and discourage domestic violence.

CITY AND COUNTY OF SAN FRANCISCO  
NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (Continued)

*Low and Moderate Income Housing Asset Fund* – Accounts for the former Redevelopment Agency's affordable housing assets upon its dissolution on January 31, 2012.

*Open Space and Park Fund* – Accounts for property tax revenues designated by Charter provision, interest earnings and miscellaneous service charges and gifts. Monies in this fund are used as specified in the Charter for acquisition and development of parks and open space parcels, for renovation of existing parks and recreation facilities, for maintenance of properties acquired and for after-school recreation programs.

*Public Library Fund* – Accounts for property tax revenues and interest earnings designated by Charter provision. Monies in this fund are to be expended or used exclusively by the library department to provide library services and materials and to operate library facilities.

*Public Protection Fund* – Accounts for grants received and revenues and expenditures of 21 special revenue funds including fingerprinting, vehicle theft crimes, peace officer training and other activities related to public protection.

*Public Works, Transportation and Commerce Fund* – Accounts for the revenues and expenditures of 13 special revenue funds including construction inspection, engineering inspection and other activities related to public works projects. In addition, the fund accounts for various grants from federal and state agencies expended for specific purposes, activities or facilities related to transportation and commerce.

*Real Property Fund* – Accounts for the lease revenue from real property purchased with the proceeds from certificates of participation. The lease revenue is used for operations and to pay for debt service of the certificates of participation. Sales and disposals of real property are also accounted for in this fund.

*San Francisco County Transportation Authority Fund* – Accounts for the proceeds of a one-half of one percent increase in local sales tax authorized by the voters for mass transit and other traffic and transportation purposes.

*Senior Citizens' Program Fund* – Accounts for grant revenues from the federal and state government to be used to promote the well-being of San Francisco senior citizens.

*War Memorial Fund* – Accounts for the costs of maintaining, operating and caring for the War Memorial buildings and grounds.

DEBT SERVICE FUNDS

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.

*General Obligation Bond Fund* – Accounts for property taxes and other revenues, (including the tobacco settlement revenues in excess of the \$100 million required to fund the Laguna Honda Hospital construction project) for periodic payment of interest and principal of general obligation bonds and related costs. Provisions are made in the general property tax levy for monies sufficient to meet these requirements in accordance with Article XIII of the State Constitution (Proposition 13).

*Certificates of Participation (COP) Funds* – Accounts for Base Rental payments from the various Special Revenue Funds and General Fund which provide for periodic payments of interest and principal. The COPs are being sold to provide funds to finance the acquisition of existing office buildings and certain improvements thereto, or the construction of City buildings such as the Courthouse, to be leased to the City for use of certain City departments as office space.

*Other Bond Funds* – Accounts for funds and debt service for the revolving fund loans operated and managed by the Mayor's Office of Community Development to assist with economic development efforts in low income neighborhoods (Facade Improvement Program) and for loans under the U.S. Department of Housing and Urban Development section 108 of the Housing and Community Development Act of 1974 (Fillmore Renaissance Center and Boys and Girls Club Hunters' Point Clubhouse).

**CITY AND COUNTY OF SAN FRANCISCO  
NONMAJOR GOVERNMENTAL FUNDS**

**CAPITAL PROJECTS FUNDS**

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.

*City Facilities Improvement Fund* – Accounts for bond proceeds, capital lease financing, federal and local funds and transfers from other funds which are designated for various buildings and general improvements. Expenditures for acquisition and construction of public buildings and improvements are made in accordance with bond requirements and appropriation ordinances.

*Earthquake Safety Improvement Fund* – Accounts for bond proceeds, Federal/State grants and private gifts which are designated for earthquake facilities improvements to various City buildings and facilities. Expenditures for construction are made in accordance with bond requirements and grant regulations.

*Fire Protection Systems Improvement Fund* – Accounts for bond proceeds which are designated for improvements in fire protection facilities. Expenditures for construction are made in accordance with bond requirements.

*Moscone Convention Center Fund* – Accounts for proceeds from Moscone Convention Center Lease Revenue Bonds and transfers from the General Fund and Convention Facilities Special Revenue Fund. Expenditures are for construction of the George R. Moscone Convention Center and for related administrative costs.

*Public Library Improvement Fund* – Accounts for bond proceeds and private gifts which are designated for construction of public library facilities. Expenditures for construction are made in accordance with bond requirements and private funds agreements.

*Recreation and Park Projects Fund* – Accounts for bond proceeds, Federal and state grants, gifts and transfers from other funds which are designated for various recreation and park additions and development. Expenditures for acquisition and construction of recreation and park facilities are made in accordance with bond requirements and appropriation ordinances.

*Street Improvement Fund* – Accounts for gas tax subventions, bond fund proceeds and other revenues which are designated for general street improvements. Expenditures for land acquisition and construction of designated improvements are made in accordance with applicable state codes, City charter provisions and bond requirements.

**PERMANENT FUND**

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

*Bequest Fund* – Accounts for income and disbursements of bequests accepted by the City. Disbursements are made in accordance with terms of the bequests.

**CITY AND COUNTY OF SAN FRANCISCO**

**Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2017  
(In Thousands)**

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund Bequest Fund	Total Nonmajor Governmental Funds
<b>Assets:</b>					
Deposits and investments with City Treasury.....	\$ 1,174,186	\$ 113,029	\$ 443,563	\$ 5,842	\$ 1,736,620
Deposits and investments outside City Treasury.....	21,092	32,580	95,761	-	149,433
<b>Receivables:</b>					
Property taxes and penalties.....	9,202	12,230	-	-	21,432
Other local taxes.....	18,414	-	-	-	18,414
Federal and state grants and subventions.....	89,977	-	6,340	-	96,317
Charges for services.....	13,431	-	-	-	13,431
Interest and other.....	3,763	334	565	8	4,670
Due from other funds.....	3,588	-	3,026	-	6,624
Due from component unit.....	1,581	-	-	-	1,581
Advance to component unit.....	13,149	-	-	-	13,149
Loans receivable (net of allowance for uncollectible amounts).....	79,759	48,798	-	-	128,557
Other assets.....	27,412	-	10	-	27,422
<b>Total assets.....</b>	<b>\$ 1,455,564</b>	<b>\$ 206,971</b>	<b>\$ 549,265</b>	<b>\$ 5,850</b>	<b>\$ 2,217,650</b>
<b>Liabilities:</b>					
Accounts payable.....	\$ 75,998	\$ -	\$ 47,545	\$ 77	\$ 123,620
Accrued payroll.....	16,451	-	1,510	-	17,961
Unearned grant and subvention revenue.....	17,149	-	569	-	17,748
Due to other funds.....	41,973	-	6,420	-	50,393
Unearned revenues and other liabilities.....	42,787	4,700	5,555	-	53,042
Bonds, loans, capital leases, and other payables.....	-	49,000	206,939	-	255,939
<b>Total liabilities.....</b>	<b>194,358</b>	<b>53,700</b>	<b>270,568</b>	<b>77</b>	<b>518,703</b>
<b>Deferred inflows of resources.....</b>	<b>151,421</b>	<b>8,991</b>	<b>4,465</b>	<b>-</b>	<b>164,877</b>
<b>Fund balances:</b>					
Nonspendable.....	82	-	-	-	82
Restricted.....	1,035,562	144,280	515,405	5,773	1,701,020
Assigned.....	78,413	-	-	-	78,413
Unassigned.....	(4,272)	-	(241,173)	-	(245,445)
<b>Total fund balances.....</b>	<b>1,109,785</b>	<b>144,280</b>	<b>274,232</b>	<b>5,773</b>	<b>1,534,070</b>
<b>Total liabilities, deferred inflows of resources and fund balances.....</b>	<b>\$ 1,455,564</b>	<b>\$ 206,971</b>	<b>\$ 549,265</b>	<b>\$ 5,850</b>	<b>\$ 2,217,650</b>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2017**  
(In Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund Bequest Fund	Total Nonmajor Governmental Funds
<b>Revenues:</b>					
Property taxes.....	\$ 185,380	\$ 273,643	\$ -	\$ -	\$ 459,023
Business taxes.....	1,795	-	-	-	1,795
Sales and use tax.....	102,237	-	-	-	102,237
Licenses, permits, and franchises.....	15,061	-	-	-	15,061
Fines, forfeitures, and penalties.....	12,736	15,312	-	16	28,064
Interest and investment income.....	15,934	1,486	3,180	50	20,650
Rents and concessions.....	84,151	728	41	272	85,192
<b>Intergovernmental:</b>					
Federal.....	181,141	-	5,116	-	186,257
State.....	106,186	785	9,755	-	116,726
Other.....	10,433	-	203	-	10,636
Charges for services.....	157,560	-	-	-	157,560
Other.....	144,070	3,900	1,647	15	149,632
<b>Total revenues.....</b>	<b>1,018,684</b>	<b>295,854</b>	<b>19,958</b>	<b>337</b>	<b>1,334,833</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Public protection.....	65,629	-	-	-	65,629
Public works, transportation and commerce.....	166,406	-	-	-	166,406
Human welfare and neighborhood development.....	467,885	-	-	62	467,947
Community health.....	112,428	-	-	-	112,428
Culture and recreation.....	249,725	-	-	945	250,670
General administration and finance.....	65,049	-	-	-	65,049
General City responsibilities.....	3	-	-	-	3
<b>Debt service:</b>					
Principal retirement.....	21,393	261,863	-	-	283,256
Interest and other fiscal charges.....	2,485	119,854	2,752	-	125,091
Bond issuance costs.....	1,355	-	1,340	-	2,695
Capital outlay.....	-	-	297,089	-	297,089
<b>Total expenditures.....</b>	<b>1,152,360</b>	<b>381,817</b>	<b>301,181</b>	<b>1,007</b>	<b>1,836,365</b>
Excess (deficiency) of revenues over (under) expenditures.....	(133,676)	(85,963)	(281,223)	(670)	(601,532)
<b>Other financing sources (uses):</b>					
Transfers in.....	277,781	109,722	113,348	-	500,851
Transfers out.....	(303,831)	-	(60,698)	(5)	(364,534)
Issuance of bonds and loans:					
Face value of bonds issued.....	103,450	-	173,120	-	276,570
Face value of loans issued.....	46,000	-	-	-	46,000
Premium on issuance of bonds.....	812	-	11,820	-	12,632
Proceeds from sale of capital assets.....	122,000	-	-	-	122,000
Other financing sources - capital leases.....	-	-	35,971	-	35,971
<b>Total other financing sources (uses).....</b>	<b>248,012</b>	<b>109,722</b>	<b>273,561</b>	<b>(5)</b>	<b>629,290</b>
<b>Net changes in fund balances.....</b>	<b>112,336</b>	<b>23,759</b>	<b>(7,662)</b>	<b>(675)</b>	<b>127,758</b>
Fund balances at beginning of year.....	997,449	120,521	281,894	6,448	1,406,312
<b>Fund balances at end of year.....</b>	<b>\$ 1,109,785</b>	<b>\$ 144,280</b>	<b>\$ 274,232</b>	<b>\$ 5,773</b>	<b>\$ 1,534,070</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds - Special Revenue Funds**  
**June 30, 2017**  
(In Thousands)

	Building Inspection Fund	Children and Families Fund	Community / Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund
<b>Assets:</b>						
Deposits and investments with City Treasury.....	\$ 177,169	\$ 112,047	\$ 475,298	\$ 28,967	\$ 30,428	\$ 176
Deposits and investments outside City Treasury.....	5	-	7,514	-	-	-
<b>Receivables:</b>						
Property taxes and penalties.....	-	3,864	-	-	-	-
Other local taxes.....	-	-	-	-	-	-
Federal and state grants and subventions.....	-	1,419	11,841	23,662	-	-
Charges for services.....	253	1,206	-	-	2,695	141
Interest and other.....	226	188	650	48	-	-
Due from other funds.....	-	-	2,892	-	-	-
Due from component unit.....	-	-	-	-	-	-
Advance to component unit.....	-	-	-	-	-	-
Loans receivable (net of allowance for uncollectible amounts).....	212	-	79,101	-	-	-
Other assets.....	-	18,358	277	-	-	-
<b>Total assets.....</b>	<b>\$ 177,865</b>	<b>\$ 137,082</b>	<b>\$ 577,573</b>	<b>\$ 52,677</b>	<b>\$ 33,123</b>	<b>\$ 317</b>
<b>Liabilities:</b>						
Accounts payable.....	\$ 1,553	\$ 14,758	\$ 14,390	\$ 11,202	\$ 2,166	\$ -
Accrued payroll.....	1,608	645	745	1,553	23	-
Unearned grant and subvention revenues.....	-	1,942	1,493	1,285	-	-
Due to other funds.....	-	237	5	74	-	-
Unearned revenues and other liabilities.....	24,383	1,282	829	-	1,635	-
<b>Total liabilities.....</b>	<b>27,544</b>	<b>18,864</b>	<b>17,462</b>	<b>14,114</b>	<b>3,824</b>	<b>-</b>
Deferred inflows of resources.....	212	3,083	81,921	14,713	-	-
<b>Fund balances:</b>						
Nonspendable.....	-	-	-	-	-	-
Restricted.....	150,109	115,135	468,429	23,850	29,299	317
Assigned.....	-	-	9,761	-	-	-
Unassigned.....	-	-	-	-	-	-
<b>Total fund balances.....</b>	<b>150,109</b>	<b>115,135</b>	<b>478,190</b>	<b>23,850</b>	<b>29,299</b>	<b>317</b>
<b>Total liabilities, deferred inflows of resources and fund balances.....</b>	<b>\$ 177,865</b>	<b>\$ 137,082</b>	<b>\$ 577,573</b>	<b>\$ 52,677</b>	<b>\$ 33,123</b>	<b>\$ 317</b>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
 June 30, 2017  
 (In Thousands)

	Culture and Recreation Fund	Environmental Protection Fund	Gasoline Tax Fund	General Services Fund	Gift and Other Expendable Trusts Fund	Golf Fund
<b>Assets:</b>						
Deposits and investments with City Treasury.....	\$ 13,408	\$ 697	\$ 26,606	\$ 24,160	\$ 12,478	\$ 5,707
Deposits and investments outside City Treasury.....	1,082	-	-	-	3	-
<b>Receivables:</b>						
Property taxes and penalties.....	-	-	-	-	-	-
Other local taxes.....	-	-	-	-	-	-
Federal and state grants and subventions.....	402	1,779	2,186	16	400	-
Charges for services.....	277	-	276	551	-	345
Interest and other.....	8	-	34	717	3	8
Due from other funds.....	-	27	-	-	-	-
Due from component unit.....	-	-	-	-	-	-
Advance to component unit.....	-	-	-	-	-	-
Loans receivable (net of allowance for uncollectible amounts).....	-	-	-	-	-	-
Other assets.....	-	-	-	-	-	-
<b>Total assets.....</b>	<b>\$ 15,177</b>	<b>\$ 2,503</b>	<b>\$ 29,102</b>	<b>\$ 25,444</b>	<b>\$ 12,884</b>	<b>\$ 6,060</b>
<b>Liabilities:</b>						
Accounts payable.....	\$ 1,344	\$ 31	\$ 957	\$ 170	\$ 9	\$ 22
Accrued payroll.....	161	151	800	344	53	184
Unearned grant and subvention revenues.....	477	898	-	394	1,251	-
Due to other funds.....	-	-	119	-	-	-
Unearned revenues and other liabilities.....	1	-	-	-	-	-
<b>Total liabilities.....</b>	<b>1,983</b>	<b>1,080</b>	<b>1,876</b>	<b>908</b>	<b>1,313</b>	<b>206</b>
Deferred inflows of resources.....	339	708	-	16	-	-
<b>Fund balances:</b>						
Nonspendable.....	-	-	-	-	-	-
Restricted.....	6,370	715	27,226	10,441	11,571	-
Assigned.....	6,485	-	-	14,079	-	5,854
Unassigned.....	-	-	-	-	-	-
<b>Total fund balances.....</b>	<b>12,855</b>	<b>715</b>	<b>27,226</b>	<b>24,520</b>	<b>11,571</b>	<b>5,854</b>
<b>Total liabilities, deferred inflows of resources and fund balances.....</b>	<b>\$ 15,177</b>	<b>\$ 2,503</b>	<b>\$ 29,102</b>	<b>\$ 25,444</b>	<b>\$ 12,884</b>	<b>\$ 6,060</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
 June 30, 2017  
 (In Thousands)

	Human Welfare Fund	Low and Moderate Income Housing Asset Fund	Open Space and Park Fund	Public Library Fund	Public Protection Fund	Public Works, Transportation and Commerce Fund
<b>Assets:</b>						
Deposits and investments with City Treasury.....	\$ -	\$ 23,675	\$ 43,885	\$ 57,886	\$ 36,088	\$ 44,665
Deposits and investments outside City Treasury.....	-	-	-	-	-	-
<b>Receivables:</b>						
Property taxes and penalties.....	-	-	2,669	2,669	-	-
Other local taxes.....	-	-	-	-	-	-
Federal and state grants and subventions.....	7,999	-	-	-	24,482	95
Charges for services.....	208	-	-	5	2,266	5,164
Interest and other.....	3	441	53	74	147	-
Due from other funds.....	-	-	-	-	-	100
Due from component unit.....	-	-	-	-	-	192
Advance to component unit.....	-	13,149	-	-	-	-
Loans receivable (net of allowance for uncollectible amounts).....	-	446	-	-	-	-
Other assets.....	1,253	681	604	82	75	4,172
<b>Total assets.....</b>	<b>\$ 9,463</b>	<b>\$ 38,392</b>	<b>\$ 47,211</b>	<b>\$ 60,716</b>	<b>\$ 63,058</b>	<b>\$ 54,388</b>
<b>Liabilities:</b>						
Accounts payable.....	\$ 2,093	\$ 2,984	\$ 277	\$ 2,920	\$ 5,047	\$ 1,565
Accrued payroll.....	62	47	1,039	3,074	1,202	3,087
Unearned grant and subvention revenues.....	138	-	-	-	9,171	100
Due to other funds.....	5,653	-	-	74	613	574
Unearned revenues and other liabilities.....	-	5,501	1,017	1,016	42	5,763
<b>Total liabilities.....</b>	<b>7,946</b>	<b>8,532</b>	<b>2,333</b>	<b>7,084</b>	<b>16,075</b>	<b>11,089</b>
Deferred inflows of resources.....	4,994	13,595	1,959	1,959	12,190	4,632
<b>Fund balances:</b>						
Nonspendable.....	-	-	-	-	-	-
Restricted.....	-	16,265	42,919	50,567	30,567	1,765
Assigned.....	-	-	-	1,106	4,226	36,902
Unassigned.....	(3,477)	-	-	-	-	-
<b>Total fund balances.....</b>	<b>(3,477)</b>	<b>16,265</b>	<b>42,919</b>	<b>51,673</b>	<b>34,793</b>	<b>38,667</b>
<b>Total liabilities, deferred inflows of resources and fund balances.....</b>	<b>\$ 9,463</b>	<b>\$ 38,392</b>	<b>\$ 47,211</b>	<b>\$ 60,716</b>	<b>\$ 63,058</b>	<b>\$ 54,388</b>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
 June 30, 2017  
 (In Thousands)

	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
<b>Assets:</b>					
Deposits and investments with City Treasury.....	\$ 16,164	\$ 35,953	\$ -	\$ 8,729	\$ 1,174,186
Deposits and investments outside City Treasury.....	-	12,488	-	-	21,092
<b>Receivables:</b>					
Property taxes and penalties.....	-	-	-	-	9,202
Other local taxes.....	-	18,414	-	-	18,414
Federal and state grants and subventions.....	-	14,197	1,499	-	89,977
Charges for services.....	44	-	-	-	13,431
Interest and other.....	-	1,151	-	12	3,763
Due from other funds.....	-	579	-	-	3,598
Due from component unit.....	-	1,389	-	-	1,581
Loans receivable (net of allowance for uncollectible amounts).....	-	-	-	-	13,149
Other assets.....	1,828	82	-	-	79,759
Total assets.....	\$ 18,036	\$ 84,253	\$ 1,499	\$ 8,741	\$ 1,455,564
<b>Liabilities:</b>					
Accounts payable.....	\$ 2,194	\$ 11,928	\$ 183	\$ 205	\$ 75,998
Accrued payroll.....	1,177	181	-	315	16,451
Unearned grant and subvention revenues.....	-	-	-	-	17,149
Due to other funds.....	-	33,314	1,310	-	41,973
Unearned revenues and other liabilities.....	888	-	-	430	42,787
Total liabilities.....	4,259	45,423	1,493	950	194,358
Deferred inflows of resources.....	-	10,299	801	-	151,421
<b>Fund balances:</b>					
Nonspendable.....	-	82	-	-	82
Restricted.....	13,777	28,449	-	7,791	1,035,562
Assigned.....	-	-	-	-	78,413
Unassigned.....	-	-	(795)	-	(4,272)
Total fund balances.....	13,777	28,531	(795)	7,791	1,109,785
Total liabilities, deferred inflows of resources and fund balances.....	\$ 18,036	\$ 84,253	\$ 1,499	\$ 8,741	\$ 1,455,564

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds – Special Revenue Funds**  
 Year Ended June 30, 2017  
 (In Thousands)

	Building Inspection Fund	Children and Families Fund	Community / Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund
<b>Revenues:</b>						
Property taxes.....	\$ -	\$ 75,922	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	1,795	-	-	-
Sales and use tax.....	-	-	-	-	-	-
Licenses, permits, and franchise fees.....	6,576	-	607	3,181	-	211
Fines, forfeitures, and penalties.....	-	-	-	-	-	-
Interest and investment income.....	1,343	863	6,851	1,187	632	3
Rents and concessions.....	-	-	162	-	24,378	-
<b>Intergovernmental:</b>						
Federal.....	-	9,019	42,399	58,460	-	-
State.....	-	14,410	2,240	44,242	-	-
Other.....	-	-	2,690	-	-	-
Charges for services.....	73,315	-	10,874	3,574	-	2,485
Other.....	6	438	130,112	869	94	-
Total revenues.....	81,240	100,742	197,730	111,493	25,104	2,489
<b>Expenditures:</b>						
<b>Current:</b>						
Public protection.....	-	-	-	-	-	367
Public works, transportation and commerce.....	65,726	7	10,418	-	142	-
Human welfare and neighborhood development.....	-	192,036	171,582	1,817	383	-
Community health.....	-	-	-	112,355	-	-
Culture and recreation.....	-	-	933	-	40,896	-
General administration and finance.....	-	-	5,251	-	-	-
General City responsibilities.....	-	-	-	-	-	-
Debt service:						
Principal retirement.....	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	317	-	-	-
Bond issuance costs.....	-	-	1,355	-	-	-
Total expenditures.....	65,726	192,043	189,856	114,172	41,421	367
Excess (deficiency) of revenues over (under) expenditures.....	15,514	(91,301)	7,874	(2,679)	(16,317)	2,122
<b>Other financing sources (uses):</b>						
Transfers in.....	-	103,937	509	468	45,400	471
Transfers out.....	(68)	(13)	(14,808)	(622)	(24,876)	(2,347)
Issuance of bonds and loans:						
Face value of bonds issued.....	-	-	103,450	-	-	-
Face value of loans issued.....	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	612	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-
Total other financing sources (uses).....	(68)	103,924	89,763	(154)	20,524	(1,876)
Net changes in fund balances.....	15,446	12,623	97,637	(2,833)	4,207	246
Fund balances at beginning of year.....	134,663	102,512	380,553	26,683	25,092	71
Fund balances at end of year.....	\$ 150,109	\$ 115,135	\$ 478,190	\$ 23,850	\$ 29,299	\$ 317

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Culture and Recreation Fund	Environmental Protection Fund	Gasoline Tax Fund	General Services Fund	Gift and Other Expendable Trusts Fund	Golf Fund
<b>Revenues:</b>						
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-
Licenses, permits, and franchises.....	204	-	-	2,904	-	-
Fines, forfeitures, and penalties.....	1	-	-	-	887	-
Interest and investment income.....	142	1	197	92	91	36
Rents and concessions.....	436	-	-	1,203	-	3,593
<b>Intergovernmental:</b>						
Federal.....	97	857	-	169	-	-
State.....	2,041	5,943	24,403	346	-	-
Other.....	-	12	-	-	-	-
Charges for services.....	9,489	38	667	1,986	53	6,127
Other.....	1,143	299	12	834	5,375	-
<b>Total revenues.....</b>	<b>13,553</b>	<b>7,155</b>	<b>25,279</b>	<b>7,534</b>	<b>6,206</b>	<b>9,756</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Public protection.....	-	-	-	189	619	-
Public works, transportation and commerce.....	1,096	-	24,288	-	1,191	-
Human welfare and neighborhood development.....	1,072	6,070	-	-	139	-
Community health.....	-	-	-	-	73	-
Culture and recreation.....	13,946	-	-	1,202	1,344	14,098
General administration and finance.....	14,310	14	-	4,906	99	-
General City responsibilities.....	-	-	-	3	-	-
<b>Debt service:</b>						
Principal retirement.....	393	-	-	-	-	-
Interest and other fiscal charges.....	1,069	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>31,896</b>	<b>6,084</b>	<b>24,288</b>	<b>6,300</b>	<b>3,465</b>	<b>14,098</b>
Excess (deficiency) of revenues over (under) expenditures.....	(18,333)	1,071	991	1,234	2,741	(4,342)
<b>Other financing sources (uses):</b>						
Transfers in.....	19,112	227	3,207	129	109	5,813
Transfers out.....	(219)	(466)	(3,099)	(14)	(476)	(1,208)
<b>Issuance of bonds and loans:</b>						
Face value of bonds issued.....	-	-	-	-	-	-
Face value of loans issued.....	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>18,893</b>	<b>(239)</b>	<b>108</b>	<b>115</b>	<b>(367)</b>	<b>4,605</b>
Net changes in fund balances.....	- 500	832	1,099	1,349	2,374	263
Fund balances at beginning of year.....	12,295	(117)	26,127	23,171	9,197	5,591
<b>Fund balances at end of year.....</b>	<b>\$ 12,855</b>	<b>\$ 715</b>	<b>\$ 27,226</b>	<b>\$ 24,520</b>	<b>\$ 11,871</b>	<b>\$ 5,854</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Human Welfare Fund	Low and Moderate Income Housing Asset Fund	Open Space and Park Fund	Public Library Fund	Public Protection Fund	Public Works, Transportation and Commerce Fund
<b>Revenues:</b>						
Property taxes.....	\$ -	\$ -	\$ 54,729	\$ 54,729	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-
Licenses, permits, and franchises.....	311	-	-	-	516	-
Fines, forfeitures, and penalties.....	13	-	-	-	8,025	221
Interest and investment income.....	-	2,041	195	409	336	411
Rents and concessions.....	-	2,899	-	3	-	5
<b>Intergovernmental:</b>						
Federal.....	21,286	-	-	-	30,433	-
State.....	307	-	165	227	11,728	-
Other.....	61	1,773	-	-	10	2,906
Charges for services.....	376	-	-	630	18,032	28,631
Other.....	-	2,516	-	1	10	1,562
<b>Total revenues.....</b>	<b>22,354</b>	<b>8,229</b>	<b>55,089</b>	<b>55,999</b>	<b>69,090</b>	<b>33,936</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Public protection.....	-	-	-	-	84,454	-
Public works, transportation and commerce.....	-	-	139	973	-	17,807
Human welfare and neighborhood development.....	30,586	41,299	-	-	3,787	12,967
Community health.....	-	-	-	-	-	-
Culture and recreation.....	-	-	46,687	115,546	-	-
General administration and finance.....	-	-	-	-	3,025	135
General City responsibilities.....	-	-	-	-	-	-
<b>Debt service:</b>						
Principal retirement.....	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>30,586</b>	<b>41,299</b>	<b>46,826</b>	<b>116,519</b>	<b>71,266</b>	<b>30,899</b>
Excess (deficiency) of revenues over (under) expenditures.....	(8,232)	(32,070)	8,263	(60,520)	(2,176)	3,037
<b>Other financing sources (uses):</b>						
Transfers in.....	6,762	-	1,180	77,828	1	1,211
Transfers out.....	-	(3)	(1)	(7,891)	(1,541)	(519)
<b>Issuance of bonds and loans:</b>						
Face value of bonds issued.....	-	-	-	-	-	-
Face value of loans issued.....	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>6,762</b>	<b>(3)</b>	<b>1,179</b>	<b>69,947</b>	<b>(1,540)</b>	<b>692</b>
Net changes in fund balances.....	(1,470)	(32,073)	9,442	9,427	(3,716)	3,729
Fund balances at beginning of year.....	(2,007)	48,338	33,477	42,246	38,509	34,938
<b>Fund balances at end of year.....</b>	<b>\$ (3,477)</b>	<b>\$ 16,265</b>	<b>\$ 42,919</b>	<b>\$ 51,673</b>	<b>\$ 34,793</b>	<b>\$ 38,667</b>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
 Year Ended June 30, 2017  
 (In Thousands)

	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
<b>Revenues:</b>					
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ 185,380
Business taxes.....	-	-	-	-	1,795
Sales and use tax.....	-	102,237	-	-	102,237
Licenses, permits, and franchises.....	-	4,550	-	-	15,061
Fines, forfeitures, and penalties.....	-	-	-	-	12,736
Interest and investment income.....	168	773	-	83	15,934
Rents and concessions.....	48,015	-	-	3,457	84,151
<b>Intergovernmental:</b>					
Federal.....	-	13,583	4,838	-	181,141
State.....	-	1,315	819	-	108,186
Other.....	472	2,504	-	-	10,433
Charges for services.....	677	-	-	426	157,560
Other.....	-	70	8	721	144,070
<b>Total revenues.....</b>	<b>49,322</b>	<b>126,032</b>	<b>5,665</b>	<b>4,687</b>	<b>1,018,684</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Public protection.....	-	-	-	-	65,629
Public works, transportation and commerce.....	31	44,464	-	126	166,408
Human welfare and neighborhood development.....	-	-	6,157	-	467,885
Community health.....	-	-	-	-	112,428
Culture and recreation.....	-	-	-	15,073	249,725
General administration and finance.....	37,309	-	-	-	66,049
General City responsibilities.....	-	-	-	-	3
<b>Debt service:</b>					
Principal retirement.....	-	21,000	-	-	21,393
Interest and other fiscal charges.....	-	1,099	-	-	2,485
Bond issuance costs.....	-	-	-	-	1,355
<b>Total expenditures.....</b>	<b>37,340</b>	<b>66,563</b>	<b>6,157</b>	<b>15,199</b>	<b>1,152,360</b>
Excess (deficiency) of revenues over (under) expenditures.....	11,982	59,469	(492)	(10,512)	(133,676)
<b>Other financing sources (uses):</b>					
Transfers in.....	-	-	11	11,406	277,781
Transfers out.....	(129,332)	(116,321)	-	(17)	(303,831)
<b>Issuance of bonds and loans:</b>					
Face value of bonds issued.....	-	-	-	-	103,450
Face value of loans issued.....	-	46,000	-	-	46,000
Premium on issuance of bonds.....	-	-	-	-	612
Proceeds from sale of capital assets.....	122,000	-	-	-	122,000
<b>Total other financing sources (uses).....</b>	<b>(7,332)</b>	<b>(70,321)</b>	<b>11</b>	<b>11,389</b>	<b>246,012</b>
<b>Net changes in fund balances.....</b>	<b>4,650</b>	<b>(11,852)</b>	<b>(481)</b>	<b>877</b>	<b>112,336</b>
Fund balances at beginning of year.....	9,127	40,383	(314)	6,914	997,449
<b>Fund balances at end of year.....</b>	<b>\$ 13,777</b>	<b>\$ 28,531</b>	<b>\$ (795)</b>	<b>\$ 7,791</b>	<b>\$ 1,109,785</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds**  
 Year Ended June 30, 2017  
 (In Thousands)

	Building Inspection Fund				Children and Families Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ 72,570	\$ 72,570	\$ 75,922	\$ 3,352
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	6,696	6,696	6,576	(120)	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	559	559	1,370	811	325	315	1,006	691
Rents and concessions.....	-	-	-	-	-	-	-	-
<b>Intergovernmental:</b>								
Federal.....	-	-	-	-	9,610	9,413	8,981	(432)
State.....	-	-	-	-	13,706	11,885	11,932	47
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	57,496	57,496	73,315	15,819	-	-	-	-
Other.....	-	-	6	6	490	438	438	-
<b>Total revenues.....</b>	<b>64,751</b>	<b>64,751</b>	<b>81,267</b>	<b>16,516</b>	<b>96,701</b>	<b>94,621</b>	<b>98,279</b>	<b>3,658</b>
<b>Expenditures:</b>								
<b>Current:</b>								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	70,068	68,062	65,726	2,336	-	7	7	-
Human welfare and neighborhood development.....	-	-	-	-	211,600	192,433	192,036	397
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	-	-	-
General administration and finance.....	-	-	-	-	-	-	-	-
<b>Debt service:</b>								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>70,068</b>	<b>68,062</b>	<b>65,726</b>	<b>2,336</b>	<b>211,600</b>	<b>192,440</b>	<b>192,043</b>	<b>397</b>
Excess (deficiency) of revenues over (under) expenditures.....	(5,317)	(3,311)	15,541	18,852	(114,899)	(97,819)	(93,764)	4,055
<b>Other financing sources (uses):</b>								
Transfers in.....	-	-	-	-	102,440	103,937	103,937	-
Transfers out.....	-	-	-	-	-	-	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>(5,317)</b>	<b>(3,311)</b>	<b>15,541</b>	<b>18,852</b>	<b>102,440</b>	<b>103,937</b>	<b>103,937</b>	<b>-</b>
<b>Net changes in fund balances.....</b>	<b>(5,317)</b>	<b>(3,311)</b>	<b>15,541</b>	<b>18,852</b>	<b>(12,459)</b>	<b>6,118</b>	<b>10,173</b>	<b>4,055</b>
Budgetary fund balances, July 1.....	5,317	134,610	134,610	-	12,459	105,117	105,117	-
<b>Budgetary fund balances, June 30.....</b>	<b>\$ -</b>	<b>\$ 131,299</b>	<b>\$ 150,151</b>	<b>\$ 18,852</b>	<b>\$ -</b>	<b>\$ 111,235</b>	<b>\$ 115,290</b>	<b>\$ 4,055</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Community / Neighborhood Development Fund				Community Health Services Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	2,000	2,000	1,795	(205)	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	607	607	2,602	3,257	3,161	(96)
Interest and investment income.....	9	4,832	7,025	2,193	1,553	1,165	1,168	3
Rents and concessions.....	15	126	162	36	-	-	-	-
Intergovernmental:								
Federal.....	16,244	44,166	44,166	-	68,493	60,788	60,788	-
State.....	455	2,299	2,299	-	49,377	43,708	43,708	-
Other.....	-	2,640	2,640	-	-	-	-	-
Charges for services.....	12,255	14,377	10,874	(3,503)	131	3,574	3,574	-
Other.....	44,553	162,935	130,112	(32,823)	1,960	1,005	1,005	-
<b>Total revenues.....</b>	<b>75,531</b>	<b>233,375</b>	<b>199,680</b>	<b>(33,695)</b>	<b>124,116</b>	<b>113,497</b>	<b>113,404</b>	<b>(93)</b>
<b>Expenditures:</b>								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	38,987	10,418	10,418	-	-	-	-	-
Human welfare and neighborhood development.....	42,738	172,194	171,582	612	2,267	1,817	1,817	-
Community health.....	-	-	-	-	122,373	112,355	112,355	-
Culture and recreation.....	19,464	933	933	-	-	-	-	-
General administration and finance.....	7,572	5,251	5,251	-	-	-	-	-
Debt service:								
Principal retirement.....	-	20,202	20,202	-	-	-	-	-
Interest and other fiscal charges.....	-	317	317	-	-	-	-	-
Bond issuance costs.....	13,750	919	919	-	-	-	-	-
<b>Total expenditures.....</b>	<b>122,511</b>	<b>210,234</b>	<b>209,622</b>	<b>612</b>	<b>124,640</b>	<b>114,172</b>	<b>114,172</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures.....	(46,980)	23,141	(9,942)	(33,083)	(524)	(675)	(768)	(93)
<b>Other financing sources (uses):</b>								
Transfers in.....	1	509	509	-	468	468	-	-
Transfers out.....	(10)	(14,727)	(14,727)	-	(589)	(589)	-	-
Issuance of commercial paper.....	-	8,723	8,723	-	-	-	-	-
Issuance of bonds.....	38,750	103,450	103,450	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	175	175	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>38,741</b>	<b>98,130</b>	<b>98,130</b>	<b>-</b>	<b>(121)</b>	<b>(121)</b>	<b>-</b>	<b>-</b>
Net changes in fund balances.....	(8,239)	121,271	88,188	(33,083)	(524)	(796)	(869)	(93)
Budgetary fund balances, July 1.....	8,239	397,860	397,860	-	524	39,462	39,462	-
Budgetary fund balances, June 30.....	\$ -	\$ 519,131	\$ 486,048	\$ (33,083)	\$ -	\$ 38,666	\$ 38,573	\$ (93)

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Convention Facilities Fund				Court's Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	-	-	10	10	22	12
Interest and investment income.....	-	1,622	437	(1,185)	-	-	-	-
Rents and concessions.....	22,450	22,450	22,703	253	-	-	-	-
Intergovernmental:								
Federal.....	-	-	-	-	-	-	-	-
State.....	-	-	-	-	-	-	-	-
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	-	-	-	-	2,311	2,311	2,465	154
Other.....	150	480	94	(386)	-	-	-	-
<b>Total revenues.....</b>	<b>22,600</b>	<b>24,552</b>	<b>23,234</b>	<b>(1,318)</b>	<b>2,321</b>	<b>2,321</b>	<b>2,487</b>	<b>166</b>
<b>Expenditures:</b>								
Current:								
Public protection.....	-	-	-	-	2,792	461	367	94
Public works, transportation and commerce.....	-	142	142	-	-	-	-	-
Human welfare and neighborhood development.....	-	383	383	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	81,486	51,874	40,896	10,978	-	-	-	-
General administration and finance.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	506	506	506	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>81,992</b>	<b>52,905</b>	<b>41,927</b>	<b>10,978</b>	<b>2,792</b>	<b>461</b>	<b>367</b>	<b>94</b>
Excess (deficiency) of revenues over (under) expenditures.....	(59,392)	(28,353)	(18,693)	9,660	(471)	1,860	2,120	260
<b>Other financing sources (uses):</b>								
Transfers in.....	45,400	45,400	45,400	-	471	471	471	-
Transfers out.....	-	(24,175)	(24,175)	-	-	(2,344)	(2,344)	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>45,400</b>	<b>21,225</b>	<b>21,225</b>	<b>-</b>	<b>471</b>	<b>(1,873)</b>	<b>(1,873)</b>	<b>-</b>
Net changes in fund balances.....	(13,992)	(7,128)	2,532	9,660	-	(13)	247	260
Budgetary fund balances, July 1.....	13,992	31,533	31,533	-	-	80	80	-
Budgetary fund balances, June 30.....	\$ -	\$ 24,405	\$ 34,065	\$ 9,660	\$ -	\$ 67	\$ 327	\$ 260



**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Culture and Recreation Fund			Environmental Protection Fund			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	
<b>Revenues:</b>							
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	221	221	204	(17)	-	-	-
Fines, forfeitures, and penalties.....	-	1	1	-	-	-	-
Interest and investment income.....	25	25	62	37	-	-	-
Rents and concessions.....	379	379	436	57	-	-	-
<b>Intergovernmental:</b>							
Federal.....	-	97	97	-	771	771	-
State.....	-	1,343	1,343	-	225	5,443	5,443
Other.....	-	-	-	94	3	3	-
Charges for services.....	8,487	9,777	9,489	(288)	478	38	(440)
Other.....	1,729	1,889	1,143	(746)	2,350	2,048	(1,730)
<b>Total revenues.....</b>	<b>10,841</b>	<b>13,732</b>	<b>12,775</b>	<b>(967)</b>	<b>3,147</b>	<b>8,743</b>	<b>(2,170)</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Public protection.....	-	-	-	-	-	-	-
Public works, transportation and commerce.....	1,060	1,096	1,096	-	-	-	-
Human welfare and neighborhood development.....	-	1,072	1,072	-	3,312	8,140	6,070
Community health.....	-	-	-	-	-	-	-
Culture and recreation.....	14,331	14,138	13,946	192	-	-	-
General administration and finance.....	13,621	14,310	14,310	-	14	14	-
<b>Debt service:</b>							
Principal retirement.....	691	393	393	-	-	-	-
Interest and other fiscal charges.....	1,049	1,350	1,350	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>30,752</b>	<b>32,359</b>	<b>32,167</b>	<b>192</b>	<b>3,312</b>	<b>8,154</b>	<b>2,070</b>
Excess (deficiency) of revenues over (under) expenditures.....	(19,911)	(18,627)	(19,392)	(765)	(165)	589	(100)
<b>Other financing sources (uses):</b>							
Transfers in.....	18,320	19,112	19,112	-	165	227	227
Transfers out.....	(55)	(137)	(137)	-	(465)	(465)	-
Issuance of commercial paper.....	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>18,265</b>	<b>18,975</b>	<b>18,975</b>	<b>(300)</b>	<b>(238)</b>	<b>(238)</b>	<b>-</b>
<b>Net changes in fund balances.....</b>	<b>(1,646)</b>	<b>348</b>	<b>(417)</b>	<b>(765)</b>	<b>351</b>	<b>251</b>	<b>(100)</b>
Budgetary fund balances, July 1.....	1,646	17,413	17,413	-	465	1,172	1,172
Budgetary fund balances, June 30.....	\$ -	\$ 17,761	\$ 16,996	\$ (765)	\$ -	\$ 1,523	\$ (100)

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Gasoline Tax Fund			General Services Fund			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	
<b>Revenues:</b>							
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	3,120	3,120	2,904	(216)
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-
Interest and investment income.....	42	42	212	170	45	45	99
Rents and concessions.....	-	-	-	-	-	1,203	1,203
<b>Intergovernmental:</b>							
Federal.....	-	-	-	-	171	149	149
State.....	18,799	21,898	24,403	2,505	525	346	346
Other.....	-	-	-	-	-	-	-
Charges for services.....	800	800	667	(133)	1,861	1,886	1,986
Other.....	-	-	12	12	1,601	850	850
<b>Total revenues.....</b>	<b>19,641</b>	<b>22,740</b>	<b>25,294</b>	<b>2,554</b>	<b>7,323</b>	<b>7,599</b>	<b>(62)</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Public protection.....	-	-	-	-	280	189	189
Public works, transportation and commerce.....	23,905	24,288	24,288	-	-	-	-
Human welfare and neighborhood development.....	-	-	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	1,202	1,202	-
General administration and finance.....	-	-	-	9,091	4,907	4,907	-
<b>Debt service:</b>							
Principal retirement.....	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>23,905</b>	<b>24,288</b>	<b>24,288</b>	<b>-</b>	<b>9,371</b>	<b>6,298</b>	<b>6,298</b>
Excess (deficiency) of revenues over (under) expenditures.....	(4,264)	(1,548)	1,006	2,554	(2,048)	1,301	1,239
<b>Other financing sources (uses):</b>							
Transfers in.....	3,190	3,207	3,207	-	159	127	127
Transfers out.....	-	(3,099)	(3,099)	-	-	(14)	(14)
Issuance of commercial paper.....	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>3,190</b>	<b>108</b>	<b>108</b>	<b>-</b>	<b>159</b>	<b>113</b>	<b>113</b>
<b>Net changes in fund balances.....</b>	<b>(1,074)</b>	<b>(1,440)</b>	<b>1,114</b>	<b>2,554</b>	<b>(1,889)</b>	<b>1,414</b>	<b>1,352</b>
Budgetary fund balances, July 1.....	1,074	26,120	26,120	-	1,889	23,197	23,197
Budgetary fund balances, June 30.....	\$ -	\$ 24,680	\$ 27,234	\$ 2,554	\$ -	\$ 24,611	\$ 24,549

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Gift and Other Expendable Trusts Fund				Golf Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	663	687	24	-	-	-	-
Interest and investment income.....	-	7	17	10	10	10	39	29
Rents and concessions.....	-	-	-	-	3,584	3,584	3,593	9
<b>Intergovernmental:</b>								
Federal.....	-	-	-	-	-	-	-	-
State.....	-	-	-	-	-	-	-	-
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	-	53	53	-	7,271	7,271	6,127	(1,144)
Other.....	2,561	5,760	5,359	(401)	-	-	-	-
<b>Total revenues.....</b>	<b>2,561</b>	<b>6,483</b>	<b>6,116</b>	<b>(367)</b>	<b>10,865</b>	<b>10,865</b>	<b>9,759</b>	<b>(1,106)</b>
<b>Expenditures:</b>								
<b>Current:</b>								
Public protection.....	500	619	619	-	-	-	-	-
Public works, transportation and commerce.....	-	1,191	1,191	-	-	-	-	-
Human welfare and neighborhood development.....	1,245	139	139	-	-	-	-	-
Community health.....	-	73	73	-	-	-	-	-
Culture and recreation.....	882	1,344	1,344	-	15,498	14,632	14,098	534
General administration and finance.....	-	99	99	-	-	-	-	-
<b>Debt service:</b>								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>2,627</b>	<b>3,465</b>	<b>3,465</b>	<b>-</b>	<b>15,498</b>	<b>14,632</b>	<b>14,098</b>	<b>534</b>
Excess (deficiency) of revenues over (under) expenditures.....	(66)	3,018	2,651	(367)	(4,633)	(3,767)	(4,339)	(572)
<b>Other financing sources (uses):</b>								
Transfers in.....	-	109	109	-	5,813	5,813	5,813	-
Transfers out.....	(400)	(400)	(400)	-	(1,180)	(1,208)	(1,208)	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>(400)</b>	<b>(291)</b>	<b>(291)</b>	<b>-</b>	<b>4,633</b>	<b>4,605</b>	<b>4,605</b>	<b>-</b>
<b>Net changes in fund balances.....</b>	<b>(466)</b>	<b>2,727</b>	<b>2,360</b>	<b>(367)</b>	<b>-</b>	<b>838</b>	<b>266</b>	<b>(572)</b>
Budgetary fund balances, July 1.....	466	9,200	9,200	-	5,593	5,593	-	-
<b>Budgetary fund balances, June 30.....</b>	<b>\$ -</b>	<b>\$ 11,927</b>	<b>\$ 11,560</b>	<b>\$ (367)</b>	<b>\$ -</b>	<b>\$ 6,431</b>	<b>\$ 5,859</b>	<b>\$ (572)</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Human Welfare Fund				Low and Moderate Income Housing Asset Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	240	240	311	71	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	13	13	-	-	-	-
Interest and investment income.....	-	-	-	-	-	1,636	2,055	419
Rents and concessions.....	-	-	-	-	-	3,783	2,899	(884)
<b>Intergovernmental:</b>								
Federal.....	39,935	23,384	23,384	-	-	-	-	-
State.....	347	316	316	-	-	-	-	-
Other.....	165	74	74	-	1,747	1,773	1,773	-
Charges for services.....	364	364	376	12	-	-	-	-
Other.....	275	-	-	-	-	1,862	4,431	2,769
<b>Total revenues.....</b>	<b>41,326</b>	<b>24,378</b>	<b>24,474</b>	<b>96</b>	<b>1,747</b>	<b>8,854</b>	<b>11,158</b>	<b>2,304</b>
<b>Expenditures:</b>								
<b>Current:</b>								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	-	-	-	-	-	-	-	-
Human welfare and neighborhood development.....	48,081	30,522	30,522	-	4,481	41,198	41,198	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	-	-	-
General administration and finance.....	-	-	-	-	-	-	-	-
<b>Debt service:</b>								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
<b>Total expenditures.....</b>	<b>48,081</b>	<b>30,522</b>	<b>30,522</b>	<b>-</b>	<b>4,481</b>	<b>41,198</b>	<b>41,198</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures.....	(6,755)	(6,144)	(6,048)	96	(2,734)	(32,344)	(30,040)	2,304
<b>Other financing sources (uses):</b>								
Transfers in.....	6,697	6,697	6,697	-	-	-	-	-
Transfers out.....	-	-	-	-	-	-	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses).....</b>	<b>6,697</b>	<b>6,697</b>	<b>6,697</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net changes in fund balances.....</b>	<b>(58)</b>	<b>553</b>	<b>649</b>	<b>96</b>	<b>(2,734)</b>	<b>(32,344)</b>	<b>(30,040)</b>	<b>2,304</b>
Budgetary fund balances, July 1.....	58	864	864	-	2,734	50,699	50,699	-
<b>Budgetary fund balances, June 30.....</b>	<b>\$ -</b>	<b>\$ 1,417</b>	<b>\$ 1,513</b>	<b>\$ 96</b>	<b>\$ -</b>	<b>\$ 18,355</b>	<b>\$ 20,659</b>	<b>\$ 2,304</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Open Space and Park Fund				Public Library Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>								
Property taxes.....	\$ 51,838	\$ 51,838	\$ 54,729	\$ 2,891	\$ 51,838	\$ 51,838	\$ 54,729	\$ 2,891
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	150	150	220	70	222	222	346	124
Rents and concessions.....	-	-	-	-	4	4	3	(1)
Intergovernmental:								
Federal.....	-	-	-	-	-	-	-	-
State.....	170	170	165	(5)	220	232	227	(5)
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	-	-	-	-	731	731	630	(101)
Other.....	-	-	-	-	-	-	1	1
Total revenues.....	<u>52,158</u>	<u>52,158</u>	<u>55,114</u>	<u>2,956</u>	<u>53,015</u>	<u>53,027</u>	<u>55,936</u>	<u>2,909</u>
<b>Expenditures:</b>								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	-	139	139	-	-	973	973	-
Human welfare and neighborhood development.....	-	-	-	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	54,290	47,802	46,697	1,115	124,808	115,644	115,546	98
General administration and finance.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	<u>54,290</u>	<u>47,941</u>	<u>46,826</u>	<u>1,115</u>	<u>124,808</u>	<u>116,617</u>	<u>116,519</u>	<u>98</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(2,132)</u>	<u>4,217</u>	<u>8,288</u>	<u>4,071</u>	<u>(71,793)</u>	<u>(63,590)</u>	<u>(60,583)</u>	<u>3,007</u>
<b>Other financing sources (uses):</b>								
Transfers in.....	1,180	1,180	1,180	-	72,510	77,828	77,828	-
Transfers out.....	-	(1)	(1)	-	(7,790)	(7,790)	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	(2,098)	(2,098)	-	2,098	(717)	(617)	-	617
Budget reserves and designations.....	(918)	(919)	1,179	2,098	71,793	69,421	70,038	617
Total other financing sources (uses).....	<u>(3,050)</u>	<u>3,298</u>	<u>9,467</u>	<u>6,169</u>	<u>-</u>	<u>5,831</u>	<u>9,455</u>	<u>3,624</u>
Net changes in fund balances.....	<u>3,050</u>	<u>33,464</u>	<u>33,464</u>	<u>-</u>	<u>-</u>	<u>44,995</u>	<u>44,995</u>	<u>-</u>
Budgetary fund balances, July 1.....	-	-	-	-	-	-	-	-
Budgetary fund balances, June 30.....	\$ -	\$ 36,762	\$ 42,931	\$ 6,169	\$ -	\$ 50,826	\$ 54,450	\$ 3,624

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Public Protection Fund				Public Works, Transportation and Commerce Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	516	516	516	-	-	-	-	-
Fines, forfeitures, and penalties.....	6,876	6,876	4,025	(2,851)	200	351	151	-
Interest and investment income.....	3	3	136	133	-	-	-	-
Rents and concessions.....	-	-	-	-	-	-	5	5
Intergovernmental:								
Federal.....	33,087	36,689	36,689	-	-	-	-	-
State.....	13,975	11,908	11,908	-	-	-	-	-
Other.....	15	10	10	-	1,823	1,823	-	-
Charges for services.....	1,790	16,429	17,645	1,216	15,474	28,099	29,984	1,885
Other.....	-	6	6	-	2,062	1,267	(795)	-
Total revenues.....	<u>56,262</u>	<u>72,437</u>	<u>70,935</u>	<u>(1,502)</u>	<u>15,474</u>	<u>32,184</u>	<u>33,430</u>	<u>1,246</u>
<b>Expenditures:</b>								
Current:								
Public protection.....	47,813	64,454	64,454	-	-	-	-	-
Public works, transportation and commerce.....	-	-	-	-	2,354	17,809	17,809	-
Human welfare and neighborhood development.....	3,740	3,787	3,787	-	13,120	13,098	12,957	141
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	-	-	-
General administration and finance.....	4,630	3,025	3,025	-	135	135	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	<u>56,183</u>	<u>71,266</u>	<u>71,266</u>	<u>-</u>	<u>15,474</u>	<u>31,042</u>	<u>30,901</u>	<u>141</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>79</u>	<u>1,171</u>	<u>(331)</u>	<u>(1,502)</u>	<u>-</u>	<u>1,142</u>	<u>2,529</u>	<u>1,387</u>
<b>Other financing sources (uses):</b>								
Transfers in.....	-	1	1	-	1,211	1,211	-	-
Transfers out.....	(1,898)	(1,332)	(1,332)	-	(108)	(108)	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	(1,898)	(1,331)	(1,331)	-	1,103	1,103	-	-
Total other financing sources (uses).....	<u>(1,819)</u>	<u>(160)</u>	<u>(1,662)</u>	<u>(1,502)</u>	<u>-</u>	<u>2,245</u>	<u>3,632</u>	<u>1,387</u>
Net changes in fund balances.....	<u>1,819</u>	<u>49,223</u>	<u>49,223</u>	<u>-</u>	<u>-</u>	<u>38,030</u>	<u>38,030</u>	<u>-</u>
Budgetary fund balances, July 1.....	-	-	-	-	-	-	-	-
Budgetary fund balances, June 30.....	\$ -	\$ 49,063	\$ 47,561	\$ (1,502)	\$ -	\$ 40,275	\$ 41,662	\$ 1,387

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Real Property Fund				San Francisco County Transportation Authority Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	108,219	108,219	102,237	(5,982)
Licenses, permits, and franchises.....	-	-	-	-	4,834	4,834	4,550	(284)
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	-	-	-	-	335	335	773	438
Rents and concessions.....	11,822	55,442	48,015	(7,427)	-	-	-	-
Intergovernmental:								
Federal.....	-	-	-	-	8,691	18,274	13,583	(4,691)
State.....	-	-	-	-	793	2,099	1,315	(784)
Other.....	472	472	472	-	2,876	5,364	2,504	(2,860)
Charges for services.....	875	875	677	(198)	-	-	-	-
Other.....	341	341	-	(341)	47	67	70	3
Total revenues.....	13,510	57,130	49,164	(7,966)	125,795	139,192	125,032	(14,160)
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	-	31	31	-	229,244	244,235	160,785	(83,450)
Human welfare and neighborhood development.....	-	-	-	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	-	-	-
General administration and finance.....	15,631	45,167	37,309	(7,858)	-	-	-	-
Debt service:								
Principal retirement.....	-	2,798	-	2,798	21,000	21,000	21,000	-
Interest and other fiscal charges.....	-	-	-	-	960	1,327	1,099	(228)
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	15,631	47,996	37,340	(10,656)	251,204	266,562	182,884	(83,678)
Excess (deficiency) of revenues over (under) expenditures.....	(2,121)	9,134	11,824	2,690	(125,409)	(127,370)	(57,852)	69,518
Other financing sources (uses):								
Transfers in.....	-	-	-	-	-	-	-	-
Transfers out.....	-	(129,175)	(129,175)	-	-	-	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	25,000	46,336	46,000	(336)
Premium on issuance of bonds.....	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	122,000	122,000	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	(2,121)	1,859	4,649	2,690	(100,409)	(81,034)	(11,852)	69,182
Net changes in fund balances.....	(2,121)	1,859	4,649	2,690	(100,409)	(81,034)	(11,852)	69,182
Budgetary fund balances, July 1.....	2,121	8,710	8,710	-	40,383	40,383	40,383	-
Budgetary fund balances, June 30.....	\$ -	\$ 10,669	\$ 13,359	\$ 2,690	\$ (60,026)	\$ (40,651)	\$ 28,531	\$ 69,182

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Senior Citizens' Program Fund				War Memorial Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	-	-	-	-	-	-	70	70
Rents and concessions.....	-	-	-	-	2,737	3,288	3,457	169
Intergovernmental:								
Federal.....	6,007	5,349	5,349	-	-	-	-	-
State.....	705	794	794	-	-	-	-	-
Other.....	-	-	-	-	324	390	426	36
Charges for services.....	-	-	-	-	-	-	721	721
Other.....	-	10	10	-	-	-	-	-
Total revenues.....	6,712	6,153	6,153	-	3,061	3,678	4,674	996
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	-	-	-	-	-	126	126	-
Human welfare and neighborhood development.....	6,712	6,147	6,147	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	15,888	15,655	15,073	(815)
General administration and finance.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	6,712	6,147	6,147	-	15,888	15,781	15,199	(589)
Excess (deficiency) of revenues over (under) expenditures.....	-	6	6	6	(12,827)	(12,103)	(10,525)	1,578
Other financing sources (uses):								
Transfers in.....	-	-	-	-	12,127	11,406	11,406	-
Transfers out.....	-	-	-	-	-	-	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Issuance of loans.....	-	-	-	-	-	-	-	-
Premium on issuance of bonds.....	-	-	-	-	-	-	-	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	-	-	-	-	12,127	11,406	11,406	-
Net changes in fund balances.....	-	6	6	6	(700)	(697)	881	1,578
Budgetary fund balances, July 1.....	-	2	2	-	700	6,874	6,874	-
Budgetary fund balances, June 30.....	\$ -	\$ 8	\$ 8	\$ -	\$ -	\$ 6,177	\$ 7,755	\$ 1,578

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Total			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
Property taxes.....	\$ 176,246	\$ 176,246	\$ 185,380	\$ 9,134
Business taxes.....	2,000	2,000	1,795	(205)
Sales and use tax.....	108,219	108,219	102,237	(5,982)
Licenses, permits, and franchises.....	15,627	15,627	15,061	(566)
Fines, forfeitures, and penalties.....	9,488	11,007	8,867	(2,140)
Interest and investment income.....	3,278	10,968	15,035	4,067
Rents and concessions.....	40,991	90,259	82,476	(7,783)
<b>Intergovernmental:</b>				
Federal.....	182,238	199,080	193,957	(5,123)
State.....	99,297	102,441	104,199	1,758
Other.....	5,369	12,159	9,259	(2,860)
Charges for services.....	110,648	144,911	158,326	13,415
Other.....	56,057	179,553	145,843	(33,710)
<b>Total revenues.....</b>	<b>809,458</b>	<b>1,052,470</b>	<b>1,022,475</b>	<b>(29,995)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Public protection.....	51,385	65,723	65,629	94
Public works, transportation and commerce.....	365,618	368,517	282,731	85,786
Human welfare and neighborhood development.....	337,296	470,930	467,710	3,220
Community health.....	122,373	112,428	112,428	-
Culture and recreation.....	326,647	263,224	249,725	13,499
General administration and finance.....	50,545	72,908	65,050	7,858
<b>Debt service:</b>				
Principal retirement.....	22,197	44,899	42,101	2,798
Interest and other fiscal charges.....	2,009	2,994	2,766	228
Bond issuance costs.....	13,750	919	919	-
<b>Total expenditures.....</b>	<b>1,291,820</b>	<b>1,402,542</b>	<b>1,289,059</b>	<b>113,483</b>
Excess (deficiency) of revenues over (under) expenditures.....	(482,362)	(350,072)	(266,584)	83,488
<b>Other financing sources (uses):</b>				
Transfers in.....	268,473	277,703	277,703	-
Transfers out.....	(4,008)	(185,564)	(185,564)	-
Issuance of commercial paper.....	-	8,723	8,723	-
Issuance of bonds.....	38,750	103,450	103,450	-
Issuance of loans.....	25,000	46,336	46,000	(336)
Premium on issuance of bonds.....	-	175	175	-
Proceeds from sale of capital assets.....	-	122,000	122,000	-
Budget reserves and designations.....	(2,815)	(2,715)	-	2,715
<b>Total other financing sources (uses).....</b>	<b>325,400</b>	<b>370,108</b>	<b>372,487</b>	<b>2,379</b>
Net changes in fund balances.....	(156,962)	20,036	105,903	85,867
Budgetary fund balances, July 1.....	96,936	1,064,601	1,064,601	-
Budgetary fund balances, June 30.....	\$ (60,026)	\$ 1,084,637	\$ 1,170,504	\$ 85,867

**CITY AND COUNTY OF SAN FRANCISCO**  
**Schedule of Expenditures by Department**  
**Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds**  
Year Ended June 30, 2017  
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>BUILDING INSPECTION FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Building Inspection.....	\$ 70,068	\$ 67,597	\$ 65,261	\$ 2,336
Public Utilities Commission.....	-	400	400	-
Public Works.....	-	65	65	-
<b>Total Building Inspection Fund.....</b>	<b>70,068</b>	<b>68,062</b>	<b>65,726</b>	<b>2,336</b>
<b>CHILDREN AND FAMILIES FUND</b>				
<b>Human Welfare and Neighborhood Development</b>				
Child Support Services.....	13,241	13,223	12,826	397
Children and Families Commission.....	11,803	8,281	8,281	-
Human Services.....	39,473	33,740	33,740	-
Mayor's Office.....	147,083	137,189	137,189	-
<b>Total Children and Families Fund.....</b>	<b>211,600</b>	<b>192,433</b>	<b>192,036</b>	<b>397</b>
<b>Public Works, Transportation and Commerce</b>				
Municipal Transportation Agency.....	-	7	7	-
<b>Total Children and Families Fund.....</b>	<b>211,600</b>	<b>192,440</b>	<b>192,043</b>	<b>397</b>
<b>COMMUNITY / NEIGHBORHOOD DEVELOPMENT FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Mayor's Office.....	16,288	6,962	6,962	-
Municipal Transportation Agency.....	-	56	56	-
Public Works.....	22,699	3,392	3,392	-
Public Utilities Commission.....	-	8	8	-
<b>Total Public Works, Transportation and Commerce.....</b>	<b>38,987</b>	<b>10,418</b>	<b>10,418</b>	<b>-</b>
<b>Human Welfare and Neighborhood Development</b>				
Homelessness And Supportive Housing.....	-	1,681	1,681	-
Human Services.....	6,534	1,572	1,572	-
Mayor's Office.....	28,665	161,575	161,575	-
Rent Arbitration Board.....	7,539	7,366	6,754	612
<b>Total Human Welfare and Neighborhood Development.....</b>	<b>42,738</b>	<b>172,194</b>	<b>171,582</b>	<b>612</b>
<b>Culture and Recreation</b>				
Arts Commission.....	50	31	31	-
Recreation and Park Commission.....	19,414	902	902	-
<b>Total Culture and Recreation.....</b>	<b>19,464</b>	<b>933</b>	<b>933</b>	<b>-</b>
<b>General Administration and Finance</b>				
Administrative Services.....	2,200	2,040	2,040	-
City Planning.....	5,372	3,211	3,211	-
<b>Total General Administration and Finance.....</b>	<b>7,572</b>	<b>5,251</b>	<b>5,251</b>	<b>-</b>
<b>Total Community / Neighborhood Development Fund.....</b>	<b>108,761</b>	<b>188,796</b>	<b>188,184</b>	<b>612</b>
<b>COMMUNITY HEALTH SERVICES FUND</b>				
<b>Community Health</b>				
Community Health Network.....	122,373	112,355	112,355	-
<b>Human Welfare &amp; Neighborhood Development</b>				
Homelessness And Supportive Housing.....	2,267	1,817	1,817	-
<b>Total Community Health Services Fund.....</b>	<b>124,640</b>	<b>114,172</b>	<b>114,172</b>	<b>-</b>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Schedule of Expenditures by Department**  
**Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>CONVENTION FACILITIES FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Public Utilities Commission.....	-	67	67	-
Public Works.....	-	75	75	-
	-	142	142	-
<b>Human Welfare and Neighborhood Development</b>				
Mayor's Office.....	-	383	383	-
<b>Culture and Recreation</b>				
Administrative Services.....	81,486	51,874	40,896	10,978
Total Convention Facilities Fund.....	81,486	52,399	41,421	10,978
<b>COURT'S FUND</b>				
<b>Public Protection</b>				
Trial Courts.....	2,792	461	367	94
Total Court's Fund.....	2,792	461	367	94
<b>CULTURE AND RECREATION FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Mayor's Office.....	1,060	1,068	1,068	-
Public Works.....	-	28	28	-
	1,060	1,096	1,096	-
<b>Human Welfare and Neighborhood Development</b>				
Mayor's Office.....	-	1,072	1,072	-
<b>Culture and Recreation</b>				
Arts Commission.....	4,560	5,082	5,082	-
Asian Art Museum.....	762	397	397	-
Fine Arts Museums.....	3,404	3,791	3,791	-
Recreation and Park Commission.....	5,605	4,868	4,676	192
	14,331	14,138	13,946	192
<b>General Administration and Finance</b>				
City Planning.....	-	20	20	-
Administrative Services.....	13,621	14,290	14,290	-
	13,621	14,310	14,310	-
Total Culture and Recreation Fund.....	29,912	30,616	30,424	192
<b>ENVIRONMENTAL PROTECTION FUND</b>				
<b>Human Welfare and Neighborhood Development</b>				
Mayor's Office.....	3,312	8,140	6,070	2,070
<b>General Administration and Finance</b>				
City Planning.....	-	14	14	-
Total Environmental Protection Fund.....	3,312	8,154	6,084	2,070
<b>GASOLINE TAX FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Municipal Transportation Agency.....	-	408	408	-
Public Utilities Commission.....	-	818	818	-
Public Works.....	23,905	23,062	23,062	-
Total Gasoline Tax Fund.....	23,905	24,288	24,288	-

**CITY AND COUNTY OF SAN FRANCISCO**  
**Schedule of Expenditures by Department**  
**Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>GENERAL SERVICES FUND</b>				
<b>Public Protection</b>				
District Attorney.....	-	26	26	-
Trial Courts.....	280	163	163	-
	280	189	189	-
<b>Culture and Recreation</b>				
Fine Arts Museum.....	-	1,202	1,202	-
<b>General Administration and Finance</b>				
Administrative Services.....	223	1	1	-
Assessor/Recorder.....	3,899	2,041	2,041	-
Board of Supervisors.....	32	26	26	-
Human Resources.....	91	994	994	-
Mayor's Office.....	150	139	139	-
Telecommunications and Information Services.....	3,336	1,064	1,064	-
Treasurer/Tax Collector.....	1,360	642	642	-
	9,991	4,907	4,907	-
Total General Services Fund.....	9,371	6,298	6,298	-
<b>GIFT AND OTHER EXPENDABLE TRUSTS FUND</b>				
<b>Public Protection</b>				
District Attorney.....	-	5	5	-
Fire Department.....	-	427	427	-
Police Department.....	500	187	187	-
	500	619	619	-
<b>Public Works, Transportation and Commerce</b>				
Public Works.....	-	1,191	1,191	-
<b>Human Welfare and Neighborhood Development</b>				
Environment.....	-	40	40	-
Mayor's Office.....	719	-	-	-
Homelessness And Supportive Housing.....	-	55	55	-
Social Services.....	504	21	21	-
Commission on Status of Women.....	22	23	23	-
	1,245	139	139	-
<b>Community Health</b>				
Community Health Network.....	-	73	73	-
<b>Culture and Recreation</b>				
Arts Commission.....	-	199	199	-
Fine Arts Museums.....	-	760	760	-
Public Library.....	5	10	10	-
Recreation and Park Commission.....	877	375	375	-
	882	1,344	1,344	-
<b>General Administration and Finance</b>				
Board of Supervisors.....	-	7	7	-
Administrative Services.....	-	81	81	-
City Attorney.....	-	9	9	-
Telecommunications and Information Services.....	-	2	2	-
	-	99	99	-
Total Gift and Other Expendable Trusts Fund.....	2,627	3,465	3,465	-

**CITY AND COUNTY OF SAN FRANCISCO**  
**Schedule of Expenditures by Department**  
**Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>GOLF FUND</b>				
<b>Culture and Recreation</b>				
Recreation and Park Commission.....	15,498	14,632	14,098	534
Total Golf Fund.....	15,498	14,632	14,098	534
<b>HUMAN WELFARE FUND</b>				
<b>Human Welfare and Neighborhood Development</b>				
Commission on Status of Women.....	298	231	231	-
Homelessness And Supportive Housing.....	36,859	20,637	20,637	-
Social Services.....	10,924	9,654	9,654	-
Total Human Welfare Fund.....	48,081	30,522	30,522	-
<b>LOW AND MODERATE INCOME HOUSING ASSET FUND</b>				
<b>Human Welfare and Neighborhood Development</b>				
Mayor's Office.....	4,481	41,198	41,198	-
Total Low and Moderate Income Housing Asset Fund.....	4,481	41,198	41,198	-
<b>OPEN SPACE AND PARK FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Public Works.....	-	139	139	-
<b>Culture and Recreation</b>				
Arts Commission.....	-	2	2	-
Recreation and Park Commission.....	54,290	47,800	46,685	1,115
	54,290	47,802	46,687	1,115
Total Open Space and Park Fund.....	54,290	47,941	46,826	1,115
<b>PUBLIC LIBRARY FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Public Works.....	-	973	973	-
<b>Culture and Recreation</b>				
Arts Commission.....	-	11	11	-
Public Library.....	124,808	115,633	115,535	98
	124,808	115,644	115,546	98
Total Public Library Fund.....	124,808	116,617	116,519	98
<b>PUBLIC PROTECTION FUND</b>				
<b>Public Protection</b>				
Adult Probation.....	3,640	3,211	3,211	-
District Attorney.....	6,027	6,394	6,394	-
Emergency Communications Department.....	25,367	23,094	23,094	-
Fire Department.....	-	6,772	6,772	-
Juvenile Probation.....	2,166	1,426	1,426	-
Police Commission.....	6,387	20,199	20,199	-
Public Defender.....	179	181	181	-
Sheriff.....	4,047	3,177	3,177	-
	47,813	64,454	64,454	-
<b>Human Welfare and Neighborhood Development</b>				
Mayor's Office.....	3,740	3,713	3,713	-
Commission on Status of Women.....	-	74	74	-
	3,740	3,787	3,787	-
<b>General Administration and Finance</b>				
City Attorney.....	4,630	3,025	3,025	-
Total Public Protection Fund.....	56,183	71,266	71,266	-

**CITY AND COUNTY OF SAN FRANCISCO**  
**Schedule of Expenditures by Department**  
**Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Special Revenue Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>PUBLIC WORKS, TRANSPORTATION AND COMMERCE FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Public Works.....	2,354	17,809	17,809	-
<b>Human Welfare and Neighborhood Development</b>				
Mayor's Office.....	13,120	13,098	12,957	141
<b>General Administration and Finance</b>				
City Planning.....	-	135	135	-
Total Public Works, Transportation and Commerce Fund.....	15,474	31,042	30,901	141
<b>REAL PROPERTY FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Public Utilities Commission.....	-	31	31	-
<b>General Administration and Finance</b>				
Administrative Services.....	15,631	45,167	37,309	7,858
Total Real Property Fund.....	15,631	45,198	37,340	7,858
<b>SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY FUND</b>				
<b>Public Works, Transportation and Commerce</b>				
Board of Supervisors.....	229,244	244,235	160,785	83,450
Total SF County Transportation Authority Fund.....	229,244	244,235	160,785	83,450
<b>SENIOR CITIZENS' PROGRAM FUND</b>				
<b>Human Welfare and Neighborhood Development</b>				
Social Services Department.....	6,712	6,147	6,147	-
Total Senior Citizens' Program Fund.....	6,712	6,147	6,147	-
<b>WAR MEMORIAL FUND</b>				
<b>Culture and Recreation</b>				
War Memorial.....	15,888	15,655	15,073	582
<b>Public Works, Transportation and Commerce</b>				
Public Utilities Commission.....	-	29	29	-
Public Works.....	-	97	97	-
	-	126	126	-
Total War Memorial Fund.....	15,888	15,781	15,199	582
Total Special Revenue Funds With Legally Adopted Budgets ..	\$1,253,864	\$ 1,353,730	\$1,243,273	\$ 110,457

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds – Debt Service Funds**  
June 30, 2017  
(In Thousands)

	General Obligation Bond Fund	Certificates of Participation Funds	Other Bond Funds	Total
<b>Assets:</b>				
Deposits and investments with City Treasury.....	\$ 113,029	\$ -	\$ -	\$ 113,029
Deposits and investments outside City Treasury.....	-	32,377	203	32,580
<b>Receivables:</b>				
Property taxes and penalties.....	12,230	-	-	12,230
Interest and other.....	324	10	-	334
Loans receivable (net of allowance for uncollectible amounts).....	-	-	48,798	48,798
<b>Total assets.....</b>	<b>\$ 125,583</b>	<b>\$ 32,387</b>	<b>\$ 49,001</b>	<b>\$ 206,971</b>
<b>Liabilities:</b>				
Unearned revenues and other liabilities.....	\$ 4,700	-	-	\$ 4,700
Bonds, loans, capital leases, and other payables.....	-	-	49,000	49,000
<b>Total liabilities.....</b>	<b>4,700</b>	<b>-</b>	<b>49,000</b>	<b>53,700</b>
Deferred inflows of resources.....	8,991	-	-	8,991
<b>Fund balances:</b>				
Restricted.....	111,892	32,387	1	144,280
<b>Total fund balances.....</b>	<b>111,892</b>	<b>32,387</b>	<b>1</b>	<b>144,280</b>
<b>Total liabilities, deferred inflows of resources and fund balances.....</b>	<b>\$ 125,583</b>	<b>\$ 32,387</b>	<b>\$ 49,001</b>	<b>\$ 206,971</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds – Debt Service Funds**  
Year Ended June 30, 2017  
(In Thousands)

	General Obligation Bond Fund	Certificates of Participation Funds	Other Bond Funds	Total
<b>Revenues:</b>				
Property taxes.....	\$ 273,643	\$ -	\$ -	\$ 273,643
Fines, forfeitures, and penalties.....	15,312	-	-	15,312
Interest and investment income.....	1,417	68	1	1,486
Rents and concessions.....	-	728	-	728
<b>Intergovernmental</b>				
State.....	785	-	-	785
Other.....	3,746	-	154	3,900
<b>Total revenues.....</b>	<b>294,903</b>	<b>796</b>	<b>155</b>	<b>295,854</b>
<b>Expenditures:</b>				
<b>Debt service:</b>				
Principal retirement.....	189,435	66,140	6,388	261,963
Interest and other fiscal charges.....	93,399	25,617	838	119,854
<b>Total expenditures.....</b>	<b>282,834</b>	<b>91,757</b>	<b>7,226</b>	<b>381,817</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>				
	<b>12,069</b>	<b>(90,961)</b>	<b>(7,071)</b>	<b>(85,963)</b>
<b>Other financing sources (uses):</b>				
Transfers in.....	13,069	89,581	7,072	109,722
<b>Total other financing sources, net.....</b>	<b>13,069</b>	<b>89,581</b>	<b>7,072</b>	<b>109,722</b>
<b>Net changes in fund balances.....</b>	<b>25,138</b>	<b>(1,380)</b>	<b>1</b>	<b>23,759</b>
Fund balances at beginning of year.....	86,754	33,767	-	120,521
<b>Fund balances at end of year.....</b>	<b>\$ 111,892</b>	<b>\$ 32,387</b>	<b>\$ 1</b>	<b>\$ 144,280</b>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balances – Budget and Actual – Budget Basis**  
**Nonmajor Governmental Funds – Debt Service Fund**  
Year Ended June 30, 2017  
(In Thousands)

	<b>General Obligation Bond Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
Revenues:				
Property taxes.....	\$ 182,751	\$ 182,751	\$ 273,643	\$ 90,892
Fines, forfeitures, and penalties.....	15,154	15,154	15,312	158
Interest and investment income.....	-	-	1,479	1,479
Intergovernmental				
State.....	800	800	785	(15)
Other.....	-	3,749	3,746	(3)
Total revenues.....	<u>198,705</u>	<u>202,454</u>	<u>294,965</u>	<u>92,511</u>
Expenditures:				
Debt service:				
Principal retirement.....	197,979	193,483	189,435	4,048
Interest and other fiscal charges.....	8,822	93,399	93,399	-
Total expenditures.....	<u>206,801</u>	<u>286,882</u>	<u>282,834</u>	<u>4,048</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(8,096)</u>	<u>(84,428)</u>	<u>12,131</u>	<u>96,559</u>
Other financing sources:				
Transfers in.....	-	13,069	13,069	-
Net changes in fund balances.....	(8,096)	(71,359)	25,200	96,559
Budgetary fund balance, July 1.....	8,096	94,893	94,893	-
Budgetary fund balance, June 30.....	<u>\$ -</u>	<u>\$ 23,534</u>	<u>\$ 120,093</u>	<u>\$ 96,559</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds – Capital Projects Funds**  
June 30, 2017  
(In Thousands)

	<b>City Facilities Improvement Fund</b>	<b>Earthquake Safety Improvement Fund</b>	<b>Fire Protection Systems Improvement Fund</b>	<b>Moscone Convention Center Fund</b>
Assets:				
Deposits and investments with City Treasury.....	\$ 337,869	\$ -	\$ 3,966	\$ -
Deposits and investments outside City Treasury.....	83,890	-	-	11,732
Receivables:				
Federal and state grants and subventions.....	-	-	-	-
Interest and other.....	397	-	6	-
Due from other funds.....	-	-	-	-
Other assets.....	-	-	-	-
Total assets.....	<u>\$ 422,156</u>	<u>\$ -</u>	<u>\$ 3,972</u>	<u>\$ 11,732</u>
Liabilities:				
Accounts payable.....	\$ 6,686	\$ -	\$ 125	\$ 33,613
Accrued payroll.....	752	-	2	80
Unearned grant and subvention revenue.....	-	-	-	-
Due to other funds.....	-	-	-	8,373
Unearned revenues and other liabilities.....	38	-	48	3,900
Bonds, loans, capital leases, and other payables.....	-	-	-	206,939
Total liabilities.....	<u>7,476</u>	<u>-</u>	<u>175</u>	<u>252,905</u>
Deferred inflows of resources.....	-	-	-	-
Fund balances:				
Restricted.....	414,680	-	3,797	-
Unassigned.....	-	-	-	(241,173)
Total fund balances.....	<u>414,680</u>	<u>-</u>	<u>3,797</u>	<u>(241,173)</u>
Total liabilities, deferred inflows of resources and fund balances.....	<u>\$ 422,156</u>	<u>\$ -</u>	<u>\$ 3,972</u>	<u>\$ 11,732</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds – Capital Projects Funds (Continued)**  
 June 30, 2017  
 (In Thousands)

	Public Library Improvement Fund	Recreation and Park Projects	Street Improvement Fund	Total
<b>Assets:</b>				
Deposits and investments with City Treasury.....	\$ -	\$ 40,124	\$ 61,604	\$ 443,563
Deposits and investments outside City Treasury.....	-	-	139	95,761
<b>Receivables:</b>				
Federal and state grants and subventions.....	-	2,796	3,544	6,340
Interest and other.....	-	64	98	565
Due from other funds.....	-	1,787	1,239	3,026
Other assets.....	-	-	10	10
<b>Total assets.....</b>	<b>\$ -</b>	<b>\$ 44,771</b>	<b>\$ 66,634</b>	<b>\$ 549,265</b>
<b>Liabilities:</b>				
Accounts payable.....	\$ -	\$ 3,476	\$ 3,645	\$ 47,545
Accrued payroll.....	-	174	502	1,510
Unearned grant and subvention revenue.....	-	598	1	599
Due to other funds.....	-	-	47	8,420
Unearned revenues and other liabilities.....	-	59	1,510	5,555
Bonds, loans, capital leases, and other payables.....	-	-	-	206,939
<b>Total liabilities.....</b>	<b>-</b>	<b>4,307</b>	<b>5,705</b>	<b>270,568</b>
Deferred inflows of resources.....	-	2,333	2,132	4,465
<b>Fund balances:</b>				
Restricted.....	-	38,131	58,797	515,405
Unassigned.....	-	-	-	(241,173)
<b>Total fund balances.....</b>	<b>-</b>	<b>38,131</b>	<b>58,797</b>	<b>274,232</b>
<b>Total liabilities, deferred inflows of resources and fund balances.....</b>	<b>\$ -</b>	<b>\$ 44,771</b>	<b>\$ 66,634</b>	<b>\$ 549,265</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures  
 and Changes in Fund Balances**  
**Nonmajor Governmental Funds – Capital Projects Funds**  
 Year Ended June 30, 2017  
 (In Thousands)

	City Facilities Improvement Fund	Earthquake Safety Improvement Fund	Fire Protection Systems Improvement Fund	Moscone Convention Center Fund
<b>Revenues:</b>				
Fines, forfeitures, and penalties.....	\$ -	\$ -	\$ -	\$ -
Interest and investment income.....	2,048	-	43	7
Rents and concessions.....	-	-	-	-
<b>Intergovernmental:</b>				
Federal.....	-	-	-	-
State.....	-	-	-	-
Other.....	-	-	-	-
Other.....	-	-	-	-
<b>Total revenues.....</b>	<b>2,048</b>	<b>-</b>	<b>43</b>	<b>7</b>
<b>Expenditures:</b>				
<b>Debt service:</b>				
Interest and other fiscal charges.....	18	-	-	2,726
Bond issuance costs.....	1,327	-	-	-
Capital outlay.....	103,075	-	2,976	137,602
<b>Total expenditures.....</b>	<b>104,420</b>	<b>-</b>	<b>2,976</b>	<b>140,328</b>
Deficiency of revenues under expenditures.....	(102,372)	-	(2,933)	(140,321)
<b>Other financing sources (uses):</b>				
Transfers in.....	101,041	-	-	521
Transfers out.....	(15,126)	(17)	(226)	-
<b>Issuance of bonds:</b>				
Face value of bonds issued.....	173,120	-	-	-
Premium on issuance of bonds.....	11,820	-	-	-
Other financing sources-capital leases.....	34,184	-	-	-
<b>Total other financing sources, net.....</b>	<b>305,039</b>	<b>(17)</b>	<b>(226)</b>	<b>521</b>
<b>Net changes in fund balances.....</b>	<b>202,667</b>	<b>(17)</b>	<b>(3,159)</b>	<b>(139,800)</b>
Fund balances at beginning of year.....	212,013	17	6,956	(101,373)
<b>Fund balances at end of year.....</b>	<b>\$ 414,680</b>	<b>\$ -</b>	<b>\$ 3,797</b>	<b>\$ (241,173)</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds – Capital Projects Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Public Library Improvement Fund	Recreation and Park Projects	Street Improvement Fund	Total
<b>Revenues:</b>				
Fines, forfeitures, and penalties.....	\$ -	\$ 16	\$ -	\$ 16
Interest and investment income.....	-	427	655	3,180
Rents and concessions.....	-	-	41	41
<b>Intergovernmental:</b>				
Federal.....	-	904	4,212	5,116
State.....	-	9,672	83	9,755
Other.....	-	-	203	203
Other.....	-	1,559	88	1,647
Total revenues.....	<u>-</u>	<u>12,578</u>	<u>5,282</u>	<u>19,958</u>
<b>Expenditures:</b>				
<b>Debt service:</b>				
Interest and other fiscal charges.....	-	3	5	2,752
Bond issuance costs.....	-	-	13	1,340
Capital outlay.....	-	40,225	13,211	297,089
Total expenditures.....	<u>-</u>	<u>40,228</u>	<u>13,229</u>	<u>301,181</u>
Deficiency of revenues under expenditures.....	<u>-</u>	<u>(27,650)</u>	<u>(7,947)</u>	<u>(281,223)</u>
<b>Other financing sources (uses):</b>				
Transfers in.....	-	107	11,679	113,348
Transfers out.....	(417)	-	(44,912)	(60,698)
<b>Issuance of bonds:</b>				
Face value of bonds issued.....	-	-	-	173,120
Premium on issuance of bonds.....	-	-	-	11,820
Other financing sources-capital leases.....	-	1,787	-	35,971
Total other financing sources, net.....	<u>(417)</u>	<u>1,894</u>	<u>(33,233)</u>	<u>273,561</u>
Net changes in fund balances.....	<u>(417)</u>	<u>(25,756)</u>	<u>(41,180)</u>	<u>(7,662)</u>
Fund balances at beginning of year.....	417	63,887	99,977	281,894
Fund balances at end of year.....	<u>\$ -</u>	<u>\$ 38,131</u>	<u>\$ 58,797</u>	<u>\$ 274,232</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**INTERNAL SERVICE FUNDS**

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

*Central Shops Fund* – Accounts for Central Shops equipment (primarily vehicle) maintenance service charges and the related billings to various departments.

*Finance Corporation* – Accounts for the lease financing services provided by the Finance Corporation to City departments. On July 1, 2001 the City established the Finance Corporation Internal Service fund because its sole purpose is to provide lease financing to the City. Previously, the activities of the Finance Corporation were reported within governmental funds.

*Reproduction Fund* – Accounts for printing, design and mail services required by various City departments and agencies.

*Telecommunications and Information Fund* – Accounts for centralized telecommunications activities in the City's Wide Area Network, radio communication and telephone systems. In addition, it accounts for application support provided to many department-specific and citywide systems, management of the City's Web site, operations of the City's mainframe computers and technology training provided to city the related billings to various departments for specific services performed and operating support from the General Fund.

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
 June 30, 2017  
 (In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecommunications & Information Fund	Total
<b>Assets:</b>					
<b>Current assets:</b>					
Deposits and Investments with City Treasury.....	\$ 2,784	\$ -	\$ 1,902	\$ 25,233	\$ 29,919
<b>Receivables:</b>					
Charges for services.....	49	-	46	-	95
Interest and other.....	-	3	-	739	742
Capital leases receivable.....	-	11,233	-	-	11,233
<b>Restricted assets:</b>					
Deposits and Investments outside City Treasury....	-	21,617	-	-	21,617
Total current assets.....	2,833	32,853	1,948	25,972	63,606
<b>Noncurrent assets:</b>					
Capital leases receivable.....	-	167,710	-	-	167,710
<b>Capital assets:</b>					
Facilities and equipment, net of depreciation.....	433	-	448	10,720	11,601
Total noncurrent assets.....	433	167,710	448	10,720	179,311
Total assets.....	3,266	200,563	2,396	36,692	242,817
<b>Deferred outflows of resources:</b>					
Unamortized loss on refunding of debt.....	-	1,012	-	-	1,012
Deferred outflows related to pensions.....	6,931	-	-	18,975	25,906
Total deferred outflows of resources.....	6,931	1,012	-	18,975	26,918
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Accounts payable.....	387	-	130	3,130	3,647
Accrued payroll.....	609	-	78	1,655	2,242
Accrued vacation and sick leave pay.....	384	-	-	1,469	1,853
Accrued workers' compensation.....	-	-	-	331	331
Bonds, loans, capital leases, and other payables.....	-	10,680	-	-	10,680
Accrued interest payable.....	-	1,224	-	-	1,224
Due to other funds.....	-	1,787	-	-	1,787
Unearned revenues and other liabilities.....	-	15,781	-	34	15,815
Total current liabilities.....	1,280	29,672	208	6,619	37,779
<b>Noncurrent liabilities:</b>					
Accrued vacation and sick leave pay.....	208	-	-	1,095	1,363
Accrued workers' compensation.....	-	-	-	1,469	1,469
Other postemployment benefits obligation.....	5,594	-	-	20,009	20,393
Bonds, loans, capital leases, and other payables.....	-	171,903	-	-	171,903
Net pension liability.....	17,100	-	-	46,819	63,919
Total noncurrent liabilities.....	22,852	171,903	-	70,192	265,047
Total liabilities.....	24,232	201,575	208	76,811	302,826
<b>Deferred inflows of resources:</b>					
Deferred inflows related to pensions.....	732	-	-	2,005	2,737
<b>Net position:</b>					
Net investment in capital assets.....	433	-	448	10,720	11,601
Unrestricted (deficit).....	(15,200)	-	1,740	(33,860)	(47,320)
Total net position.....	\$ (14,767)	\$ -	\$ 2,188	\$ (23,149)	\$ (35,728)

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Position**  
**Internal Service Funds**  
 Year Ended June 30, 2017  
 (In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecommunications & Information Fund	Total
<b>Operating revenues:</b>					
Charges for services.....	\$ 30,129	\$ -	\$ 7,527	\$ 107,628	\$ 145,284
Rents and concessions.....	-	-	-	176	176
Total operating revenues.....	30,129	-	7,527	107,804	145,460
<b>Operating expenses:</b>					
Personal services.....	18,072	-	2,063	58,041	78,176
Contractual services.....	3,240	-	4,682	51,224	59,146
Materials and supplies.....	10,974	-	275	3,259	14,508
Depreciation and amortization.....	149	-	70	3,075	3,294
General and administrative.....	48	-	-	360	408
Services provided by other departments.....	1,586	-	498	7,506	9,590
Other.....	-	-	5	3,179	3,184
Total operating expenses.....	34,069	-	7,593	126,644	168,306
Operating income (loss).....	(3,940)	-	(66)	(18,840)	(22,846)
<b>Nonoperating revenues (expenses):</b>					
Interest and investment income.....	-	4,332	9	129	4,470
Interest expense.....	(2)	(4,662)	-	-	(4,664)
Other, net.....	-	330	1	408	739
Total nonoperating revenues (expenses).....	(2)	-	10	537	545
Income (loss) before transfers.....	(3,942)	-	(56)	(18,303)	(22,301)
Transfers in.....	2	-	-	2,151	2,153
Transfers out.....	-	-	(9)	(129)	(138)
Change in net position.....	(3,940)	-	(65)	(16,281)	(20,286)
Net position (deficit) at beginning of year.....	(10,827)	-	2,253	(6,868)	(15,442)
Net position (deficit) at end of year.....	\$ (14,767)	\$ -	\$ 2,188	\$ (23,149)	\$ (35,728)

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CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Cash Flows  
Internal Service Funds  
Year Ended June 30, 2017  
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecom- munications & Information Fund	Total
<b>Cash flows from operating activities:</b>					
Cash received from customers.....	\$ 30,080	\$ 17,743	\$ 7,635	\$ 108,103	\$ 163,481
Cash paid for employees' services.....	(13,777)	-	(2,047)	(42,817)	(58,641)
Cash paid to suppliers for goods and services.....	(18,089)	(2,707)	(5,472)	(68,492)	(93,757)
Net cash provided by (used in) operating activities.....	(306)	15,036	16	(3,206)	11,450
<b>Cash flows from noncapital financing activities:</b>					
Transfers in.....	2	-	-	2,151	2,153
Transfers out.....	-	-	(9)	(120)	(138)
Net cash provided by (used in) noncapital financing activities.....	2	-	(9)	2,022	2,015
<b>Cash flows from capital and related financing activities:</b>					
Acquisition of capital assets.....	(18)	-	(107)	(3,785)	(3,910)
Retirement of capital lease obligations.....	-	(14,025)	-	-	(14,025)
Interest paid on long-term debt.....	-	(4,753)	-	-	(4,753)
Net cash used in capital and related financing activities.....	(18)	(18,778)	(107)	(3,785)	(22,688)
<b>Cash flows from investing activities:</b>					
Interest and investment income.....	-	10	0	129	148
Other investing activities.....	(2)	-	-	-	(2)
Net cash provided by (used in) investing activities.....	(2)	10	0	129	148
Change in cash and cash equivalents.....	(414)	(3,732)	(91)	(4,840)	(9,077)
Cash and cash equivalents at beginning of year.....	3,198	25,348	1,993	30,073	60,613
Cash and cash equivalents at end of year.....	\$ 2,784	\$ 21,617	\$ 1,902	\$ 25,233	\$ 51,536
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>					
Operating loss.....	(3,940)	-	(66)	(18,840)	(22,846)
Adjustments for non-cash and other activities:					
Depreciation and amortization.....	149	-	70	3,075	3,294
Other.....	-	-	1	408	409
Changes in assets and deferred outflows of resources/liabilities and deferred inflows of resources:					
Receivables, net.....	(49)	12,760	7	(109)	12,609
Accounts payable.....	(836)	-	(12)	(2,955)	(3,803)
Accrued payroll.....	68	-	18	298	380
Accrued vacation and sick leave pay.....	(118)	-	-	229	114
Accrued workers' compensation.....	-	-	-	(84)	(84)
Other postemployment benefits obligation.....	352	-	-	2,523	2,875
Due to other funds.....	(15)	-	-	(9)	(24)
Unearned revenue and other liabilities.....	-	2,276	-	-	2,276
Net pension liability and pension related deferred outflows and inflows of resources.....	3,990	-	-	12,240	16,230
Total adjustments.....	3,544	15,036	82	15,634	34,296
Net cash provided by (used in) operating activities.....	\$ (386)	\$ 15,036	\$ 16	\$ (3,206)	\$ 11,450
<b>Reconciliation of cash and cash equivalents to the combining statement of net position:</b>					
Deposits and investments with City Treasury:					
Unrestricted.....	2,784	-	1,902	25,233	29,919
Restricted.....	-	21,617	-	-	21,617
Cash and cash equivalents at end of year on statement of cash flows.....	\$ 2,784	\$ 21,617	\$ 1,902	\$ 25,233	\$ 51,536
<b>Non-cash capital and related financing activities:</b>					
Acquisition of capital assets on accounts payable and capital lease.....	-	1,787	-	210	1,997

CITY AND COUNTY OF SAN FRANCISCO

FIDUCIARY FUNDS

Fiduciary Funds include all Trust and Agency Funds which account for assets held by the City as a trustee or as an agent for individuals or other governmental units

Trust Funds

*Employees' Retirement System* – Accounts for the contributions from employees, City contributions and the earnings and profits from investments of monies. Disbursements are made for retirements, withdrawal, disability, and death benefits of the employees as well as administrative expenses.

*Health Service System* – Accounts for the contributions from active and retired employees, and surviving spouses, City contributions and the earnings and profits from investment of monies. Disbursements are made for medical expenses and to various health plans of the beneficiaries.

*Retiree Health Care Trust* - Accounts for the contributions from employees, City contributions and the earnings and profits from investment of monies. Disbursements are to be made for benefits, expenses and other charges properly allocable to the trust fund.

Agency Funds

Agency Funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

*Assistance Program Fund* – Accounts for collections and advances received as an agent under various human welfare and community health programs. Monies are disbursed in accordance with legal requirements and program regulations.

*Deposits Fund* – Accounts for all deposits under the control of the City departments. Dispositions of the deposits are governed by the terms of the statutes and ordinances establishing the deposit requirement.

*Payroll Deduction Fund* – Accounts for monies held for payroll charges including federal, state and other payroll related deductions.

*State Revenue Collection Fund* – Accounts for various fees, fines and penalties collected by City departments for the State of California which are passed through to the State.

*Tax Collection Fund* – Accounts for monies received for current and delinquent taxes which must be held pending authority for distribution. Included are prepaid taxes, disputed taxes, duplicate payment of taxes, etc. This fund also accounts for monies deposited by third parties pending settlement of litigation and claims. Upon final settlement, monies are disbursed as directed by the courts or by parties to the dispute.

*Transit Fund* – Accounts for the quarter of one percent sales tax collected by the State Board of Equalization and deposited with the County of origin for local transportation support. The Metropolitan Transportation Commission, the regional agency responsible for administration of these monies, directs their use and distribution.

*Other Agency Funds* – Accounts for monies held as agent for a variety of purposes.

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**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**Pension and Other Employee Benefit Trust Funds**  
June 30, 2017  
(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	Other Post- employment Benefit Trust Fund	Total
	Employees' Retirement System	Health Service System	Retiree Health Care	
<b>Assets</b>				
Deposits and investments with City Treasury.....	\$ 11,800	\$ 36,707	\$ 2,215	\$ 50,702
Deposits and investments outside City Treasury:				
Cash and deposits.....	65,697	-	-	65,697
Short term investments.....	347,744	-	-	347,744
Debt securities.....	4,446,402	-	47,627	4,494,029
Equity securities.....	10,658,016	-	135,274	10,893,290
Real assets.....	2,975,974	-	-	2,975,974
Private equity and other alternative investments.....	3,979,514	-	2	3,979,516
Foreign currency contracts, net.....	164	-	-	164
Invested in securities lending collateral.....	201	-	-	201
Receivables:				
Employer and employee contributions.....	11,594	21,002	2,057	34,653
Brokers, general partners and others.....	145,795	-	-	145,795
Interest and other.....	33,771	80	257	34,108
Other assets.....	-	45,402	-	45,402
<b>Total assets.....</b>	<b>22,576,672</b>	<b>103,251</b>	<b>187,432</b>	<b>22,867,355</b>
<b>Liabilities</b>				
Accounts payable.....	18,808	314	6	19,128
Estimated claims payable.....	-	27,755	-	27,755
Payable to brokers.....	147,095	-	-	147,095
Deferred Retirement Option Program.....	313	-	-	313
Payable to borrowers of securities.....	106	-	-	106
Other liabilities.....	-	2,656	-	2,656
<b>Total liabilities.....</b>	<b>166,322</b>	<b>30,725</b>	<b>6</b>	<b>197,053</b>
<b>Net Position</b>				
Restricted for pension and other employee benefits.....	\$ 22,410,350	\$ 72,526	\$ 187,426	\$ 22,670,302

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**Pension and Other Employee Benefit Trust Funds**  
Year Ended June 30, 2017  
(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	Other Post- employment Benefit Trust Fund	Total
	Employees' Retirement System	Health Service System	Retiree Health Care	
<b>Additions:</b>				
Employee contributions.....	\$ 316,844	\$ 133,043	\$ 31,898	\$ 481,785
Employer contributions.....	551,809	713,910	195,485	1,461,184
<b>Total contributions.....</b>	<b>868,653</b>	<b>846,953</b>	<b>227,383</b>	<b>1,942,969</b>
<b>Investment income/loss:</b>				
Interest.....	159,065	474	16,873	176,412
Dividends.....	209,951	-	-	209,951
Net appreciation (depreciation) in fair value of investments.....	2,356,332	(29)	2,129	2,358,432
Securities lending and other income.....	9,004	-	-	9,004
<b>Total investment income.....</b>	<b>2,734,352</b>	<b>445</b>	<b>19,002</b>	<b>2,753,799</b>
<b>Less investment expenses:</b>				
Securities lending borrower rebates and expenses.....	(3,485)	-	-	(3,489)
Other investment expenses.....	(47,395)	-	(202)	(47,597)
<b>Total investment expenses.....</b>	<b>(50,884)</b>	<b>-</b>	<b>(202)</b>	<b>(51,086)</b>
<b>Total additions, net.....</b>	<b>3,552,121</b>	<b>847,398</b>	<b>246,183</b>	<b>4,645,692</b>
<b>Deductions:</b>				
Benefit payments.....	1,264,633	843,476	173,410	2,281,519
Refunds of contributions.....	13,507	-	-	13,507
Administrative expenses.....	18,134	-	109	18,243
<b>Total deductions.....</b>	<b>1,296,274</b>	<b>843,476</b>	<b>173,519</b>	<b>2,313,269</b>
Change in net position.....	2,255,847	3,523	72,644	2,332,414
Net position at beginning of year.....	20,154,503	68,603	114,782	20,337,888
<b>Net position at end of year.....</b>	<b>\$ 22,410,350</b>	<b>\$ 72,526</b>	<b>\$ 187,426</b>	<b>\$ 22,670,302</b>



**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
Year Ended June 30, 2017  
(In Thousands)

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
<b>Assistance Program Fund</b>				
<b>Assets</b>				
Deposits and investments with City Treasury.....	\$ 20,269	\$ 3,078	\$ 2,982	\$ 20,365
<b>Receivables:</b>				
Interest and other.....	22	169	163	28
<b>Total assets.....</b>	<b>\$ 20,291</b>	<b>\$ 3,247</b>	<b>\$ 3,145</b>	<b>\$ 20,393</b>
<b>Liabilities</b>				
Accounts payable.....	\$ 22	\$ 413	\$ 435	\$ -
Agency obligations.....	20,269	5,172	5,048	20,393
<b>Total liabilities.....</b>	<b>\$ 20,291</b>	<b>\$ 5,585</b>	<b>\$ 5,483</b>	<b>\$ 20,393</b>
<b>Deposits Fund</b>				
<b>Assets</b>				
Deposits and investments with City Treasury.....	\$ 16,461	\$ 30,190	\$ 30,687	\$ 15,964
Deposits and Investments outside City Treasury.....	1	-	1	-
<b>Receivables:</b>				
Interest and other.....	30	76	70	36
Other assets.....	45,538	-	-	45,538
<b>Total assets.....</b>	<b>\$ 62,030</b>	<b>\$ 30,266</b>	<b>\$ 30,768</b>	<b>\$ 61,538</b>
<b>Liabilities</b>				
Accounts payable.....	\$ 734	\$ 11,113	\$ 11,225	\$ 622
Agency obligations.....	81,296	29,634	30,014	60,916
<b>Total liabilities.....</b>	<b>\$ 62,030</b>	<b>\$ 40,747</b>	<b>\$ 41,239</b>	<b>\$ 61,538</b>
<b>Payroll Deduction Fund</b>				
<b>Assets</b>				
Deposits and investments with City Treasury.....	\$ 18,469	\$ 1,710	\$ 13	\$ 20,186
<b>Receivables:</b>				
Employer and employee contributions.....	43,571	7,994	-	51,565
<b>Total assets.....</b>	<b>\$ 62,040</b>	<b>\$ 9,704</b>	<b>\$ 13</b>	<b>\$ 71,731</b>
<b>Liabilities</b>				
Accounts payable.....	\$ 43,595	\$ 66,874	\$ 43,594	\$ 66,875
Agency obligations.....	18,445	377	13,966	4,856
<b>Total liabilities.....</b>	<b>\$ 62,040</b>	<b>\$ 67,251</b>	<b>\$ 57,560</b>	<b>\$ 71,731</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
<b>State Revenue Collection Fund</b>				
<b>Assets</b>				
Deposits and investments with City Treasury.....	\$ 3,091	\$ 15,444	\$ 18,000	\$ 535
Deposits and investments outside City Treasury.....	1	-	1	-
<b>Receivables:</b>				
Interest and other.....	-	1	1	-
<b>Total assets.....</b>	<b>\$ 3,092</b>	<b>\$ 15,445</b>	<b>\$ 18,002</b>	<b>\$ 535</b>
<b>Liabilities</b>				
Accounts payable.....	\$ 179	\$ 16,393	\$ 16,498	\$ 74
Agency obligations.....	2,913	15,455	17,907	461
<b>Total liabilities.....</b>	<b>\$ 3,092</b>	<b>\$ 31,848</b>	<b>\$ 34,405</b>	<b>\$ 535</b>
<b>Tax Collection Fund</b>				
<b>Assets</b>				
Deposits and investments with City Treasury.....	\$ 29,579	\$ 4,424,944	\$ 4,377,537	\$ 76,980
Deposits and investments outside City Treasury.....	762	2,605	763	2,604
<b>Receivables:</b>				
Interest and other.....	275,954	2,724,691	2,719,836	280,799
<b>Total assets.....</b>	<b>\$ 306,295</b>	<b>\$ 7,152,230</b>	<b>\$ 7,098,136</b>	<b>\$ 360,389</b>
<b>Liabilities</b>				
Accounts payable.....	\$ 364	\$ 116,970	\$ 117,333	\$ 1
Agency obligations.....	305,931	3,560,850	3,506,393	360,388
<b>Total liabilities.....</b>	<b>\$ 306,295</b>	<b>\$ 3,677,820</b>	<b>\$ 3,623,726</b>	<b>\$ 360,389</b>
<b>Transit Fund</b>				
<b>Assets</b>				
Deposits and investments with City Treasury.....	\$ 3,502	\$ 80,292	\$ 82,258	\$ 1,536
<b>Receivables:</b>				
Interest and other.....	3	28	27	4
<b>Total assets.....</b>	<b>\$ 3,505</b>	<b>\$ 80,320</b>	<b>\$ 82,285</b>	<b>\$ 1,540</b>
<b>Liabilities</b>				
Accounts payable.....	\$ 2,259	\$ 32,282	\$ 34,541	\$ -
Agency obligations.....	1,246	49,848	49,554	1,540
<b>Total liabilities.....</b>	<b>\$ 3,505</b>	<b>\$ 82,130</b>	<b>\$ 84,095</b>	<b>\$ 1,540</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds (Continued)**  
Year Ended June 30, 2017  
(In Thousands)

	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2017</b>
<b>Other Agency Funds</b>				
Assets				
Deposits and investments with City Treasury.....	\$ 47,423	\$ 418,960	\$ 414,114	\$ 52,269
Deposits and investments outside City Treasury..	53	629	53	629
Receivables:				
Interest and other.....	309	424	373	360
Total assets.....	<u>\$ 47,785</u>	<u>\$ 420,013</u>	<u>\$ 414,540</u>	<u>\$ 53,258</u>
Liabilities				
Accounts payable.....	\$ 6,499	\$ 119,301	\$ 123,587	\$ 2,213
Agency obligations.....	41,286	421,655	411,896	51,045
Total liabilities.....	<u>\$ 47,785</u>	<u>\$ 540,956</u>	<u>\$ 535,483</u>	<u>\$ 53,258</u>
<b>Total Agency Funds</b>				
Assets				
Deposits and investments with City Treasury.....	\$ 138,794	\$ 4,974,618	\$ 4,925,591	\$ 187,821
Deposits and investments outside City Treasury..	817	3,234	818	3,233
Receivables:				
Employer and employee contributions.....	43,571	7,994	-	51,565
Interest and other.....	276,318	2,725,379	2,720,470	281,227
Other assets.....	45,538	-	-	45,538
Total assets.....	<u>\$ 505,038</u>	<u>\$ 7,711,225</u>	<u>\$ 7,646,879</u>	<u>\$ 569,384</u>
Liabilities				
Accounts payable.....	\$ 53,652	\$ 363,346	\$ 347,213	\$ 69,785
Agency obligations.....	451,386	4,082,991	4,034,778	499,599
Total liabilities.....	<u>\$ 505,038</u>	<u>\$ 4,446,337</u>	<u>\$ 4,381,991</u>	<u>\$ 569,384</u>

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## STATISTICAL SECTION

### CITY AND COUNTY OF SAN FRANCISCO

#### Statistical Section

This section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

#### Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

#### Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.

#### Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

#### Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

#### Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

#### Sources:

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY AND COUNTY OF SAN FRANCISCO

NET POSITION BY COMPONENT

Last Ten Fiscal Years

(Accrual basis of accounting)

(In Thousands)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013 <sup>(1)</sup>	2014	2015 <sup>(2)</sup>	2016	2017
<b>Governmental activities</b>										
Net investment in capital assets.....	\$ 1,436,842	\$ 1,725,203	\$ 1,833,733	\$ 1,910,341	\$ 2,199,316	\$ 2,275,963	\$ 2,483,086	\$ 2,684,808	\$ 2,750,782	\$ 2,873,927
Restricted for:										
Reserve for rainy day.....	117,792	98,297	39,582	33,439	34,109	26,339	83,194	114,969	120,106	125,689
Debt service.....	23,130	30,724	34,308	36,805	48,202	98,754	91,600	87,772	83,029	108,179
Capital projects.....	-	-	63,223	82,315	91,997	154,502	110,608	28,263	198,962	257,634
Community development.....	95,136	64,031	66,251	59,763	240,771	109,423	200,640	297,094	433,398	434,691
Transportation Authority activities.....	1,893	2,515	1,966	1,366	6,705	10,924	12,495	13,486	15,657	16,189
Building inspection programs.....	16,475	13,959	21,837	32,112	49,364	71,131	97,928	109,512	134,663	150,109
Children and families.....	43,666	46,273	40,886	45,827	53,632	56,170	59,572	100,892	105,177	115,284
Culture, recreation, grants and other purposes.....	112,219	116,032	113,917	155,152	150,383	158,973	206,368	209,399	240,524	265,444
Unrestricted (deficit).....	(261,897)	(791,831)	(1,062,816)	(1,046,851)	(954,469)	(1,142,020)	(1,004,161)	(2,358,981)	(2,073,250)	(2,560,735)
Total governmental activities net position.....	\$ 1,585,056	\$ 1,305,203	\$ 1,152,985	\$ 1,310,279	\$ 1,920,010	\$ 1,820,159	\$ 2,341,631	\$ 1,287,214	\$ 2,009,063	\$ 1,786,411
<b>Business-type activities</b>										
Net investment in capital assets.....	\$ 3,935,008	\$ 4,204,644	\$ 4,277,799	\$ 4,481,404	\$ 4,538,990	\$ 4,691,579	\$ 4,832,659	\$ 5,117,679	\$ 5,690,741	\$ 5,752,069
Restricted for:										
Debt service.....	282,187	58,716	71,128	62,421	53,951	58,970	64,143	100,923	127,073	202,262
Capital projects.....	111,463	140,932	188,580	161,580	176,570	299,942	363,601	358,745	340,896	394,634
Other purposes.....	28,254	31,459	18,854	18,741	18,913	13,046	24,721	35,986	70,905	93,696
Unrestricted.....	491,437	304,295	259,533	288,328	242,842	610,565	732,736	(335,953)	(231,379)	(670,759)
Total business-type activities net position.....	\$ 4,848,349	\$ 4,760,146	\$ 4,815,894	\$ 4,992,474	\$ 5,031,266	\$ 5,674,102	\$ 6,017,860	\$ 5,278,250	\$ 5,997,836	\$ 5,771,902
<b>Primary government</b>										
Net investment in capital assets <sup>(3)</sup> .....	\$ 5,371,850	\$ 5,630,550	\$ 5,735,844	\$ 5,993,892	\$ 6,459,434	\$ 6,692,499	\$ 7,032,674	\$ 7,520,698	\$ 8,151,422	\$ 8,321,778
Restricted for:										
Reserve for rainy day.....	117,792	98,297	39,582	33,439	34,109	26,339	83,194	114,969	120,106	125,689
Debt service.....	305,317	89,440	105,436	99,226	102,153	157,724	156,043	188,695	210,102	310,441
Capital projects <sup>(3)</sup> .....	111,463	140,932	239,209	223,694	246,027	356,002	418,103	330,213	423,132	569,948
Community development.....	95,136	64,031	66,251	59,763	240,771	109,423	200,640	297,094	433,398	434,691
Transportation Authority activities.....	1,893	2,515	1,966	1,366	6,705	10,924	12,495	13,486	15,657	16,189
Building inspection programs.....	16,475	13,959	21,837	32,112	49,364	71,131	97,928	109,512	134,663	150,109
Children and families.....	43,666	46,273	40,886	45,827	53,632	56,170	59,572	100,892	105,177	115,284
Culture, recreation, grants and other purposes.....	140,473	147,491	132,771	173,893	169,296	172,019	231,069	245,385	311,029	359,140
Unrestricted (deficit) <sup>(3)</sup> .....	229,540	(188,139)	(414,503)	(360,479)	(410,215)	(157,970)	67,752	(2,355,480)	(1,897,787)	(2,844,956)
Total primary activities net position.....	\$ 6,433,405	\$ 6,065,349	\$ 5,968,879	\$ 6,302,753	\$ 6,951,276	\$ 7,494,261	\$ 8,959,491	\$ 6,565,464	\$ 8,006,899	\$ 7,558,313

Notes:

- Effective with the implementation of GASB Statement No. 63, in fiscal year 2013, Net Assets was renamed Net Position.
- In fiscal year 2015, the City adopted the provisions of GASB Statement Nos.68 and 71. As restatement of all prior periods is not practical, the cumulative effect of applying these statements is reported as a restatement of beginning net position as of July 1, 2014.
- Certain net position reclassifications were made to reflect the primary government as a whole perspective since fiscal year 2009. See Note 10(d) in the Notes to Basic Financial Statements for details.

CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN NET POSITION

Last Ten Fiscal Years

(Accrual basis of accounting)

(In Thousands)

	Fiscal Year									
	2008	2009 <sup>(1)</sup>	2010	2011	2012	2013	2014	2015 <sup>(2)</sup>	2016	2017
<b>Expenses</b>										
<b>Governmental activities:</b>										
Public protection.....	\$ 1,020,457	\$ 1,109,311	\$ 1,089,309	\$ 1,099,791	\$ 1,158,618	\$ 1,236,922	\$ 1,229,591	\$ 1,108,200	\$ 1,222,549	\$ 1,692,224
Public works, transportation and commerce.....	342,411	254,905	225,589	239,230	210,415	198,124	200,712	270,454	418,978	387,423
Human welfare and neighborhood development.....	848,195	808,449	833,039	885,194	842,523	810,562	1,009,190	1,077,032	1,233,303	1,540,757
Community health.....	567,410	608,733	599,741	613,883	673,905	751,491	786,761	735,040	747,071	868,628
Culture and recreation.....	347,433	319,994	310,063	318,083	307,269	338,042	357,620	356,676	311,028	539,516
General administration and finance.....	250,295	238,601	221,471	224,027	237,818	248,271	298,563	249,823	246,383	337,299
General City responsibilities.....	80,887	72,634	80,246	84,444	96,147	83,895	85,239	94,577	113,490	145,247
Unallocated interest on long-term debt and cost of issuance <sup>(1)</sup> .....	97,684	93,387	102,635	110,142	110,145	107,790	115,880	115,030	115,357	113,264
Total governmental activities expenses.....	3,554,782	3,606,064	3,562,093	3,574,794	3,736,840	3,903,097	4,083,556	4,002,452	4,408,259	5,626,558
<b>Business-type activities:</b>										
Airport.....	651,581	683,335	662,347	690,875	746,610	756,961	827,658	853,338	900,621	1,122,802
Transportation.....	830,411	863,218	905,694	905,218	959,088	1,026,726	1,037,388	1,018,251	1,106,420	1,468,586
Port.....	67,495	71,778	73,573	68,861	72,307	81,422	86,551	88,436	91,449	118,361
Water.....	292,802	277,162	305,242	302,902	421,048	445,904	470,200	438,885	470,254	572,569
Power.....	109,438	96,228	119,109	119,282	130,709	129,750	137,639	149,438	153,472	198,621
Hospitals.....	812,399	802,236	842,488	885,294	954,566	992,887	1,011,452	996,395	1,050,618	1,370,154
Sewer.....	182,712	184,977	201,403	201,029	214,583	223,727	243,466	239,556	244,289	273,077
Market.....	1,052	1,144	1,119	1,152	1,138	1,231	120	-	-	-
Total business-type activities expenses.....	2,907,888	2,988,078	3,130,975	3,234,913	3,510,259	3,658,348	3,816,454	3,784,299	4,017,123	5,124,110
Total primary government expenses.....	\$ 6,462,670	\$ 6,604,142	\$ 6,693,068	\$ 6,809,707	\$ 7,247,099	\$ 7,561,445	\$ 7,900,010	\$ 7,786,751	\$ 8,425,382	\$ 10,750,668
<b>Program Revenues</b>										
<b>Governmental activities:</b>										
Charges for services:										
Public protection.....	\$ 66,343	\$ 90,044	\$ 58,980	\$ 62,105	\$ 61,412	\$ 60,190	\$ 69,673	\$ 70,444	\$ 86,164	\$ 83,896
Public works, transportation and commerce.....	115,939	72,287	71,288	101,846	93,809	105,981	135,842	128,661	130,410	148,804
Human welfare and neighborhood development.....	108,556	33,989	25,913	50,628	60,794	69,997	99,648	95,012	273,586	164,755
Community health.....	52,455	60,708	65,766	64,419	58,664	60,665	67,680	93,130	90,078	68,601
Culture and recreation.....	70,576	74,477	81,855	76,528	78,828	93,612	89,969	98,302	96,205	97,614
General administration and finance.....	20,376	33,530	35,190	37,601	44,368	76,903	66,071	89,403	52,417	45,385
General City responsibilities.....	26,980	27,377	37,806	39,316	43,142	50,121	38,445	37,031	45,922	67,387
Operating Grants and Contributions.....	928,899	909,695	997,091	1,040,116	998,701	1,086,154	1,142,094	1,165,340	1,289,902	1,263,262
Capital Grants and Contributions.....	36,079	44,048	50,349	57,719	41,174	29,718	39,379	48,233	24,795	18,493
Total Governmental activities program revenues.....	1,423,793	1,345,154	1,424,128	1,526,276	1,475,082	1,633,532	1,750,021	1,826,556	2,091,879	1,929,177
<b>Business-type activities:</b>										
Charges for services:										
Airport.....	535,771	551,283	578,041	607,323	666,672	726,358	770,691	815,364	866,991	926,800
Transportation.....	257,341	257,063	311,311	334,140	350,464	494,805	621,628	499,584	495,296	500,000
Port.....	64,498	66,438	66,579	72,286	77,280	80,202	85,019	95,296	99,733	113,353
Water.....	234,216	265,781	265,216	288,395	342,101	721,470	379,882	426,047	419,516	460,331
Power.....	119,855	115,274	128,590	140,035	127,309	133,927	134,838	147,803	164,758	189,979
Hospitals.....	558,167	569,210	606,276	726,522	740,520	868,244	951,038	884,718	922,320	873,221
Sewer.....	202,549	208,654	209,843	229,216	244,155	252,554	280,097	256,002	261,775	277,341
Market.....	1,564	1,546	1,681	1,665	1,672	1,715	141	-	-	-
Operating Grants and Contributions.....	181,725	186,805	182,572	204,153	200,318	224,382	190,351	191,101	199,623	270,167
Capital Grants and Contributions.....	152,511	107,118	180,253	213,364	173,975	251,753	515,445	357,819	374,924	353,046
Total business-type activities program revenues.....	2,308,197	2,328,192	2,530,364	2,817,099	2,926,845	3,755,410	3,808,730	3,683,734	3,804,914	3,964,268
Total primary government program revenues.....	\$ 3,731,990	\$ 3,673,346	\$ 3,954,492	\$ 4,343,375	\$ 4,401,927	\$ 5,388,942	\$ 5,559,755	\$ 5,510,290	\$ 6,896,793	\$ 6,893,445

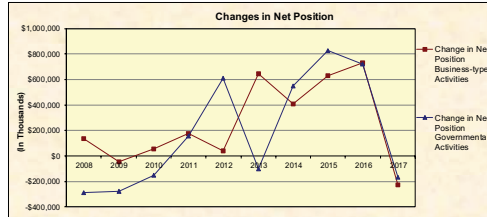
Notes:

- The City adopted GASB Statement No. 65 in fiscal year 2014 and began reporting the cost of issuance as an expense. Prior fiscal years have not been restated.
- In fiscal year 2015, the City adopted the provisions of GASB Statement

CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN NET POSITION (Continued)  
Last Ten Fiscal Years  
(Accrual basis of accounting)  
(In Thousands)

	Fiscal Year									
	2008	2009 <sup>(1)</sup>	2010	2011	2012	2013	2014	2015 <sup>(1)</sup>	2016	2017
<b>Net (expense)/revenue</b>										
Governmental activities	\$ (2,130,989)	\$ (2,259,910)	\$ (2,137,965)	\$ (2,048,516)	\$ (2,261,758)	\$ (2,268,565)	\$ (2,333,555)	\$ (2,175,898)	\$ (2,316,380)	\$ (3,697,381)
Business-type activities	(599,691)	(669,886)	(600,611)	(417,844)	(563,413)	97,062	(7,724)	(100,565)	(212,209)	(1,159,842)
<b>Total primary government net expenses</b>	<b>\$ (2,730,680)</b>	<b>\$ (2,929,796)</b>	<b>\$ (2,738,576)</b>	<b>\$ (2,466,360)</b>	<b>\$ (2,825,171)</b>	<b>\$ (2,172,503)</b>	<b>\$ (2,341,279)</b>	<b>\$ (2,276,463)</b>	<b>\$ (2,528,589)</b>	<b>\$ (4,857,223)</b>
<b>General Revenues and Other Changes in Net Position</b>										
<b>Governmental activities:</b>										
Taxes										
Property taxes	\$ 1,189,511	\$ 1,302,071	\$ 1,345,040	\$ 1,340,590	\$ 1,355,855	\$ 1,415,068	\$ 1,521,471	\$ 1,640,383	\$ 1,808,917	\$ 1,951,696
Business taxes	396,025	388,653	354,019	391,779	437,678	480,131	563,406	611,532	680,626	702,331
Sales and use tax	190,967	172,794	164,769	181,474	198,236	208,025	227,636	240,424	270,051	291,395
Hotel room tax	219,089	214,460	186,849	209,962	239,567	238,782	310,052	394,262	387,661	370,344
Utility users tax	86,964	89,801	94,537	91,683	91,676	91,871	86,810	98,979	96,651	101,203
Other local taxes	155,951	120,017	194,070	251,285	353,746	359,908	391,638	451,994	399,892	542,567
Interest and investment income	57,829	35,434	27,877	17,645	31,453	7,862	21,887	20,737	24,048	35,240
Other	25,939	44,096	54,410	58,524	91,236	52,865	70,024	46,906	59,286	182,933
Transfers - internal activities of primary government	(477,341)	(393,259)	(435,824)	(337,132)	(251,060)	(483,028)	(311,627)	(504,791)	(671,173)	(647,942)
Extraordinary gain (loss)	-	-	-	-	323,130	(201,670)	-	-	-	-
<b>Total governmental activities</b>	<b>1,845,034</b>	<b>1,980,057</b>	<b>1,985,747</b>	<b>2,205,810</b>	<b>2,871,489</b>	<b>2,169,714</b>	<b>2,881,297</b>	<b>3,000,826</b>	<b>3,038,229</b>	<b>3,529,767</b>
<b>Business-type activities:</b>										
Interest and investment income	\$ 67,217	\$ 48,891	\$ 44,471	\$ 42,299	\$ 52,333	\$ 1,009	\$ 29,843	\$ 25,999	\$ 28,596	\$ 28,547
Other	233,244	181,759	178,064	214,963	288,594	61,737	82,737	200,148	240,636	257,419
Special item	(41,026)	-	-	-	-	-	-	-	-	-
Transfers - internal activities of primary government	477,341	393,259	435,824	337,132	251,068	483,028	311,627	504,791	671,173	647,942
Extraordinary gain (loss)	-	-	-	-	-	-	(6,843)	-	-	-
<b>Total business-type activities</b>	<b>736,776</b>	<b>624,709</b>	<b>658,359</b>	<b>594,424</b>	<b>622,205</b>	<b>545,774</b>	<b>417,364</b>	<b>730,938</b>	<b>940,375</b>	<b>933,908</b>
<b>Total primary government</b>	<b>\$ 2,581,810</b>	<b>\$ 2,604,766</b>	<b>\$ 2,644,106</b>	<b>\$ 2,800,234</b>	<b>\$ 3,493,694</b>	<b>\$ 2,715,488</b>	<b>\$ 3,298,661</b>	<b>\$ 3,731,764</b>	<b>\$ 3,978,604</b>	<b>\$ 4,463,675</b>
<b>Change in Net Position</b>										
Governmental activities	\$ (285,955)	\$ (279,853)	\$ (152,218)	\$ 157,294	\$ 609,731	\$ (99,851)	\$ 547,742	\$ 824,930	\$ 721,849	\$ (167,614)
Business-type activities	137,085	(45,177)	55,748	176,590	38,792	642,836	409,640	630,373	728,166	(225,934)
<b>Total primary government</b>	<b>\$ (148,870)</b>	<b>\$ (325,030)</b>	<b>\$ (96,470)</b>	<b>\$ 333,874</b>	<b>\$ 648,523</b>	<b>\$ 542,985</b>	<b>\$ 957,382</b>	<b>\$ 1,455,303</b>	<b>\$ 1,450,015</b>	<b>\$ (393,548)</b>



Notes:  
 (1) In fiscal year 2008-2009, the City transferred its Emergency Communications Department and General Service Agency - Technology's function from Public Works, Transportation and Commerce to Public Protection and General Administration and Finance.  
 (2) In fiscal year 2014-15, the City adopted the provisions of GASB Statement Nos. 68 and 71. As restatement of all prior periods is not practical, the cumulative effect of applying these statements is reported as a restatement of beginning net position as of July 1, 2014.

CITY AND COUNTY OF SAN FRANCISCO  
FUND BALANCES OF GOVERNMENTAL FUNDS  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)  
(In Thousands)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>General Fund</b>										
Reserved for rainy day	\$ 117,792	\$ 98,297								
Reserved for assets not available for appropriation	11,358	11,307								
Reserved for encumbrances	63,068	65,902								
Reserved for appropriation carryforward	99,959	91,075								
Reserved for subsequent years' budgets	36,341	6,891								
Unreserved	77,117	28,203								
<b>Total general fund</b>	<b>\$ 405,635</b>	<b>\$ 301,675</b>								
<b>All other governmental funds</b>										
Reserved for assets not available for appropriation	\$ 19,814	\$ 19,791								
Reserved for debt service	47,334	75,886								
Reserved for encumbrances	193,461	167,169								
Reserved for appropriation carryforward	314,051	501,006								
Reserved for subsequent years' budgets	13,504	11,245								
Unreserved reported in:										
Special revenue funds	(27,758)	(69,468)								
Capital projects funds	2,126	(26,153)								
Permanent fund	3,502	3,871								
<b>Total other governmental funds</b>	<b>\$ 566,034</b>	<b>\$ 683,337</b>								
<b>General Fund</b>										
Nonspendable	\$ 14,874	\$ 20,501	\$ 19,598	\$ 23,854	\$ 24,022	\$ 24,786	\$ 522	\$ 525		
Restricted	39,582	33,439	34,109	26,339	83,194	114,969	120,106	125,689		
Committed	4,677	33,431	79,276	137,487	145,126	142,815	187,170	327,607		
Assigned	132,645	240,635	305,413	353,191	508,903	705,076	879,567	1,088,288		
Unassigned	-	-	17,329	-	74,317	157,550	241,797	328,594		
<b>Total general fund</b>	<b>\$ 191,778</b>	<b>\$ 328,006</b>	<b>\$ 455,725</b>	<b>\$ 540,871</b>	<b>\$ 835,562</b>	<b>\$ 1,145,196</b>	<b>\$ 1,429,162</b>	<b>\$ 1,870,703</b>		
<b>All other governmental funds</b>										
Nonspendable	\$ 192	\$ 192	\$ 1,104	\$ 274	\$ 441	\$ 329	\$ 82	\$ 82		
Restricted	861,188	831,269	1,189,102	1,191,189	1,115,226	1,110,836	1,443,956	1,701,020		
Assigned	27,493	27,622	28,006	30,759	50,733	66,740	66,085	78,413		
Unassigned	(81,566)	(59,523)	(136,856)	(94,532)	(64,983)	(34,158)	(103,811)	(245,445)		
<b>Total other governmental funds</b>	<b>\$ 807,307</b>	<b>\$ 799,560</b>	<b>\$ 1,081,356</b>	<b>\$ 1,127,690</b>	<b>\$ 1,101,417</b>	<b>\$ 1,143,747</b>	<b>\$ 1,406,312</b>	<b>\$ 1,534,070</b>		

Notes:  
 (1) The City implemented GASB Statement No. 54 in fiscal year 2011 and restated the presentation for fiscal year 2010.

**CITY AND COUNTY OF SAN FRANCISCO**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
 Last Ten Fiscal Years  
 (Modified Accrual Basis of Accounting)  
 (In Thousands)

	Fiscal Year									
	2008	2009 <sup>(1)</sup>	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues:</b>										
Property taxes.....	\$ 1,179,888	\$ 1,272,385	\$ 1,331,957	\$ 1,380,356	\$ 1,352,857	\$ 1,421,764	\$ 1,517,261	\$ 1,642,159	\$ 1,798,776	\$ 1,937,694
Business taxes.....	396,025	388,653	354,019	391,779	437,678	480,131	563,406	611,932	660,626	702,331
Sales and use tax.....	190,967	172,794	164,769	181,474	198,236	208,025	227,636	240,424	267,443	291,710
Hotel room tax.....	219,089	214,460	186,849	209,962	239,567	238,782	310,052	394,262	387,661	370,344
Utility users tax.....	86,964	89,801	94,537	91,683	91,676	91,871	86,810	98,979	98,651	101,203
Other local taxes.....	155,951	126,017	194,070	251,285	353,889	359,808	391,638	451,994	399,882	542,567
Licenses, permits and franchises.....	30,943	32,153	33,625	35,977	39,770	40,901	42,371	42,959	43,722	44,397
Fines, forfeitures and penalties.....	13,217	9,694	22,255	11,770	30,090	49,841	28,425	28,154	36,169	30,798
Interest and investment income.....	54,256	33,547	27,038	17,041	31,371	7,489	21,678	20,583	23,931	35,089
Rent and concessions.....	70,160	77,014	78,527	78,995	89,183	98,770	90,712	99,102	135,865	100,544
<b>Intergovernmental:</b>										
Federal.....	328,315	362,582	448,890	484,704	420,974	420,775	426,314	465,196	416,823	411,369
State.....	561,095	575,774	552,641	581,119	588,532	656,141	721,735	751,574	776,866	823,012
Other.....	15,907	15,186	7,397	32,017	33,181	41,789	9,408	15,774	85,872	13,814
Charges for services.....	288,689	280,407	243,128	258,015	204,856	296,059	333,904	359,044	392,665	378,437
Other.....	81,321	30,318	51,023	97,194	83,634	81,014	134,923	123,605	264,722	188,311
<b>Total revenues.....</b>	<b>3,672,587</b>	<b>3,680,785</b>	<b>3,790,725</b>	<b>4,103,371</b>	<b>4,255,494</b>	<b>4,493,160</b>	<b>4,906,273</b>	<b>5,345,741</b>	<b>5,789,974</b>	<b>5,971,620</b>
<b>Expenditures:</b>										
Public protection.....	1,018,212	999,518	1,021,505	1,031,181	1,079,203	1,145,884	1,172,497	1,210,157	1,269,000	1,323,577
Public works, transportation and commerce.....	236,569	248,161	243,454	226,920	250,879	223,218	232,005	293,999	416,152	332,693
Human welfare and neighborhood development.....	828,903	886,686	918,301	870,091	918,414	945,106	995,192	1,095,419	1,252,588	1,424,425
Community health.....	543,046	578,828	581,392	595,222	653,263	734,736	761,439	753,832	776,612	712,495
Culture and recreation.....	309,612	313,442	303,134	310,392	311,156	328,794	331,914	352,852	364,909	390,038
General administration and finance.....	215,054	190,680	187,221	191,641	203,157	211,138	233,977	251,370	277,729	303,113
General City responsibilities.....	71,205	73,147	86,498	85,463	96,150	81,775	86,996	98,658	114,684	121,447
<b>Debt service:</b>										
Principal retirement.....	106,580	126,501	154,051	148,231	167,465	154,542	190,266	200,497	252,456	283,356
Interest and fiscal charges.....	75,844	74,466	89,946	101,716	103,706	108,189	119,142	121,371	119,723	125,091
Bond issuance costs.....	1,090	4,746	2,145	2,161	5,386	2,913	2,185	2,734	7,108	2,695
Capital outlay.....	133,155	152,473	182,448	214,817	270,094	410,994	449,726	412,740	223,904	297,089
<b>Total expenditures.....</b>	<b>3,539,270</b>	<b>3,648,648</b>	<b>3,770,095</b>	<b>3,777,835</b>	<b>4,058,873</b>	<b>4,347,289</b>	<b>4,575,339</b>	<b>4,793,629</b>	<b>5,074,865</b>	<b>5,316,019</b>
<b>Excess of revenues over expenditures.....</b>	<b>133,317</b>	<b>32,137</b>	<b>20,630</b>	<b>325,536</b>	<b>196,621</b>	<b>145,871</b>	<b>330,934</b>	<b>552,112</b>	<b>715,109</b>	<b>655,601</b>

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**CITY AND COUNTY OF SAN FRANCISCO**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (Continued)**  
 Last Ten Fiscal Years  
 (Modified Accrual Basis of Accounting)  
 (In Thousands)

	Fiscal Year									
	2008	2009 <sup>(1)</sup>	2010	2011	2012	2013	2014	2015	2016	2017
<b>Other financing sources (uses):</b>										
Transfers in.....	244,770	352,693	302,790	304,682	335,600	447,734	563,283	556,287	580,737	641,123
Transfers out.....	(724,172)	(746,178)	(740,349)	(630,625)	(742,719)	(930,793)	(875,296)	(1,061,086)	(1,251,800)	(1,222,163)
<b>Issuance of bonds and loans:</b>										
Face value of bonds issued.....	310,155	456,935	393,010	232,965	804,090	557,490	257,175	449,530	595,925	276,570
Face value of loans issued.....	1,829	-	599	1,813	4,359	5,890	8,735	136,763	-	46,000
Premium on issuance of bonds.....	13,071	12,875	16,647	16,799	89,336	64,469	19,773	69,833	32,845	12,432
Payment to refunded bond escrow agent.....	(283,494)	(120,000)	-	(142,458)	(487,390)	-	(49,055)	(359,225)	(131,935)	-
Proceeds from sale of capital assets.....	-	-	-	-	-	-	-	-	-	122,000
Other financing sources - capital leases.....	24,254	24,881	20,746	19,769	12,304	13,470	12,889	7,750	5,650	37,736
<b>Total other financing sources (uses).....</b>	<b>(413,587)</b>	<b>(18,794)</b>	<b>(6,557)</b>	<b>(197,055)</b>	<b>15,580</b>	<b>158,260</b>	<b>(62,516)</b>	<b>(200,148)</b>	<b>(168,578)</b>	<b>(86,302)</b>
Extraordinary gain (loss).....	-	-	-	-	197,314	(172,651)	-	-	-	-
<b>Net change in fund balances.....</b>	<b>\$ (280,270)</b>	<b>\$ 13,343</b>	<b>\$ 14,073</b>	<b>\$ 128,481</b>	<b>\$ 409,515</b>	<b>\$ 131,480</b>	<b>\$ 268,418</b>	<b>351,964</b>	<b>546,531</b>	<b>569,299</b>
<b>Debt service as a percentage of noncapital expenditures.....</b>	<b>5.34%</b>	<b>5.79%</b>	<b>6.90%</b>	<b>7.07%</b>	<b>7.30%</b>	<b>6.80%</b>	<b>7.61%</b>	<b>7.55%</b>	<b>7.98%</b>	<b>8.46%</b>
<b>Debt service as a percentage of total expenditures.....</b>	<b>5.15%</b>	<b>5.51%</b>	<b>6.47%</b>	<b>6.62%</b>	<b>6.68%</b>	<b>6.04%</b>	<b>6.76%</b>	<b>6.71%</b>	<b>7.33%</b>	<b>7.68%</b>

**Notes:**

<sup>(1)</sup> In fiscal year 2008-2009, the City transferred its Emergency Communications Department and General Service Agency - Technology's function from Public Works, Transportation and Commerce to Public Protection and General Administration and Finance.

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**CITY AND COUNTY OF SAN FRANCISCO**  
**ASSESSED VALUE OF TAXABLE PROPERTY (1)(3)(4)**  
 Last Ten Fiscal Years  
 (In Thousands)

Fiscal Year (4)	Assessed Value			Exemptions (2)			Total Taxable Assessed Value	Total Direct Tax Rate
	Real Property	Personal Property	Total	Non-reimbursable	Reimbursable	Redevelopment Tax Increments		
2008.....	\$ 136,887,654	\$ 3,807,362	\$ 140,695,016	\$ 5,687,576	\$ 652,034	\$ 10,134,313	\$ 124,221,093	1.00%
2009.....	152,150,004	3,943,357	156,093,361	6,193,368	657,320	8,860,502	140,382,171	1.00%
2010.....	164,449,745	4,093,813	168,543,558	6,751,558	660,435	9,289,538	151,842,027	1.00%
2011.....	162,347,329	4,066,754	166,414,083	6,910,812	663,664	11,540,067	147,299,540	1.00%
2012.....	168,914,782	3,716,092	172,630,874	7,205,952	660,247	13,842,390	150,922,245	1.00%
2013.....	171,327,361	3,801,645	175,129,006	7,460,708	660,566	14,032,211	152,975,521	1.00%
2014.....	179,368,068	4,101,609	183,469,677	7,494,941	657,439	15,962,884	169,354,413	1.00%
2015.....	186,530,855	4,392,133	190,922,988	8,173,599	656,490	15,730,217	166,362,682	1.00%
2016.....	197,889,670	4,667,489	202,557,159	8,252,472	654,116	15,798,019	177,852,552	1.00%
2017.....	216,357,277	5,003,459	221,360,736	9,061,126	647,177	17,057,074	194,595,359	1.00%

Source: Controller, City and County of San Francisco

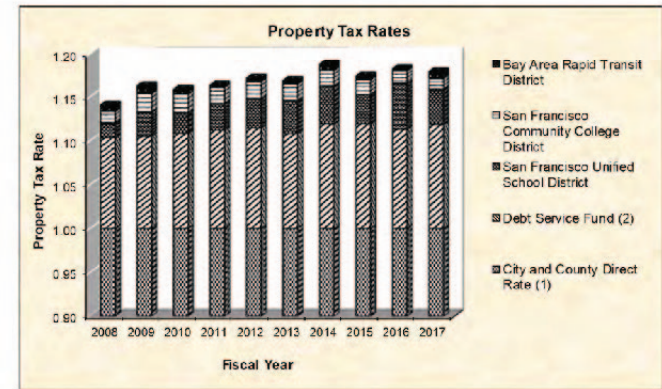
Notes:

- (1) Assessed value of taxable property represents all property within the City. The maximum tax rate is 1% of the full cash value or \$15/100 of the assessed value, excluding the tax rate for debt service.
- (2) Exemptions are summarized as follows:
  - (a) Non-reimbursable exemptions are revenues lost to the City because of provisions of California Constitution, Article XIII(3).
  - (b) Reimbursable exemptions arise from Article XII(25) which reimburses local governments for revenues lost through the homeowners' exemption in Article XIII(3) (k).
  - (c) Tax increments were allocations made to the former San Francisco Redevelopment Agency under authority of California Constitution, Article XVI and Section 33675 of the California Health & Safety Code. Actual allocations are limited under an indebtedness agreement between the City and Redevelopment Agency.
- (3) Based on certified assessed values.
- (4) Based on year end actual assessed values.

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**CITY AND COUNTY OF SAN FRANCISCO**  
**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
 Last Ten Fiscal Years  
 (Rate Per \$1,000 of Assessed Value)

Fiscal Year	City and County Direct Rate (1)	Debt Service Fund (2)	Overlapping Rates			Total
			San Francisco Unified School District	San Francisco Community College District	Bay Area Rapid Transit District	
2008	1.00000000	0.10385766	0.01666883	0.01307551	0.00760000	1.1410
2009	1.00000000	0.10532566	0.02737873	0.02129561	0.00900000	1.1630
2010	1.00000000	0.10839903	0.02336031	0.02154066	0.00570000	1.1590
2011	1.00000000	0.11210000	0.03020000	0.01860000	0.00310000	1.1640
2012	1.00000000	0.11470000	0.03340000	0.01960000	0.00410000	1.1718
2013	1.00000000	0.10930000	0.03750000	0.01900000	0.00430000	1.1691
2014	1.00000000	0.11947956	0.04286739	0.01813305	0.00750000	1.1680
2015	1.00000000	0.11945760	0.03328497	0.01707743	0.00450000	1.1743
2016	1.00000000	0.11345503	0.05246647	0.01407283	0.00260000	1.1626
2017	1.00000000	0.11894004	0.05982180	0.01245918	0.00800000	1.1792



Notes:

- (1) Proposition 13 allows each county to levy a maximum tax of \$1 per \$100 of full cash value. Full cash value is equivalent to assessed value pursuant to Statutes of 1978, Senate Bill 1656.
- (2) On June 6, 1978, California voters approved a constitutional amendment to Article XIII A of the California Constitution, commonly known as Proposition 13, that limits the taxing power of California public agencies. Legislation enacted to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that notwithstanding any other law, local agencies may not levy property taxes except to pay debt service on indebtedness approved by voters prior to July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voting public.

**CITY AND COUNTY OF SAN FRANCISCO**  
**PRINCIPAL PROPERTY ASSESSEES**  
 Current Fiscal Year and Nine Fiscal Years Ago  
 (Dollar in Thousands)

Assessee	Type of Business	Fiscal Year 2017		Fiscal Year 2008		
		Taxable Assessed Value (1)	Percentage of Total Taxable Assessed Value (2)	Taxable Assessed Value	Percentage of Total Taxable Assessed Value (2)	
Elm Property Venture LLC	Office, Commercial	\$ 665,596	1	0.47%	\$ -	-
HWA 555 Owners LLC	Office, Commercial	978,872	2	0.46%	-	-
PPF Paramount Market Plaza Owner LP	Office, Commercial	801,901	3	0.38%	869,072	1
Union Investment Real Estate GMBH	Office, Commercial	473,755	4	0.22%	-	-
Emporium Mall LLC	Retail, Commercial	447,989	5	0.21%	293,703	9
SPF China Basin Holdings LLC	Office, Commercial	440,310	6	0.21%	-	-
SHC Embarcadero LLC	Office, Commercial	414,829	7	0.20%	-	-
Wells REIT II - 333 Market St LLC	Office, Commercial	411,153	8	0.19%	-	-
SF Hilton Inc	Hotel	405,210	9	0.19%	-	-
Post Montgomery Associates	Office, Commercial	402,849	10	0.19%	355,945	5
EOP - One Market LLC	Office, Commercial	-	-	-	433,499	2
Four Embarcadero Center Venture	Office, Commercial	-	-	-	367,395	4
One Embarcadero Center Venture	Office, Commercial	-	-	-	316,673	6
Three Embarcadero Center Venture	Office, Commercial	-	-	-	298,160	7
Embarcadero Center Associates	Office, Commercial	-	-	-	297,006	8
Mamrot Hotel	Hotel	-	-	-	405,542	3
101 California Venture	Office, Commercial	-	-	-	293,475	10
<b>Total</b>		<b>\$ 5,772,374</b>		<b>2.96%</b>	<b>\$ 3,930,470</b>	<b>3.34%</b>

Source: Assessor, City and County of San Francisco

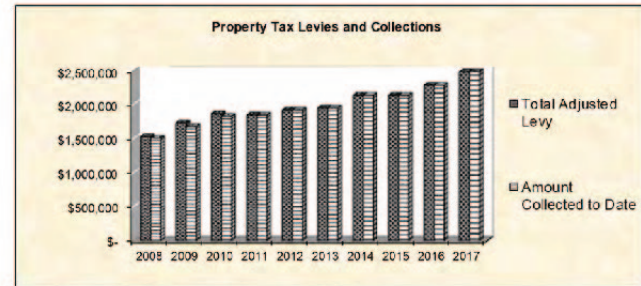
Notes:

- (1) Data for fiscal year 2016-2017 updated as of August 1, 2016.
- (2) Assessed values for fiscal years 2016-2017 and 2007-2008 are from the tax rolls of calendar years 2016 and 2007, respectively.

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**CITY AND COUNTY OF SAN FRANCISCO**  
**PROPERTY TAX LEVIES AND COLLECTIONS** <sup>(1) (2)</sup>  
 Last Ten Fiscal Years  
 (In Thousands)

Fiscal Year	Total Adjusted Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (3)	Total Collections to Date	
		Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
2008	\$ 1,530,484	\$ 1,487,715	97.21%	\$ 20,781	\$ 1,508,496	98.56%
2009	1,731,868	1,658,599	95.78	21,483	1,680,062	97.02
2010	1,888,098	1,787,809	95.70	40,111	1,827,920	97.85
2011	1,849,132	1,799,523	97.32	45,787	1,845,310	99.79
2012	1,922,368	1,683,666	87.99	37,566	1,921,232	99.94
2013	1,952,525	1,919,060	98.29	31,580	1,950,640	99.90
2014	2,138,245	2,113,284	98.83	23,009	2,136,293	99.91
2015	2,139,050	2,113,968	98.83	21,166	2,135,134	99.82
2016	2,290,280	2,268,876	99.07	19,156	2,288,032	99.90
2017	2,492,769	2,471,486	99.15	21,966	2,493,452	100.03



Source: Controller, City and County of San Francisco

Notes:

- (1) Includes San Francisco Unified School District, San Francisco Community College District, Bay Area Rapid Transit District, Bay Area Air Quality Management District, the former San Francisco Redevelopment Agency, and the Successor Agency to San Francisco Redevelopment Agency.
- (2) Does not include SB-813 supplemental property taxes.
- (3) Collections in subsequent years reflect assessment appeals reduction.



CITY AND COUNTY OF SAN FRANCISCO  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
 Last Ten Fiscal Years  
 (In Thousands, except per capita amount)

Governmental Activities							
Fiscal Year <sup>(1)</sup>	General Obligation Bonds	Lease Revenue Bonds	Certificates of Participation	Loans	Capital Leases	Settlement Obligation	Subtotal
2008	\$ 1,125,205	\$ 283,909	\$ 438,742	\$ 12,450	\$ 174,149	\$ 23,779	\$ 2,052,342
2009	1,208,353	294,913	491,741	11,229	161,353	11,319	2,187,911
2010	1,442,448	288,855	591,813	10,607	152,273	7,105	2,483,899
2011	1,411,769	283,155	587,121	10,012	141,372	-	2,433,434
2012	1,617,397	275,875	552,898	13,870	22,378	-	2,483,027
2013	2,052,155	264,828	574,885	10,164	9,741	-	2,911,573
2014	2,105,885	243,500	514,817	27,441	3,365	-	2,924,731
2015	2,096,885	216,227	537,504	183,857	-	-	2,944,473
2016	2,227,515	187,217	623,856	143,659	-	-	3,161,747
2017	2,281,894	182,755	582,766	182,816	32,568	-	3,242,899

Business-Type Activities							
Fiscal Year	Revenue Bonds	State of California - Revolving Fund Loans	Certificates of Participation	Notes, Loans and Other Payables	Capital Leases	Total Primary Government	Percentages of Personal Income <sup>(1)</sup> Per Capita <sup>(1)</sup>
2008	\$ 5,373,818	\$ 89,137	\$ -	\$ 13,748	\$ 3,843	\$ 5,480,571	\$ 7,515,413 12.51
2009	4,828,729	75,339	-	324,042	2,639	5,330,749	7,589,588 13.66
2010	7,152,882	81,140	184,112	73,322	1,436	7,483,372	8,873,271 17.31
2011	8,090,824	48,432	193,279	32,434	852	8,365,761	10,797,275 17.11
2012	9,290,560	36,690	340,641	7,160	3,155	9,676,437	12,159,484 17.23
2013	9,342,222	-	339,007	7,276	3,816	9,692,205	12,612,796 17.51
2014	9,698,415	-	382,967	7,698	2,612	10,044,393	12,549,124 16.79
2015	10,049,860	-	385,113	7,840	1,174	10,404,787	13,339,480 16.12
2016	10,078,794	-	343,270	8,180	266	10,430,510	13,622,257 14.57
2017	11,185,043	-	330,924	9,241	-	11,525,208	14,768,106 15.39

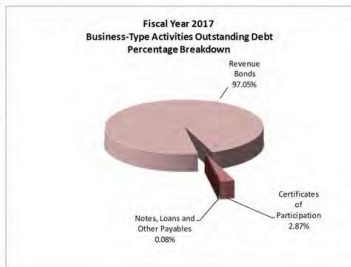
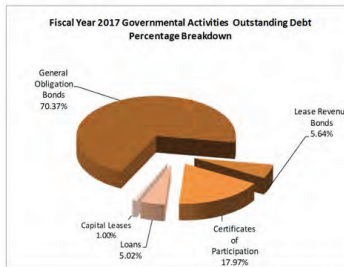
CITY AND COUNTY OF SAN FRANCISCO  
**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
 Last Ten Fiscal Years  
 (In Thousands, except per capita amount)

Fiscal Year	General Obligation Bonds <sup>(1)</sup>	Less: Amounts Restricted for Debt Service	Total	Per Capita <sup>(2) (3)</sup>	Percentage of Taxable Assessed Value <sup>(4)</sup>
2008	\$ 1,135,205	\$ 31,883	\$ 1,103,322	\$ 1,365	0.82%
2009	1,208,353	40,907	1,167,446	1,432	0.78
2010	1,442,448	36,901	1,405,547	1,746	0.87
2011	1,411,769	39,330	1,372,439	1,688	0.86
2012	1,617,397	51,033	1,566,364	1,897	0.95
2013	2,052,155	102,188	1,949,967	2,318	1.16
2014	2,105,885	95,451	2,010,434	2,358	1.14
2015	2,096,765	91,292	2,005,473	2,327	1.10
2016	2,227,515	86,754	2,140,761	2,458	1.10
2017	2,281,894	111,892	2,170,002	2,466	1.02

Notes:

- (1) Details regarding the City's outstanding debt can be found in the notes to the financial statements. In compliance with GASB Statement No. 65, the amount for general obligation bonds was restricted to exclude bond refunding gains or losses.
- (2) Population data can be found in Demographic and Economic Statistics.
- (3) Fiscal years 2015 and 2016 updated from last year's CAFR with newly available data.
- (4) Taxable property data can be found in Assessed Value of Taxable Property.

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Notes:

- (1) See Demographic and Economic Statistics, for personal income and population data.

CITY AND COUNTY OF SAN FRANCISCO

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years  
(In Thousands)

	Fiscal Year				
	2008	2009	2010	2011	2012
Debt limit	\$ 4,050,223	\$ 4,497,000	\$ 4,853,760	\$ 4,785,098	\$ 4,962,746
Total net debt applicable to limit	1,135,205	1,208,353	1,442,448	1,411,769	1,617,397
Legal debt margin	<u>\$ 2,915,018</u>	<u>\$ 3,288,647</u>	<u>\$ 3,411,312</u>	<u>\$ 3,373,329</u>	<u>\$ 3,345,349</u>
Total net debt applicable to the limit as a percentage of debt limit	28.03%	26.87%	29.72%	29.50%	32.59%

	Fiscal Year				
	2013	2014	2015	2016	2017
Debt limit	\$ 5,030,049	\$ 5,279,242	\$ 5,482,482	\$ 5,829,141	\$ 6,368,988
Total net debt applicable to limit	2,052,155	2,105,885	2,096,765	2,227,514	2,281,894
Legal debt margin	<u>\$ 2,977,894</u>	<u>\$ 3,173,357</u>	<u>\$ 3,385,717</u>	<u>\$ 3,601,627</u>	<u>\$ 4,087,094</u>
Total net debt applicable to the limit as a percentage of debt limit	40.80%	39.89%	38.24%	38.21%	35.83%

Legal Debt Margin Calculation for Fiscal Year 2017

Total assessed value	\$ 221,360,736
Less: non-reimbursable exemptions <sup>(1)</sup>	9,061,126
Assessed value <sup>(1)</sup>	<u>\$ 212,299,610</u>
Debt limit (three percent of valuation subject to taxation) <sup>(2)</sup>	\$ 6,368,988
Debt applicable to limit - general obligation bonds	2,281,894
Legal debt margin	<u>\$ 4,087,094</u>

Notes:

<sup>(1)</sup> Source: Assessor, City and County of San Francisco

<sup>(2)</sup> City's Administrative Code Section 2.60 Limitations on Bonded Indebtedness.

"There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County."

CITY AND COUNTY OF SAN FRANCISCO

DIRECT AND OVERLAPPING DEBT

June 30, 2017

Debts	Total Debt Outstanding (In thousands)	Estimated Percentage Applicable to City and County <sup>(1)</sup>	Estimated Share of Overlapping Debt (In thousands)
<b>Direct Debt</b>			
General Obligation Bonds .....			\$ 2,281,894
Lease Revenue Bonds .....	\$ 182,783	100.00%	182,783
Certificates of Participation .....	582,759	100.00%	582,759
Loans .....	162,876	100.00%	162,876
Lease Purchase Financing .....	32,586	100.00%	32,586
Total Direct Debt .....			<u>3,242,898</u>
<b>Overlapping Debt</b>			
General Obligation Bonds			
San Francisco Unified School District .....	893,824	100.00%	893,824
San Francisco Community College District .....	285,043	100.00%	285,043
Bay Area Rapid Transit District .....	600,180	32.00%	192,058
Total Overlapping Debt .....			<u>1,370,925</u>
Total Direct and Overlapping Debt .....			<u>\$ 4,613,823</u>

Assessed valuation (net of non-reimbursable exemption) .....	\$ 212,299,610
Population - 2017 <sup>(2)</sup> .....	879,862

Percentage of direct and overlapping general obligation debt per assessed valuation .....	1.72%
Percentage of total direct and overlapping debt per assessed valuation .....	2.17%
Estimated total direct and overlapping total debt per capita .....	\$5.244

Note: Overlapping districts are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping districts that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

<sup>(1)</sup> The percentage of overlapping debt applicable is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the City's taxable assessed value that is within the districts boundaries and dividing it by the City's total taxable assessed value.

<sup>(2)</sup> Sources: US Census Bureau



**CITY AND COUNTY OF SAN FRANCISCO**  
**PLEDGED-REVENUE COVERAGE**  
 Last Ten Fiscal Years  
 (In Thousands)

Fiscal Year	San Francisco International Airport <sup>(1)</sup>							Coverage
	Operating Revenues <sup>(2)</sup>	Less: Operating Expenses <sup>(3)</sup>	Net Available Revenue	Debt Service				
				Principal	Interest	Total		
2008	\$ 565,139	\$ 295,849	\$ 269,290	\$ 75,510	\$ 214,839	\$ 290,349	0.93	
2009	574,088	315,823	258,265	88,205	178,372	266,577	0.97	
2010	597,429	305,995	291,434	97,715	190,490	288,205	1.01	
2011	622,709	331,399	291,310	134,800	177,581	312,381	0.93	
2012	701,025	369,376	331,649	135,760	189,696	325,456	1.02	
2013	728,044	380,543	347,501	152,355	185,000	337,355	1.03	
2014	776,116	402,176	373,940	163,095	202,219	365,314	1.02	
2015	824,482	392,361	432,121	181,845	211,804	393,449	1.10	
2016	880,948	412,114	468,834	208,860	185,297	394,157	1.19	
2017	934,692	453,019	391,673	194,225	210,330	404,555	0.97	

- (1) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the Airport Commission's 1991 Master Bond Resolution which authorized the sale and issuance of these bonds.  
 (2) Operating revenues consist of Airport operating revenues and interest and investment income.  
 (3) In accordance with GASB Statement No. 44, Airport operating expenses related to the pledged revenues exclude interest, depreciation and amortization.

Fiscal Year	San Francisco Water Department <sup>(4)</sup>							Coverage
	Gross Revenues <sup>(5)</sup>	Less: Operating Expenses <sup>(6)</sup>	Adjustments <sup>(7)</sup>	Net Available Revenue	Debt Service			
					Principal	Interest	Total	
2008	\$ 248,885	\$ 223,052	\$ 134,215	\$ 158,048	\$ 19,170	\$ 45,023	\$ 64,193	2.46
2009	272,869	248,315	125,203	149,757	25,520	44,065	69,585	2.15
2010	275,041	277,970	141,615	138,686	26,605	42,990	69,595	1.99
2011	305,678	261,927	126,126	169,877	27,795	58,759	86,554	1.96
2012	375,551	304,562	115,667	186,656	44,050	78,239 <sup>(8)</sup>	122,289	1.53
2013	721,189	303,739	157,518	574,968	45,965	93,569 <sup>(8)</sup>	139,534	4.12
2014	390,789	333,555	426,527	483,761	25,850	115,476 <sup>(8)</sup>	141,326	3.42
2015	431,836	296,950	310,139	445,025	25,850	166,462 <sup>(8)</sup>	192,312	2.31
2016	423,111	314,786	283,568	391,893	29,695	189,500 <sup>(8)</sup>	219,195	1.79
2017	464,662	421,827	351,605	384,440	41,310	166,502 <sup>(8)</sup>	207,812	1.90

- (4) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indentures.  
 (5) Gross Revenue consists of charges for services, rental income and other income, investing activities and capacity fees.  
 (6) In accordance with GASB Statement No. 44, Water Department operating expenses related to the pledged revenues exclude interest.  
 (7) Interest payment was restated to exclude capitalized interest in FY 2011 through FY 2012. FY2012 through FY2017 also includes "springing" amendments.  
 (8) Adjustments column included adjustment to investing activities, depreciation and non-cash expenses, changes in working capital and other available funds presented in the published Annual Disclosure Reports.

Fiscal Year	Municipal Transportation Agency							Coverage
	Base Rental Payment and Gross Meter Revenue <sup>(9)(10)</sup>	Less: Operating Expense <sup>(11)(12)</sup>	Net Available Revenue	Debt Service				
				Principal	Interest	Total		
2008	\$ 33,091	\$ 18,038	\$ 15,053	\$ 6,017	\$ 1,747	\$ 7,764	1.94	
2009	33,970	18,879	15,091	5,165	1,395	6,560	2.30	
2010	39,538	19,018	20,520	2,680	1,149	3,829	5.36	
2011	41,204	21,077	20,127	1,615	1,068	2,683	7.50	
2012	47,810	19,419	28,391	1,885	995	2,880	10.59	
2013	607,125	471,490	135,635	3,075	1,856	4,931	27.51	
2014	642,614	509,762	132,852	5,895	3,686	9,581	13.87	
2015	626,312	527,125	99,187	7,695	6,945	14,640	6.78	
2016	619,650	563,750	55,900	7,340	9,155	16,495	3.39	
2017	614,619	672,162	42,457	7,840	6,865	14,505	2.57	

- (9) Prior to FY2013 revenue bonds were issued by the Parking Authority. The Parking Authority leased North Beach, Moscone, and San Francisco Hospital garages to the City. In return, the City pledged to pay off the debt service with a base (lease) rental payment. The gross revenue reflects base rental payments plus revenue from all meters in San Francisco except the meters on Port property. All the related revenue bonds were defeased/paid off in FY2013.  
 (10) In July 2012, the SFMTA issued its first revenue bonds, Series 2012A and B. Series 2012A refunded the bonds described above plus bonds issued by the City's nonprofit garage corporations. The gross pledged revenues consist of transit fares, parking fines and fees, rental income, investment income plus operating grants from Transportation Development Act (codified as Sections 99200 et seq. of the California Public Utilities Code) (the "TDA"), AB 1107 (codified at Section 29140 et seq. of the Public Utilities Code) (the "AB 1107"), and State Transit Assistance.  
 (11) Prior to FY2013, the operating expense includes only the costs related to parking meter program excluding debt service payments.  
 (12) Effective FY2013, related to the new bonds, the operating expense excludes expenses funded by the City's General Fund support paratransit restricted grants. In accordance with GASB Statement No. 44, operating expenses related to the pledged revenues exclude interest, depreciation and non-cash expense.

**CITY AND COUNTY OF SAN FRANCISCO**  
**PLEDGED-REVENUE COVERAGE (Continued)**  
 Last Ten Fiscal Years  
 (In Thousands)

Fiscal Year	San Francisco Wastewater Enterprise <sup>(13)</sup>							Coverage <sup>(17)</sup>
	Gross Revenues <sup>(14)</sup>	Less: Operating Expenses <sup>(15)</sup>	Adjustments <sup>(16)</sup>	Net Available Revenue <sup>(17)</sup>	Debt Service			
					Principal	Interest <sup>(17)</sup>	Total <sup>(17)</sup>	
2008	\$ 296,648	\$ 165,245	\$ 66,109	\$ 107,512	\$ 34,500	\$ 15,698	\$ 50,198	2.14
2009	210,646	169,300	77,800	119,146	35,665	14,846	50,311	2.37
2010	211,899	185,512	86,890	113,267	37,130	13,183	50,313	2.25
2011	231,143	179,064	56,239	108,298	26,320	18,563	44,883	2.41
2012	247,936	195,857	107,125	159,204	22,010	20,180 <sup>(8)</sup>	42,190	3.77
2013	253,078	208,260	109,323	154,141	23,095	15,655 <sup>(8)</sup>	38,750	3.98
2014	262,497	216,340	172,831	218,988	32,805	32,047 <sup>(8)</sup>	64,852	3.38
2015	257,209	216,485	190,236	230,960	30,895	30,006 <sup>(8)</sup>	60,901	3.79
2016	262,960	221,553	198,524	239,931	31,115	28,907 <sup>(8)</sup>	60,022	4.00
2017	279,668	244,220	216,095	251,543	20,870	39,537 <sup>(8)</sup>	60,407	4.16

- (13) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indentures.  
 (14) Gross revenue consists of charges for services, rental income and other income.  
 (15) In accordance with GASB Statement No. 44, Wastewater Enterprise operating expenses related to the pledged revenues exclude interest.  
 (16) Adjustments includes Depreciation and Non-Cash Expense, Changes in Working Capital, Investment Income, SRF Loan Payments, and other available Funds that are printed in published Annual Disclosure Reports.  
 (17) Restated to match the published Annual Disclosure Reports for FY2008 and FY2009.  
 (18) Interest payment was restated to exclude capitalized interest in FY 2011 through FY 2012. FY2012 through FY2017 also includes a "springing" amendment.

Fiscal Year	Port of San Francisco <sup>(19)</sup>							Coverage
	Total Operating Revenues <sup>(20)</sup>	Less: Operating Expenses <sup>(21)</sup>	Net Available Revenue	Debt Service				
				Principal	Interest	Total		
2008	\$ 68,111	\$ 56,406	\$ 11,705	\$ 4,070	\$ 348	\$ 4,418	2.65	
2009	68,734	57,574	11,160	4,185	222	4,407	2.53	
2010	69,741	58,756	10,985	4,320	75	4,395	2.50	
2011	73,675	51,871	21,804	485	2,358	2,843	7.67	
2012	79,273	55,471	23,802	670	2,175	2,845	8.37	
2013	81,536	63,615	17,921	695	2,151	2,846	6.30	
2014	87,213	63,410	23,803	725	2,122	2,847	8.36	
2015	96,265	60,896	35,369	1,400	2,771	4,171	8.48	
2016	100,699	64,896	35,803	1,225	2,951	4,176	8.57	
2017	114,854	89,882	24,972	1,265	2,904	4,169	5.99	

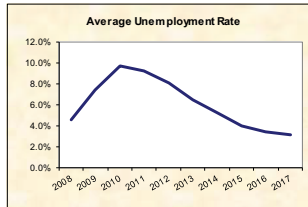
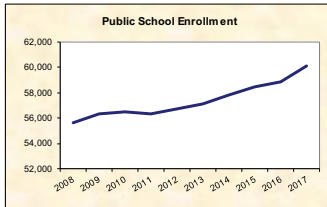
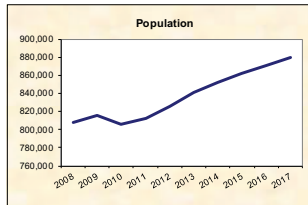
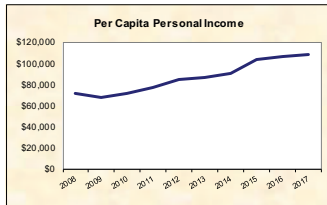
- (19) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indentures.  
 (20) Total revenues consist of operating revenues and interest and investment income.  
 (21) In accordance with GASB Statement No. 44, operating expenses related to the pledged-revenue stream exclude interest, depreciation and amortization. Details regarding outstanding debt can be found in the notes to the financial statements. Operating expenses, as defined by the bond indentures, also excludes amortized dredging costs.

Fiscal Year <sup>(22)</sup>	Hetch Hetchy Water and Power <sup>(23)(24)</sup>							Coverage	
	Gross Revenues <sup>(24)</sup>	Less: Operating Expenses <sup>(25)</sup>	Adjustments <sup>(26)</sup>	Net Available Revenue	Debt Service				
					Principal	Interest	Total		
2008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	
2009	97,671	49,337	4,907	53,241	422	-	422	126.16	
2010	105,711	86,334	14,521	33,898	422	-	422	80.33	
2011	113,253	86,286	14,786	41,773	422	-	422	98.99	
2012	100,622	93,607	13,536	20,551	422	-	422	48.70	
2013	101,191	93,259	6,765	14,697	1,006	898	-	1,907	7.71
2014	105,767	101,041	11,726	16,452	1,308	667	-	1,975	8.33
2015	117,704	105,222	38,714	51,196	1,321	625	-	1,946	26.31
2016	122,954	110,012	20,102	33,044	-	-	-	-	-
2017	122,187	116,935	58,176	63,428	-	-	-	-	-

- (22) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indentures.  
 (23) There were no Hetch Hetchy bonds in FY2008.  
 (24) Gross revenues consists of charges for power services, rental income and other income.  
 (25) Operating expenses only include power operating expense.  
 (26) Adjustments include adjustments to investment income, depreciation, non-cash items and changes to working capital.  
 (27) For FY2016 and FY2017 Revenue Bond Debt Service excludes state revolving fund loans, commercial paper and certificates of participation.

**CITY AND COUNTY OF SAN FRANCISCO**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
 Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (In Thousands) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	Average Unemployment Rate (6)
2008	808,001	\$58,199,006	\$72,028	40.0	55,590	4.6%
2009	815,358	55,559,545	68,141	40.4	56,315	7.4%
2010	805,235	57,619,120	71,556	38.5	56,454	9.7%
2011	812,826	63,102,121	77,633	37.3	56,299	9.2%
2012	825,863	70,573,974	85,455	38.5	56,758	8.1%
2013	841,138	72,858,445	86,619	37.9	57,105	6.5%
2014	852,469	77,233,279	90,600	37.4	57,860	5.2%
2015	862,004	89,533,450	103,867	37.8	58,414	4.0%
2016	870,887 <sup>(7)</sup>	93,526,594 <sup>(8)</sup>	107,392 <sup>(9)</sup>	37.8 <sup>(10)</sup>	58,865	3.4%
2017	879,862 <sup>(7)</sup>	95,946,973 <sup>(8)</sup>	109,048 <sup>(9)</sup>	37.9 <sup>(10)</sup>	60,133	3.1%



Sources:

- (1) US Census Bureau. Fiscal years 2015 and 2016 are updated from last year's CAFR with newly available data.
- (2) US Bureau of Economic Analysis. Fiscal year 2015 was updated from last year's CAFR with newly available data.
- (3) US Bureau of Economic Analysis. Fiscal year 2015 was updated from last year's CAFR with newly available data.
- (4) US Census Bureau, American Community Survey
- (5) California Department of Education
- (6) California Employment Development Department

Note:

- (7) 2016 is updated from last year's CAFR with newly available data. 2017 population was estimated by multiplying the estimated 2017 population by the 2015 - 2016 population growth rate.
- (8) Personal income was estimated by assuming that its percentage of state personal income in 2016 and 2017 remained at the 2015 level of 4.26 percent. Fiscal years 2015 to 2016 are updated from last year's CAFR with newly available data.
- (9) Per capita personal income for 2016 and 2017 was estimated by dividing the estimated personal income for 2016 and 2017 by the reported and estimated population in 2016 and 2017, respectively. Fiscal years 2015 and 2016 are updated from last year's CAFR with newly available data.
- (10) Median age for FY2016 was estimated by averaging the median age in 2014 and 2015. The median age for FY2017 was estimated by averaging the median age in 2015 and 2016.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Principal Employers**  
 Current Year and Nine Years Ago

Employer	Year 2016 <sup>(1)</sup>			Year 2007		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
City and County of San Francisco.....	29,962	1	5.53%	26,665	1	6.44%
University of California, San Francisco.....	25,398	2	4.69%	17,500	2	4.23%
San Francisco Unified School District.....	9,227	3	1.70%	5,579	6	1.35%
Wells Fargo & Co.....	8,195	4	1.51%	8,139	3	1.98%
Salesforce.....	6,600	5	1.22%	-	-	-
California Pacific Medical Center.....	6,000	6	1.11%	5,569	5	1.34%
PG&E Corporation.....	4,325	7	0.80%	4,800	8	1.16%
Gap, Inc.....	4,268	8	0.79%	4,075	9	0.98%
Kaiser Permanente.....	4,100	9	0.76%	3,918	10	0.95%
Uber Technologies Inc.....	3,650	10	0.67%	-	-	-
State of California.....	-	-	-	6,226	4	1.50%
United States Postal Service.....	-	-	-	4,935	7	1.19%
<b>Total.....</b>	<b>101,725</b>		<b>18.78%</b>	<b>87,406</b>		<b>21.10%</b>

Source: Total City and County of San Francisco employee count is obtained from the State of California Employee Development Department. All other data is obtained from the San Francisco Business Times Book of Lists.

Note:

- (1) The latest data as of calendar year-end 2016 is presented.

**CITY AND COUNTY OF SAN FRANCISCO**  
**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION (1)**  
 Last Ten Fiscal Years

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Public Protection</b>										
Fire Department.....	1,726	1,602	1,532	1,512	1,474	1,463	1,464	1,494	1,575	1,620
Police.....	2,670	2,949	2,757	2,681	2,665	2,655	2,727	2,784	2,871	3,013
Sheriff.....	951	1,016	1,048	953	1,010	1,013	984	1,015	1,006	1,056
Other.....	1,019	996	981	969	956	1,021	1,032	1,049	1,077	1,081
<b>Total Public Protection.....</b>	<b>6,566</b>	<b>6,563</b>	<b>6,318</b>	<b>6,115</b>	<b>6,105</b>	<b>6,152</b>	<b>6,207</b>	<b>6,342</b>	<b>6,529</b>	<b>6,770</b>
<b>Public Works, Transportation and Commerce</b>										
Municipal Transportation Agency.....	4,358	4,528	4,358	4,160	4,141	4,388	4,484	4,685	4,931	5,160
Airport Commission.....	1,228	1,248	1,233	1,294	1,377	1,443	1,460	1,473	1,493	1,541
Department of Public Works.....	1,060	1,030	822	791	783	808	825	852	925	981
Public Utilities Commission.....	1,609	1,580	1,549	1,584	1,616	1,620	1,621	2,002	2,023	1,637
Other.....	543	565	490	508	536	583	612	626	627	637
<b>Total Public Works, Transportation and Commerce.....</b>	<b>8,798</b>	<b>8,951</b>	<b>8,452</b>	<b>8,337</b>	<b>8,453</b>	<b>8,842</b>	<b>9,002</b>	<b>9,638</b>	<b>9,999</b>	<b>9,956</b>
<b>Community Health</b>										
Public Health.....	6,196	6,023	5,838	5,696	5,671	5,800	6,126	6,284	6,602	6,806
<b>Total Community Health.....</b>	<b>6,196</b>	<b>6,023</b>	<b>5,838</b>	<b>5,696</b>	<b>5,671</b>	<b>5,800</b>	<b>6,126</b>	<b>6,284</b>	<b>6,602</b>	<b>6,806</b>
<b>Human Welfare and Neighborhood Development</b>										
Human Services.....	1,812	1,810	1,662	1,685	1,691	1,750	1,855	1,964	2,046	2,068
Other.....	312	309	296	284	269	244	244	246	242	375
<b>Total Human Welfare and Neighborhood Development.....</b>	<b>2,124</b>	<b>2,119</b>	<b>1,958</b>	<b>1,969</b>	<b>1,960</b>	<b>1,994</b>	<b>2,099</b>	<b>2,210</b>	<b>2,288</b>	<b>2,443</b>
<b>Culture and Recreation</b>										
Recreation and Park Commission.....	942	919	898	851	834	841	870	905	923	935
Public Library.....	641	649	649	645	628	640	652	661	662	683
War Memorial.....	96	97	63	63	63	63	57	58	65	68
Other.....	204	203	199	201	199	210	213	214	214	211
<b>Total Culture and Recreation.....</b>	<b>1,883</b>	<b>1,868</b>	<b>1,809</b>	<b>1,760</b>	<b>1,724</b>	<b>1,754</b>	<b>1,792</b>	<b>1,838</b>	<b>1,864</b>	<b>1,897</b>
<b>General Administration and Finance</b>										
Administrative Services.....	505	539	647	616	637	723	716	751	804	830
City Attorney.....	327	318	306	300	299	303	308	308	306	307
Telecommunications and Information Services.....	307	265	252	210	196	199	216	209	221	228
Controller.....	188	198	180	194	201	198	204	219	253	263
Human Resources.....	155	144	138	119	123	124	135	157	166	155
Treasurer/Tax Collector.....	208	212	220	211	208	202	211	225	218	219
Mayor.....	57	55	49	42	37	49	49	50	55	56
Other.....	571	547	554	540	567	561	602	615	658	695
<b>Total General Administration and Finance.....</b>	<b>2,318</b>	<b>2,278</b>	<b>2,346</b>	<b>2,232</b>	<b>2,268</b>	<b>2,359</b>	<b>2,441</b>	<b>2,534</b>	<b>2,681</b>	<b>2,753</b>
<b>Subtotal annually funded positions.....</b>	<b>27,885</b>	<b>27,802</b>	<b>26,721</b>	<b>26,109</b>	<b>26,181</b>	<b>26,901</b>	<b>27,667</b>	<b>28,846</b>	<b>29,963</b>	<b>30,625</b>
<b>Capital project funded positions.....</b>	<b>1,750</b>	<b>1,519</b>	<b>1,928</b>	<b>1,885</b>	<b>1,892</b>	<b>1,486</b>	<b>1,569</b>	<b>1,310</b>	<b>1,380</b>	<b>2,124</b>
<b>Total annually funded positions.....</b>	<b>29,635</b>	<b>29,321</b>	<b>28,649</b>	<b>27,994</b>	<b>28,073</b>	<b>28,387</b>	<b>29,236</b>	<b>30,156</b>	<b>31,343</b>	<b>32,749</b>

Source: Controller, City and County of San Francisco

Note:  
 (1) Data represent budgeted and funded full-time equivalent positions.

**CITY AND COUNTY OF SAN FRANCISCO**  
**OPERATING INDICATORS BY FUNCTION**  
 Last Ten Fiscal Years

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Public Protection</b>										
Fire and Emergency Communications										
Total response time of first unit to highest priority incidents requiring possible medical care, 90th percentile.....	7.36	7.06	7.13	7.19	7.18	7.36	8.30	8.12	7.41	7.40
Police										
Average time from dispatch to arrival on scene for highest priority calls (1).....	4.08	3.49	3.33	4.07	4.15	4.35	4.20	4.55	4.57	5.10
Number of homicides per 100,000 population.....	11.8	8.2	5.3	6.3	7.4	6.2	4.7	6.6	6.2	7.9
<b>Public Works, Transportation, and Commerce</b>										
General Services Agency - Public Works										
Percentage of San Franciscans who rate cleanliness of neighborhood streets as good or very good.....	N/A	50%	N/A	52%	N/A	N/A	N/A	54%	N/A	51%
Number of blocks of City streets repaved.....	334	310	312	427	346	521	323	474	721	704
Municipal Transportation Agency										
Average rating of Muni's timeliness and reliability by residents of San Francisco (1=very poor, 5=very good).....	N/A	2.98	N/A	3.55	3.02	3.38	N/A	N/A	N/A	N/A
Percentage of vehicles that run on time according to published schedules (no more than 4 minutes late or 1 minute early) measured at terminals and established intermediate points.....	70.6%	74.4%	73.5%	72.9%	61.9%	59.3%	58.8%	56.1%	59.9%	57.3%
Percentage of scheduled service hours delivered (2).....	95.9%	96.9%	96.6%	96.2%	97.5%	97.6%	90.7%	97.0%	99.0%	98.9%
Airport										
Percent change in air passenger volume.....	8.4%	-0.8%	4.8%	5.3%	8.0%	4.0%	3.2%	4.5%	6.7%	4.9%
<b>Human Welfare and Neighborhood Development</b>										
Environment										
Percentage of total solid waste materials diverted in a calendar year.....	70%	72%	77%	78%	80%	N/A	N/A	N/A	N/A	N/A
<b>Culture and Recreation</b>										
Recreation and Park										
Citywide percentage of park maintenance standards met for all parks inspected.....	88%	89%	91%	90%	91%	91%	91%	85%	86%	86%
Public Library										
Percentage of San Franciscans who rate the quality of library staff assistance as good or very good.....	N/A	79%	N/A	79%	N/A	85%	N/A	92%	N/A	N/A
Circulation of materials at San Francisco libraries.....	8,334,391	9,638,160	10,849,582	10,673,061	10,971,974	10,587,213	10,844,953	10,684,760	10,778,428	10,814,015
Asian and Fine Arts Museums										
Number of visitors to City-owned art museums (3).....	1,739,096	2,693,469	2,599,322	2,426,861	1,779,573	1,865,259	2,042,135	1,712,078	1,830,284	1,730,378

Source: Controller, City and County of San Francisco

Notes:

- (1) Measure changed from median time to average time in FY 2008. Values for FY 2006 through FY 2007 reflect median time, FY 2008 through FY 2015 reflects average time.
- (2) Values for FY 2006 have been restated to be consistent as annual average for fiscal year from the MTA service standards reports.
- (3) The California Academy of Sciences opened on September 27, 2008.

N/A = Information is not available. Note that in most cases this is due to the fact that the City Survey, which was administered annually until 2005, then biennially afterwards, is the data source.

**CITY AND COUNTY OF SAN FRANCISCO**  
**CAPITAL ASSET STATISTICS BY FUNCTION**  
 Last Ten Fiscal Years

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Police protection (1)</b>										
Number of stations.....	10	10	10	10	10	10	10	10	10	10
Number of police officers.....	2,455	2,356	2,261	2,288	2,243	2,164	2,130	2,203	2,332	2,315
<b>Fire protection (2)</b>										
Number of stations.....	42	42	42	46	46	46	46	47	47	47
Number of firefighters.....	978	809	768	778	718	817	896	907	995	1,029
<b>Public works</b>										
Miles of street (3).....	1,291	1,318	1,317	1,317	1,315	1,315	1,299	1,287	1,287	1,287
Number of streetlights (4).....	42,957	43,492	43,973	44,530	44,594	44,855	44,856	44,907	44,498	44,686
<b>Water (4)</b>										
Number of services.....	172,471	172,885	172,680	173,033	173,454	173,744	173,970	174,111	174,083	174,394
Average daily consumption (million gallons).....	247.5	236.6	219.9	213.6	212.0	215.1	217	190	171	175
Miles of water mains.....	1,457	1,465	1,465	1,473	1,488	1,488	1,488	1,499	1,489	1,488
<b>Sewers (4)</b>										
Miles of collecting sewers.....	993	993	993	993	959	986	993	993	993	993
Miles of transport/storage sewers.....	17	17	17	17	17	24	17	17	17	17
<b>Recreation and culture</b>										
Number of parks (5).....	222	222	220	220	220	221	221	220	220	220
Number of libraries (6).....	28	28	28	28	28	28	28	28	28	28
Number of library volumes (million) (6).....	2.8	2.9	3.3	3.5	3.6	3.5	3.6	3.6	3.8	3.9
<b>Public school education (7)</b>										
Attendance centers.....	112	112	115	115	115	115	116	116	117	117
Number of classrooms.....	3,269	2,723	2,779	2,797	2,797	2,877	3,135	3,160	3,219	3,219
Number of teachers, full-time equivalent.....	3,113	3,167	3,312	3,132	3,245	3,129	3,129	3,281	3,339	3,272
Number of students.....	56,259	55,272	55,779	55,571	56,310	56,970	57,620	58,414	58,865	60,133

**Sources:**

- (1) Police Commission, City and County of San Francisco
- (2) Fire Commission, City and County of San Francisco - Includes fire fighters/paramedics, and incident support specialists
- (3) Department of Public Works, City and County of San Francisco
- (4) Public Utilities Commission, City and County of San Francisco
- (5) Parks and Recreation Commission, City and County of San Francisco
- (6) Library Commission, City and County of San Francisco
- (7) San Francisco Unified School District

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**APPENDIX C**

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



**CITY AND COUNTY OF SAN FRANCISCO  
OFFICE OF THE TREASURER & TAX COLLECTOR**

**INVESTMENT POLICY**

Effective February 2018

**1.0 Policy**

It is the policy of the Office of the Treasurer & Tax Collector of the City and County of San Francisco (Treasurer's Office) to invest public funds in a manner which will preserve capital, meet the daily cash flow demands of the City, and provide a market rate of return while conforming to all state and local statutes governing the investment of public funds.

**2.0 Scope**

This investment policy applies to all funds over which the Treasurer's Office has been granted fiduciary responsibility and direct control for their management.

**3.0 Prudence**

The standard of prudence to be used by the Treasurer's Office shall be the Prudent Investor Standard as set forth by California Government Code, Section 53600.3 and 27000.3. The Section reads as follows: The Prudent Investor Standard states that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Treasurer's Office, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Treasurer's Office.

This standard of prudence shall be applied in the context of managing those investments that fall under the Treasurer's direct control. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

**4.0 Objective**

The primary objectives, in priority order, of the Treasurer's Office's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the Treasurer's Office shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, the Treasurer's Office will diversify its investments.

4.2 Liquidity: The Treasurer's Office investment portfolio will remain sufficiently liquid to enable the Treasurer's Office to meet cash flow needs which might be reasonably anticipated.

4.3 Return on Investments: The portfolio shall be designed with the objective of generating a market rate of return without undue compromise of the first two objectives.

## **5.0 Delegation of Authority**

The Treasurer of the City and County of San Francisco (Treasurer) is authorized by Charter Section 6.106 to invest funds available under California Government Code Title 5, Division 2, Part 1, Chapter 4, Article 1. The Treasurer shall submit any modification to this Investment Policy to the Treasury Oversight Committee members within five (5) working days of the adoption of the change.

## **6.0 Authorized Broker/Dealer Firms**

The City seeks to employ a fair and unbiased broker-dealer selection process, which culminates in an array of medium to large-sized firms that provide the best investment opportunities and service to the City.

The Treasurer's Office will evaluate and classify broker-dealers based on the qualifications of the firm and firm's assigned individual. Approved broker-dealers will be evaluated and may be classified into one of the following categories:

FULL ACCESS – Broker-dealers will have significant opportunity to present investment ideas to the investment team.

LIMITED ACCESS – Broker-dealers will have limited opportunity to present investment ideas to the investment team.

All others may apply for Provisional status appointment. Provisional appointments will be made for:

- (1) Applicants who have changed firms;
- (2) Applicants (firm and individual) who were not approved by the Treasurer's Office in the past year; and
- (3) Broker-dealers who have been classified as Limited Access, but are seeking Full Access status.

Broker-dealers, who are granted Provisional status, will be treated as Full Access firms for a limited time period of up to six months. During the Provisional status period, the investment team will evaluate the applicant and provide a determination of status (Full Access, Limited Access or Not Approved). Broker-dealers may reapply for Provisional status every two years. A limited number of broker-dealers will be granted Provisional status concurrently.

All broker-dealers are encouraged to apply for consideration. All applicants will be evaluated and classified based on the qualifications of the firm and the firm's assigned individual. A score will be assigned to each applicant and will serve as the sole determinant for Full Access, Limited Access, or Not-Approved status.

All approved broker-dealers will be re-assessed annually. During the reassessment period, broker-dealers will be sent the City's most recent Investment Policy and are expected to respond with a policy acknowledgement letter, updated profile information and a completed questionnaire.

All securities shall be purchased and sold in a competitive environment.

The Treasurer's Office will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained



in Rule G-37 of the Municipal Securities Rulemaking Board, to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices.

## **7.0 Authorized & Suitable Investments**

Investments will be made pursuant to the California Government Code (including Section 53601 et seq.) and this investment policy to ensure sufficient liquidity to meet all anticipated disbursements.

Unless otherwise noted, the maximum maturity from the trade settlement date can be no longer than five years.

Types of investment vehicles not authorized by this investment policy are prohibited.

In an effort to limit credit exposure, the Treasurer's Office will maintain Eligible Issuer, Eligible Counterparty and Eligible Money Market lists for security types where appropriate. These lists are intended to guide investment decisions. Investments, at time of purchase, are limited solely to issuers, counterparties and money market funds listed; however, investment staff may choose to implement further restrictions at any time.

The Treasurer's Office shall establish a Credit Committee comprised of the Treasurer, Chief Assistant Treasurer, Chief Investment Officer and additional investment personnel at the Treasurer's discretion. The Committee shall review and approve all eligible issuers and counterparties prior to inclusion on the aforementioned Eligible Issuer and Eligible Counterparty lists. The Committee shall also be charged with determining the collateral securing the City's repurchase agreements.

In the event of a downgrade of the issuer's credit rating below the stated requirements herein, the Credit Committee shall convene and determine the appropriate action.

In addition, the Treasurer's Office shall conduct an independent credit review, or shall cause an independent credit review to be conducted, of the collateralized CD issuers to determine the creditworthiness of the financial institution. The credit review shall include an evaluation of the issuer's financial strength, experience, and capitalization, including, but not limited to leverage and capital ratios relative to benchmark and regulatory standards (See Section 7.4). The following policy shall govern unless a variance is specifically authorized by the Treasurer and reviewed by the Treasury Oversight Committee pursuant to Section 5.0.

## **7.1 U.S. Treasuries**

United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
100% of the portfolio value	100%	100%	5 years

## **7.2 Federal Agencies**

Federal agency or United States government-sponsored enterprise obligations, participations, or other

instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
100% of the portfolio value	100%	100%	5 years

### 7.3 State and Local Government Agency Obligations

The Treasurer’s Office may purchase bonds, notes, warrants, or other evidences of indebtedness of any local or State agency within the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or State, or by a department, board, agency, or authority of the local agency or State.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
20% of the portfolio value	5%	No Limit	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term rating of the highest ranking or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO (Nationally Recognized Statistical Rating Organization). This limitation applies to all local and State agencies within the 50 United States with the exception of the State of California.

### 7.4 Public Time Deposits (Term Certificates of Deposit)

The Treasurer’s Office may invest in either:

1. Non-negotiable time deposits (Certificates of Deposit or CDs) that have FDIC or similar deposit insurance; or
2. Fully collateralized CDs in approved financial institutions.

The Treasurer’s Office will invest in CDs and Time Deposits only with those firms having at least one branch office within the boundaries of the City and County of San Francisco. As required by Government Code Section 53649, the Treasurer’s Office shall have a signed agreement with any depository accepting City funds.

For Public Time Deposits not employing deposit insurance (such as FDIC), the Treasurer’s Office is authorized to accept two forms of collateral:

A. Deposit Collateral. Collateralized CDs are required to be fully collateralized with 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i). The Treasurer’s Office, at its discretion, may waive the collateralization requirements for any portion that is covered by deposit insurance.

B. Letters of Credit Issued by the Federal Home Loan Bank of San Francisco. As authorized by Section 53651 (p) of the California Government Code, the Treasurer’s Office may be accepted as collateral and shall conform to the requirements of Section 53651.6 of the California Government Coded include the following terms:

(1) The Administrator, as defined by Section 53630 (g) of the California Government Code, shall be the beneficiary of the letter of credit; and

(2) The letter of credit shall be clean and irrevocable, and shall provide that the Administrator may draw upon it up to the total amount in the event of the failure of the depository savings association or federal association or if the depository savings association or federal association refuses to permit the withdrawal of funds by a treasurer.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
No Limit	None	N/A	13 months

Issuer Minimum Credit Rating (applies to collateralized CDs only): Maintenance of the minimum standards for “well-capitalized” status as established by the Federal Reserve Board. The current standards are as follows:

- Tier 1 risk-based capital ratio of 8% or greater
- Combined Tier 1 and Tier 2 capital ratio of 10% or greater
- Leverage ratio of 5% or greater

Failure to maintain minimum standards may result in early termination, subject to the discretion of the Treasurer’s Office.

**7.5 Negotiable Certificates of Deposit / Yankee Certificates Of Deposit**

Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Yankee certificates of deposit are negotiable instruments that are issued by a branch of a foreign bank.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
30% of the portfolio value	No Limit	N/A	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term rating of the highest ranking or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

**7.6 Bankers Acceptances**

Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers'

acceptances.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
40% of the portfolio value	30%	No Limit	180 days

Issuer Minimum Credit Rating: None

### 7.7 Commercial Paper

Obligations issued by a corporation or bank to finance short-term credit needs, such as accounts receivable and inventory, which may be unsecured or secured by pledged assets.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
25% of the portfolio value	10%	None	270 days

Issuer Minimum Credit Rating: Issuers must possess a short-term credit rating of the highest ranking (irrespective of +/-) from at least one NRSRO.

### 7.8 Medium Term Notes

Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state, and operating within the U.S.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
25% of the portfolio value	10%	5%	24 months

Issuer Minimum Credit Rating: Issuers must possess either a short-term rating of the highest ranking or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

## 7.9 Repurchase Agreements

To the extent that the Treasurer’s Office utilizes this investment vehicle, said collateral shall be delivered to a third-party custodian, so that recognition of ownership of the City and County of San Francisco is perfected.

Type of collateral	Allocation Maximum	Issuer Limit Maximum	Maturity/Term Maximum
Government securities	No Limit	N/A	1 year
Securities permitted by CA Government Code, Sections 53601 and 53635	10%	N/A	1 year

## 7.10 Reverse Repurchase and Securities Lending Agreements

This procedure shall be limited to occasions when the cost effectiveness dictates execution, specifically to satisfy cash flow needs or when the collateral will secure a special rate. A reverse repurchase agreement shall not exceed 45 days; the amount of the agreement shall not exceed \$75MM; and the offsetting purchase shall have a maturity not to exceed the term of the repo.

## 7.11 Money Market Funds

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.).

Fund Type	Allocation Maximum	Issuer Limit Maximum	Percentage of Fund’s Net Assets Maximum	Maturity/Term Maximum
Institutional Government	20% of total Pool assets	N/A	5%	N/A

Issuer Minimum Credit Rating: Fund must be rated in the highest rating category from not less than two NRSROs .

## 7.12 Local Agency Investment Fund (LAIF)

Investments in LAIF, a California state investment fund available to California municipalities, are authorized.

### 7.13 Supranationals\*

United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by:

- International Bank for Reconstruction and Development,
- International Finance Corporation, or
- Inter-American Development Bank,

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
30%	None	None	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term credit rating of the highest ranking or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

\* Effective as of January 1, 2015, as consistent with State Law.

### 8.0 Interest and Expense Allocations

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets, managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated and charged to the Pooled Investment Fund on a quarterly basis, with the exception of San Francisco International Airport costs which are charged directly through a work order.

The San Francisco Controller allocates the net interest earnings of the Pooled Investment Fund. The earnings are allocated monthly based on average balances.

### 9.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer's Office shall be conducted on a delivery-versus-payment (DVP) basis pursuant to approved custodial safekeeping agreements. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

### 10.0 Deposit and Withdrawal of Funds

California Government Code Section 53684 et seq. provides criteria for outside local agencies, where the Treasurer does not serve as the agency's treasurer, to invest in the County's Pooled Investment Fund, subject to the consent of the Treasurer. Currently, no government agency outside the geographical boundaries of the City and County of San Francisco shall have money invested in City pooled funds.

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the San Francisco Controller. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the Treasurer. In accordance with California Government Code Sections 27136 et seq. and 27133(h) et seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration for the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the value shown on the Controller's books as of the date of withdrawal.

### **11.0 Limits on Receipt of Honoraria, Gifts and Gratuities**

In accordance with California Government Code Section 27133(d) et seq., this Investment Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Treasury Oversight Committee on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or others persons with whom the Treasurer conducts business. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of those limits must report the gifts, dates and firms to the Treasurer and complete the appropriate State disclosure.

These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the California Fair Political Practices Commission. Members of the Treasury Oversight Committee also must abide by the following sections of the Treasurer's Office Statement of Incompatible Activities: Section III(A)(1)(a), (b) and (c) entitled "Activities that Conflict with Official Duties," and Section III(C) entitled "Advance Written Determination".

### **12.0 Reporting**

In accordance with the provisions of California Government Code Section 53646, which states that the Treasurer may render a quarterly report or a monthly report on the status of the investment portfolio to the Board of Supervisors, Controller and Mayor; the Treasurer regularly submits a monthly report. The report includes the investment types, issuer, maturity date, par value, and dollar amount invested; market value as of the date of the report and the source of the valuation; a statement of compliance with the investment policy or an explanation for non-compliance; and a statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why moneys will not be available if that is the case.

### **13.0 Social Responsibility**

In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the forgoing socially responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to investments permitted by state law.

#### **13.1 Social and Environmental Concerns**

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged

in entities that manufacture tobacco products, firearms, or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing, deferred deposit (payday-lending) businesses and organizations involved in financing, either directly or indirectly, the Dakota Access Pipeline or, as determined by the Treasurer, similar pipeline projects. Prior to making investments, the Treasurer's Office will verify an entity's support of the socially responsible goals listed above through direct contact or through the use of a third party such as the Investors Responsibility Research Center, or a similar ratings service. The entity will be evaluated at the time of purchase of the securities.

### **13.2 Community Investments**

Investments are encouraged in entities that promote community economic development. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low income affordable housing, and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

### **13.3 City Ordinances**

All depository institutions are to be advised of applicable City contracting ordinances, and shall certify their compliance therewith, if required.

### **14.0 Treasury Oversight Committee**

A Treasury Oversight Committee was established by the San Francisco Board of Supervisors in Ordinance No. 316-00. The duties of the Committee shall be the following:

(a) Review and monitor the investment policy described in California Government Code Section 27133 and prepared annually by the Treasurer.

(b) Cause an annual audit to be conducted to determine the Treasurer's compliance with California Government Code Article 6 including Sections 27130 through 27137 and City Administrative Code Section 10.80-1. The audit may examine the structure of the investment portfolio and risk. This audit may be a part of the County Controller's usual audit of the Treasurer's Office by internal audit staff or the outside audit firm reviewing the Controller's Annual Report.

(c) Nothing herein shall be construed to allow the Committee to direct individual decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the Treasurer. (See California Government Code, Section 27137.)



## APPENDIX

### **Glossary**

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.

**ASK/OFFER:** The price at which securities are offered.

**BANKERS' ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**BID:** The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The CAFR is the City's official annual financial report. It consists of three major sections: introductory, financial, and statistical. The introductory section furnishes general information on the City's structure, services, and environment. The financial section contains all basic financial statements and required supplementary information, as well as information on all individual funds and discretely presented component units not reported separately in the basic financial statements. The financial section may also include supplementary information not required by GAAP. The statistical section provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition.

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DEPOSITORY INSTITUTIONS:** These institutions hold City and County moneys in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**FDIC DEPOSIT INSURANCE COVERAGE:** The FDIC is an independent agency of the United States government that protects against the loss of insured deposits if an FDIC-insured bank or savings association fails. Deposit insurance is backed by the full faith and credit of the United States government. Since the FDIC was established, no depositor has ever lost a single penny of FDIC-insured funds. FDIC insurance covers funds in deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit (CDs). FDIC insurance does not, however, cover other financial products and services that insured banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or municipal securities. There is no need for depositors to apply for FDIC insurance or even to request it. Coverage is automatic. To ensure funds are fully protected, depositors should understand their deposit insurance coverage limits. The FDIC provides separate insurance coverage for deposits held in different ownership categories such as single accounts, joint accounts, Individual Retirement Accounts (IRAs) and trust accounts.

Basic FDIC Deposit Insurance Coverage Limits\*

Single Accounts (owned by one person) \$250,000 per owner

Joint Accounts (two or more persons) \$250,000 per co-owner

IRAs and certain other retirement accounts \$250,000 per owner

Trust Accounts \$250,000 per owner per beneficiary subject to specific limitations and requirements\*\*

\*The financial reform bill, officially named the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, made the \$250,000 FDIC coverage limit permanent.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL FUNDS RATE:** The rate of interest that depository institutions lend monies overnight to other depository institutions. Also referred to as the overnight lending rate. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single

provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market. Congress defined this mission in (their) 1970 charter. Freddie Mac buys mortgage loans from banks, thrifts and other financial intermediaries, and re-sells these loans to investors, or keeps them for their own portfolio, profiting from the difference between their funding costs and the yield generated by the mortgages.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

**GOVERNMENT SECURITIES:** Obligations of the U.S. Government and its agencies and instrumentalities.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**NRSRO:** Nationally Recognized Statistical Rating Organization; Credit rating agencies that are registered with the SEC. Such agencies provide an opinion on the creditworthiness of an entity and the financial obligations issued by an entity.

**OFFER:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PAR VALUE:** The principal amount of a bond returned by the maturity date.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**PUBLIC TIME DEPOSITS (Term Certificates Of Deposit):** Time deposits are issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES & EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC RULE 15(C)3-1:** See Uniform Net Capital Rule.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.



## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**\$72,420,000**

**CITY AND COUNTY OF SAN FRANCISCO  
TAXABLE GENERAL OBLIGATION BONDS  
(SOCIAL BONDS – AFFORDABLE HOUSING, 2016)  
SERIES 2019A**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City and County of San Francisco (the “City”) in connection with the issuance of the bonds captioned above (the “Bonds”). The Bonds are issued pursuant to Resolution No. 34-19 and Resolution No. 35-19, both adopted by the Board of Supervisors of the City on January 29, 2019, and duly approved by the Mayor of the City on February 1, 2019 (together, the “Resolution”). The City covenants and agrees as follows:

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

**SECTION 2. Definitions.** The following capitalized terms shall have the following meanings:

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

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

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

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

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

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

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

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

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

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which is June 30), commencing with the report for the 2017-18 Fiscal Year (which is due not later than March 27, 2019), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

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

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

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

- (a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities;
- (b) a summary of budgeted general fund revenues and appropriations;
- (c) a summary of the assessed valuation of taxable property in the City;
- (d) a summary of the *ad valorem* property tax levy and delinquency rate;
- (e) a schedule of aggregate annual debt service on tax-supported indebtedness of the City; and
- (f) summary of outstanding and authorized but unissued tax-supported indebtedness of the City.

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



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

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 1-9 with respect to the Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB) or adverse tax opinions;
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 10-16 with respect to the Bonds not later than ten business days after the occurrence of the event, if material:

10. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
11. Modifications to rights of Bond holders;
12. Unscheduled or contingent Bond calls;
13. Release, substitution, or sale of property securing repayment of the Bonds;
14. Non-payment related defaults;
15. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
16. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The City shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3, as provided in Section 3(b).

(d) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City shall determine if such event would be material under applicable federal securities laws.

(e) If the City learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection 5(b)(12) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

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

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

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

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

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

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

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

**SECTION 9. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual

Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

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

Date: February 26, 2019.

CITY AND COUNTY OF SAN FRANCISCO

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Benjamin Rosenfield  
Controller

Approved as to form:

DENNIS J. HERRERA  
CITY ATTORNEY

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

**CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A**

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO  
Name of Bond Issue: CITY AND COUNTY OF SAN FRANCISCO TAXABLE GENERAL  
OBLIGATION BONDS (SOCIAL BONDS – AFFORDABLE HOUSING, 2016)  
SERIES 2019A  
Date of Issuance: February 26, 2019

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated February 26, 2019. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

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

CITY AND COUNTY OF SAN FRANCISCO

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

## APPENDIX E

### DTC AND THE BOOK ENTRY ONLY SYSTEM

*The information in numbered paragraphs 1-10 of this Appendix E, concerning The Depository Trust Company (“DTC”) and DTC’s book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, “Securities” means the Bonds, “Issuer” means the City, and “Agent” means the Paying Agent.*

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

1. The Depository Trust Company (“DTC”) will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC will determine pro rata the amount of the interest of each Direct Participant in such maturity to be redeemed as notified by the City Treasurer. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

### **Discontinuation of Book-Entry Only System; Payment to Beneficial Owners**

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer and exchange of the Bonds.

Payment of the interest on any Bond shall be made by check mailed on the interest payment date to the owner at the owner's address as it appears on the registration books described below as of the Record Date (as defined herein).

The City Treasurer will keep or cause to be kept, at the office of the City Treasurer, or at the designated office of any registrar appointed by the City Treasurer, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection, and, upon presentation for such purpose, the City Treasurer shall, under such reasonable regulations as he or she may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

Any Bond may, in accordance with its terms, be transferred, upon the registration books described above, by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the City Treasurer.

Any Bonds may be exchanged at the office of the City Treasurer for a like aggregate principal amount of other authorized denominations of the same interest rate and maturity.

Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the designated City officials shall execute and the City Treasurer shall authenticate and deliver a new Bond or Bonds of the same series, interest rate and maturity, for a like aggregate principal amount. The City Treasurer shall require the payment by any Bond owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfer or exchange of Bonds shall be required to be made by the City Treasurer during the period from the Record Date (as defined in this Official Statement) next preceding each interest payment date to such interest payment date or after a notice of redemption shall have been mailed with respect to such Bond.





**APPENDIX F**

**PROPOSED FORM OF OPINION OF CO-BOND COUNSEL**

[Closing Date]

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

**OPINION:** \$72,420,000 City and County of San Francisco Taxable General Obligation Bonds  
(Social Bonds – Affordable Housing, 2016), Series 2019A

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the City and County of San Francisco (the “City”) of its general obligation bonds captioned above, dated February 26, 2019 (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we deem necessary to render this opinion.

The Bonds have been issued by the City under the Constitution and laws of the State of California; Ordinance No. 217-92, adopted by the Board of Supervisors on July 13, 1992; Ordinance No. 136-16, adopted by the Board of Supervisors on July 26, 2016; special elections held on November 3, 1992, and November 8, 2016, in which the requisite two-thirds of all voters voting on certain propositions approved the issuance of the Bonds; Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the California Government Code; the City Charter; and Resolution No. 34-19 and Resolution No. 35-19, both adopted by the Board of Supervisors on January 29, 2019, and approved by the Mayor on February 1, 2019 (together, the “Resolutions”).

Regarding questions of fact material to our opinion, we have relied upon certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The City is a duly created and validly existing municipal corporation and charter city and county, with the power to adopt the Resolutions, perform the agreements on its part contained therein, and issue the Bonds.
2. The Resolutions constitute the valid and binding obligations of the City, enforceable against the City.
3. The Bonds have been duly authorized and issued by the City, and are valid and binding general obligations of the City.
4. The City is obligated and authorized under the laws of the State of California to levy ad valorem taxes, without limit as to rate or amount (except with respect to certain personal property which is taxable at limited rates), upon the taxable property in the City for the payment when due of the principal of and interest on the Bonds.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,



