

*In the opinion of Schiff Hardin LLP and the Law Office of Monica M. Baranovsky, Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2021C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is not a specific preference item for purposes of the federal alternative minimum tax. In the further opinion of Co-Bond Counsel, interest on the Series 2021C Bonds is exempt from present State of California personal income taxes. Co-Bond Counsel express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2021C Bonds. See “TAX MATTERS.”*



**\$104,285,000**  
**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**  
**Revenue Bonds, Series 2021C**  
**(Green Bonds)**

**Dated:** Date of Delivery

**Due:** March 1, as shown on the inside cover page

*THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.*

The San Francisco Municipal Transportation Agency Revenue Bonds, Series 2021C (Green Bonds) (the “**Series 2021C Bonds**”), are being issued by the San Francisco Municipal Transportation Agency (the “**SFMTA**”) pursuant to the Charter of the City and County of San Francisco and an Indenture of Trust dated as of July 1, 2012, between the SFMTA and U.S. Bank National Association, as successor trustee (the “**Trustee**”), as amended and supplemented, including as amended and supplemented by the Sixth Supplement to Indenture of Trust dated as of March 1, 2021 (collectively, the “**Indenture**”), between the SFMTA and the Trustee. The Series 2021C Bonds are being issued to (i) finance a portion of the costs of various capital projects for the SFMTA as described herein, (ii) fund capitalized interest and (iii) pay costs of issuance of the Series 2021C Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “SERIES 2021C PROJECTS” herein.

Interest on the Series 2021C Bonds will be payable on September 1, 2021, and on each March 1 and September 1 thereafter until their respective stated maturity dates. The Series 2021C Bonds will be issued only as fully registered bonds without coupons and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“**DTC**”), to which payments of principal of, premium, if any, and interest on the Series 2021C Bonds will be made. Individual purchases of the Series 2021C Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Beneficial Owners of the Series 2021C Bonds will not receive physical delivery of bond certificates. Payment of principal of the Series 2021C Bonds, premium, if any, and interest when due will be payable by the Trustee, as paying agent, to DTC. DTC will remit such principal, premium, if any, and interest payments to its participants, which will be responsible for remittance to the Beneficial Owners of the Series 2021C Bonds. See Appendix F – “DTC AND THE BOOK-ENTRY ONLY SYSTEM” herein.

**The Series 2021C Bonds are subject to redemption prior to maturity as described herein.**

The SFMTA is an enterprise department of the City and County of San Francisco (the “**City**”) and a multi-modal transportation agency responsible for planning, designing, constructing, managing, operating and maintaining public transit, paratransit, street and traffic management and improvements, bicycle and pedestrian safety and enhancement programs, on and off-street parking improvements and programs and the regulation of taxis within the City. Under the Indenture, the SFMTA has irrevocably pledged the Pledged Revenues (as defined herein) to the punctual payment of principal of, premium, if any, and interest on all outstanding parity revenue bonds issued under the Indenture, including the Series 2021C Bonds (collectively, the “**Bonds**”), subject to the flow of funds contained in the Indenture. The Series 2021C Bonds will not be secured by any reserve account. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – No Reserve Account for the Series 2021C Bonds” herein.

**THE SERIES 2021C BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE SFMTA SECURED BY AND PAYABLE SOLELY FROM PLEDGED REVENUES OF THE SFMTA AND FROM MONEYS HELD IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED PURSUANT TO THE INDENTURE. THE SFMTA IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2021C BONDS FROM ANY SOURCE OF FUNDS OTHER THAN PLEDGED REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE AND SUBJECT TO THE TERMS THEREOF. THE SFMTA HAS NO TAXING POWER. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2021C BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2021C BONDS. THE SERIES 2021C BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR OF THE SFMTA OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT PLEDGED REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE AND SUBJECT TO THE TERMS THEREOF. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” HEREIN.**

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**MATURITY SCHEDULE**  
 (See inside cover page)

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*The Series 2021C Bonds are offered when, as and if issued by the SFMTA and accepted by the Underwriters, subject to approval of legality by Schiff Hardin LLP, San Francisco, California, and the Law Office of Monica M. Baranovsky, Berkeley, California, Co-Bond Counsel. Certain legal matters will be passed upon for the SFMTA by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Disclosure Counsel to the SFMTA, and the City Attorney of the City and County of San Francisco. Certain legal matters will be passed upon for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Diego, California. It is expected that the Series 2021C Bonds will be available for delivery in book-entry form through the facilities of DTC on or about March 11, 2021.*

**RBC Capital Markets**

**Goldman Sachs & Co. LLC**

**Siebert Williams Shank & Co., LLC**

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**MATURITY SCHEDULE**  
**Series 2021C Bonds**

\$19,815,000	4.00%	Term Bonds	Due March 1, 2046*	Yield† – 2.39%‡	CUSIP§ 797686 FB3
\$42,000,000	4.00%	Term Bonds	Due March 1, 2051	Yield† – 2.44%‡	CUSIP§ 797686 FC1
\$42,470,000	5.00%	Term Bonds	Due March 1, 2051	Yield† – 2.24%‡	CUSIP§ 797686 FD9

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\* Series 2021C Bonds issued to finance projects not evaluated by S&P Global Ratings in its Green Transaction Evaluation. See “GREEN BONDS DESIGNATION.”

† Reoffering yields have been provided by the Underwriters. See “UNDERWRITING.”

‡ Priced to par call on March 1, 2031.

§ CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the SFMTA nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

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

The SFMTA and the City each maintain websites. The information presented on such websites 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 Series 2021C Bonds. Any other website referred to in this Official Statement is not incorporated herein by such reference.

The issuance and sale of the Series 2021C 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 Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2021C BONDS, THE UNDERWRITERS MAY OVERALLOT 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 BY THE UNDERWRITERS.

#### FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND “FORWARD-LOOKING STATEMENTS.” ALL FORWARD-LOOKING STATEMENTS ARE PREDICTIONS AND ARE SUBJECT TO KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES. NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS “ESTIMATE”, “PROJECT”, “ANTICIPATE”, “EXPECT”, “INTEND”, “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. GIVEN THEIR UNCERTAINTY, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS.

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**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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Amanda Eaken, *Vice-Chair*  
Cheryl Brinkman, *Director*  
Steve Heminger, *Director*  
Fiona Hinze, *Director*  
Sharon Lai, *Director*  
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**SFMTA STAFF**

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Julie Kirschbaum, *Director, Transit*  
Siew-Chin Yeong, *Director, Capital Programs & Construction*  
Tom Maguire, *Director, Sustainable Streets*

**CITY AND COUNTY OF SAN FRANCISCO**

**MAYOR**

London Breed

**BOARD OF SUPERVISORS**

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Connie Chan, <i>District 1</i>	Aaron Peskin, <i>District 3</i>
Matt Haney, <i>District 6</i>	Dean Preston, <i>District 5</i>
Rafael Mandelman, <i>District 8</i>	Hillary Ronen, <i>District 9</i>
Gordon Mar, <i>District 4</i>	Ahsha Safaí, <i>District 11</i>
Myrna Melgar, <i>District 7</i>	Catherine Stefani, <i>District 2</i>

**CITY ATTORNEY**

Dennis J. Herrera

**CITY TREASURER**

José Cisneros

**OTHER CITY AND COUNTY OFFICIALS**

Carmen Chu, *City Administrator*  
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Anna Van Degna, *Director of Public Finance*

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<i>Trustee</i> U.S. Bank National Association San Francisco, California	

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## OFFICIAL STATEMENT

**\$104,285,000**

### **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY Revenue Bonds, Series 2021C (Green Bonds)**

## INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the San Francisco Municipal Transportation Agency (the “**SFMTA**”) of \$104,285,000 aggregate principal amount of its San Francisco Municipal Transportation Agency Revenue Bonds, Series 2021C (Green Bonds) (the “**Series 2021C Bonds**”).

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, including the appendices attached hereto. Unless otherwise defined below, all capitalized terms used in this Official Statement shall have the meanings ascribed thereto in the Indenture (as defined below) as summarized in Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – DEFINITIONS.”

### **The San Francisco Municipal Transportation Agency**

The SFMTA is an enterprise department of the City and County of San Francisco (the “**City**”) and a multi-modal transportation agency responsible for planning, designing, constructing, managing, operating and maintaining public transit, paratransit, street and traffic management and improvements, bicycle and pedestrian safety and enhancement programs, on and off-street parking improvements and programs and the regulation of taxis within the City (collectively, and as further defined in this Official Statement, the “**Transportation System**”).

The SFMTA was established by voter approval of Article VIIIA to the Charter of the City (the “**Charter**”) in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all transportation functions within a single City department, and to provide the Transportation System with the resources, independence and focus necessary to improve transit service and the City’s transportation system. Pursuant to the Charter, the SFMTA has been provided with authority to control its operations, purchasing, contracting and labor relations, as well as a guaranteed share of City General Fund resources. San Francisco voters approved an additional Charter amendment in 2007 (Proposition A), which increased the autonomy of and revenues to the SFMTA, and another Charter amendment in 2010 (Proposition G), which increased management flexibility related to labor contracts.

The SFMTA connects San Francisco through a safe, equitable, and sustainable transportation system. It manages the City’s public transportation system (“**Muni**”), including its motor buses, trolley buses, light rail vehicles (“**LRVs**”), historic streetcars and cable cars. The SFMTA also oversees the management and operation of 39 public off-street parking facilities owned by the SFMTA, the San Francisco Department of Recreation and Park (“**Recreation and Park**”) and the Parking Authority of the City and County of San Francisco (the “**Parking Authority**”), a separate legal entity created under the laws of the State of California (the “**State**”). The SFMTA also manages traffic engineering functions within San Francisco, including the placement of signs, signals, traffic striping, curb markings and parking meters. Finally, the SFMTA regulates the taxi industry within the City. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Organization and Purpose.”

### **Authority for Issuance**

The Series 2021C Bonds are being issued pursuant to Section 8A.102(b)(13) of the Charter, an Indenture of Trust, dated as of July 1, 2012 (as previously amended and supplemented, the “**Master Indenture**”), between the SFMTA and U.S. Bank National Association (the “**Trustee**”), as successor in interest to The Bank of New York Mellon Trust Company, N.A., as trustee, a Sixth Supplement to Indenture of Trust dated as of March 1, 2021 between the SFMTA and the Trustee (the “**Sixth Supplemental Indenture**” and, together with the Master Indenture, the “**Indenture**”), Ordinance No. 57-12 of the Board of Supervisors of the City (the “**Board of Supervisors**”) adopted on April 19, 2012, Resolution No. 60-21 of the Board of Supervisors adopted on February 9, 2021 and signed by the

Mayor on February 18, 2021, Resolution No. 201215-110 of the Board of Directors of the SFMTA (the “**Board**”) adopted on December 15, 2020, and Resolution No. 210119-017 of the Board adopted on January 19, 2021.

The Series 2021C Bonds, together with the SFMTA’s Revenue Bonds, Series 2017 (the “**Series 2017 Bonds**”), the SFMTA’s Refunding Revenue Bonds, Series 2021A (Federally Taxable) and Series 2021B (Tax-Exempt) (collectively, the “**Series 2021AB Bonds**”) and any other bonds issued in the future pursuant to the Indenture are referred to collectively in this Official Statement as the “**Bonds**.” See also “– Other Obligations Secured by Pledged Revenues” below for a description of the Series 2021AB Bonds, which were issued on February 23, 2021.

## **Purpose**

The Series 2021C Bonds are being issued to (i) finance a portion of the costs of various capital projects for the SFMTA as described herein, (ii) fund capitalized interest and (iii) pay costs of issuance of the Series 2021C Bonds. See “SERIES 2021C PROJECTS” and “ESTIMATED SOURCES AND USES OF FUNDS” herein for a further description of the expected application of proceeds of the Series 2021C Bonds.

## **Security and Sources of Payment for the Bonds**

The Series 2021C Bonds are issued and secured pursuant to the terms of the Indenture. Under the Indenture, the SFMTA has irrevocably pledged the Pledged Revenues (as defined herein) to the punctual payment of principal of, premium, if any, and interest on the Bonds, which consist of all outstanding parity revenue bonds issued under the Indenture, including the Series 2021C Bonds, subject to the flow of funds contained in the Indenture. In connection with the issuance of the SFMTA’s Series 2021AB Bonds, which occurred on February 23, 2021, the SFMTA entered into a Fifth Supplement to Indenture of Trust dated as of February 1, 2021 (the “**Fifth Supplemental Indenture**”), between the SFMTA and U.S. Bank National Association, as trustee for the Series 2021AB Bonds. The Fifth Supplemental Indenture amended the definition of “Pledged Revenues” to include amounts received by the SFMTA from proceeds of the Traffic Congestion Mitigation Tax (as defined herein). See “– Other Obligations Secured by Pledged Revenues,” “SECURITY AND SOURCES FOR PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under Indenture,” and “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Traffic Congestion Mitigation Tax.”

The Series 2021C Bonds are special, limited obligations of the SFMTA payable solely from Pledged Revenues and from amounts on deposit in certain funds and accounts held under the Indenture and subject to the terms thereof. No funds of the SFMTA other than the Pledged Revenues and such amounts held under the Indenture are pledged to or available for payment of the principal of, premium, if any, or interest on the Series 2021C Bonds. Section 8A.105 of the Charter requires the City to transfer certain moneys to the SFMTA to support the SFMTA’s activities. The proceeds of transfers from the City’s General Fund to support such activities do not constitute any portion of Pledged Revenues, and the principal of, premium, if any, and interest on the Series 2021C Bonds is not payable from the proceeds of such transfers or from the City’s General Fund. The SFMTA will not apply the proceeds of such transfers to the payment of debt service on the Series 2021C Bonds, and the City has no obligation to transfer any amounts from the City’s General Fund to the SFMTA for the purpose of paying the principal of, premium, if any, and interest on the Series 2021C Bonds. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers.”

The SFMTA is not obligated to pay the principal of, premium, if any, or interest on the Series 2021C Bonds from any source of funds other than Pledged Revenues and from amounts on deposit in certain funds and accounts held under the Indenture and subject to the terms thereof. The SFMTA has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the Series 2021C Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the Series 2021C Bonds. The Series 2021C Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or of the SFMTA or any of its income or receipts, except Pledged Revenues and amounts on deposit in certain funds and accounts held under the Indenture and subject to the terms thereof.

Under the Indenture, the SFMTA covenants that it will adopt for each Fiscal Year or every two Fiscal Years a budget that is balanced in accordance with Section 8A.106 of the Charter and that provides for payment of Annual

Debt Service in each Fiscal Year. The SFMTA has further covenanted to manage its operations and set charges (including but not limited to fares, rates and fees) for the Transportation System so that Pledged Revenues in each Fiscal Year, and available fund balances held by the SFMTA or the Trustee, will be at least equal to Annual Debt Service, payments due on Subordinate Bonds (as defined herein) and payment of all costs reasonably necessary to operate the Transportation System in such Fiscal Year (but not including costs that have been funded from other sources not constituting Pledged Revenues or that may reasonably be deferred). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under the Indenture.”

**The Series 2021C Bonds will not be secured by any reserve account.** See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – No Reserve Account for the Series 2021C Bonds.”

Pursuant to the Indenture, the SFMTA is permitted to issue additional Bonds and to enter into additional obligations secured by and payable from Pledged Revenues on a parity with the payment of principal of, premium, if any, and interest on the Bonds, provided that certain conditions are satisfied as described herein. The Indenture also permits the SFMTA to incur subordinate obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Other Indebtedness” herein.

For more information regarding the security and sources of payment for the Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein. Audited financial information concerning the SFMTA is set forth in Appendix A attached hereto. See “CERTAIN RISK FACTORS” for a discussion of certain risks related to an investment in the Series 2021C Bonds.

#### **Other Obligations Secured by Pledged Revenues**

**The SFMTA issued its Series 2021AB Bonds in an aggregate principal amount of \$174,950,000 on February 23, 2021, to refund and defease all of its then-outstanding Revenue Bonds, Series 2012A and Series 2012B (the “Series 2012 Bonds”), Revenue Bonds, Series 2013 (the “Series 2013 Bonds”), and Revenue Bonds, Series 2014 (the “Series 2014 Bonds”).**

The Series 2021C Bonds are payable from Pledged Revenues under the Indenture on a parity with the SFMTA’s Revenue Bonds, Series 2017, currently outstanding in the aggregate principal amount of \$166,865,000, and the Series 2021AB Bonds.

The SFMTA may issue other debt secured by Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Obligations Secured by Pledged Revenues” and “– Additional Bonds and Other Indebtedness.”

#### **Continuing Disclosure**

The SFMTA will covenant in a Continuing Disclosure Certificate, to be executed and delivered by the SFMTA concurrently with the issuance of the Series 2021C Bonds, to provide certain financial information and operating data relating to the SFMTA and notices of certain enumerated events. Such information and notices will be filed by the SFMTA with the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access system (“EMMA”). For more information concerning the SFMTA’s continuing disclosure commitment and the form of the Continuing Disclosure Certificate, see “CONTINUING DISCLOSURE” herein and Appendix E – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto.

#### **Additional Information**

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, the SFMTA has no obligation to update the information in this Official Statement. See “CONTINUING DISCLOSURE” herein.

Brief descriptions of the Series 2021C Bonds, the Indenture, the security and sources of payment for the Series 2021C Bonds, the Pledged Revenues, the SFMTA, certain provisions of the Charter and related matters are

included in this Official Statement, together with summaries of certain provisions of the Series 2021C Bonds, the Indenture and certain other documents. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture, the Series 2021C Bonds and other documents and instruments are qualified in their entirety by reference to such documents or instruments or the forms thereof, copies of which are available for inspection at the office of the SFMTA. The SFMTA regularly prepares a variety of reports, including audits, budgets and related documents, which may be obtained from the SFMTA. Additional information regarding such reports may be obtained from the SFMTA's website at [www.sfmta.com](http://www.sfmta.com). The information contained in such reports or on such website is not incorporated by reference herein. Copies of the Indenture are also available for inspection at the principal corporate trust office of the Trustee. Reference is made herein to various other documents, reports, websites, etc., which were either prepared by parties other than the SFMTA, or were not prepared, reviewed and approved by the SFMTA 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.

## RECENT DEVELOPMENTS

The following paragraphs supplement certain sections set forth in this Official Statement with information available after the date of this Official Statement. Investors are advised to read the entire Official Statement in order to obtain information necessary to make an investment in the Series 2021C Bonds.

***Central Subway Project.*** On March 2, 2021, in connection with the Central Subway Project (as further described herein), the SFMTA Board approved two contract modifications to the Station Contract with Tutor Perini (each as defined herein), resolving compensation for delay through a projected substantial completion date of March 31, 2021, all outstanding contractor claims occurring on or before January 20, 2021, and change orders existing as of February 15, 2021. Pursuant to the contract modifications, the total claimed cost of 100 outstanding contractor claims and 154 potential claims was approximately \$93.6 million, and the total compensation paid on 409 resolved change orders was approximately \$53 million. As of March 2, 2021, the estimated cost of the Central Subway Project, which now includes, among other expenditures, resolution of the outstanding contractor claims and change orders described above, has been increased to approximately \$1.891 billion, approximately 19.8% above the original budgeted cost of \$1.578 billion, and approximately 14.0% above the previous budgeted cost of \$1.659 billion for which funding sources had previously been committed. The SFMTA has identified \$232 million in additional funding sources to address the difference, including non-federal funding programmed to other SFMTA projects and SFMTA operating funds, which is not expected to have a material impact on the SFMTA's planned five-year capital improvement program or the SFMTA's existing operating budget. Negotiations regarding outstanding change orders through the completion of the project are ongoing and the SFMTA can provide no assurance that total cost of the project will not be higher than currently estimated. For more information regarding the Central Subway Project, see "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program – Current Projects – Central Subway Project."

***2021 Coronavirus Act.*** On January 27, 2021, the Metropolitan Transportation Commission ("MTC") approved the distribution of approximately \$43 million in 2021 Coronavirus Act funds to the SFMTA. On March 3, 2021, MTC notified the SFMTA that it is recommending that the SFMTA receive approximately \$297 million in additional 2021 Coronavirus Act funds, for a total distribution of approximately \$340 million, an increase of approximately \$110 million over the SFMTA's projections as of February 12, 2021. The SFMTA expects to receive approval from the MTC for the additional \$297 million by the end of March 2021; however, the SFMTA has not yet received such federal relief funds and there can be no assurance that the SFMTA will receive such amount. For more information regarding the SFMTA's projections relating to federal relief under the 2021 Coronavirus Act as of February 12, 2021, see "IMPACT OF COVID-19 PANDEMIC."

***City's Fiscal Year 2019-20 Comprehensive Annual Financial Report.*** The City finalized its fiscal year 2019-20 Comprehensive Annual Financial Report (the "City CAFR") on March 2, 2021. Appendix B, which provides information on the City's general fund's overall operations and finances, and is provided for informational purposes only, now contains audited financial information regarding the City's fiscal year 2019-20 based on the City CAFR. Neither the City nor the SFMTA make any representation that all of the information provided in Appendix B is material to holders of the Series 2021AB Bonds. The material in Appendix B was prepared by the City. See APPENDIX B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES."

## IMPACT OF COVID-19 PANDEMIC

The outbreak of a new highly transmissible strain of coronavirus (“**COVID-19**”) has spread to numerous countries across the globe, including the United States. The World Health Organization has characterized the spread of COVID-19 as a pandemic, and states of emergency have been declared in the United States, California and San Francisco. The State and the City have issued directives for all people to stay at home except to meet essential needs or to work to provide essential services (“**stay-at-home orders**”). Some of the City’s stay-at-home orders have been revised to allow for limited commercial activity and social interaction among small, consistent groups, but the easing of restrictions slowed, stopped or reversed as new cases of COVID-19 increased in some parts of San Francisco. It is unknown when and whether restrictions will continue to be eased or will be reinstated or enhanced. The duration of these stay-at-home orders, even those with specified end dates, is not known with any level of certainty.

In December 2020, two vaccines from Pfizer-BioNTech and Moderna received emergency use authorization from the U.S. Food and Drug Administration as effective treatments for COVID-19. The timetable for vaccinating sufficient numbers of Americans to affect the trajectory or duration of the COVID-19 pandemic is unknown and depends ultimately on the effectiveness of the vaccines and the willingness of U.S. citizens to get vaccinated. Although both vaccines were subject to extensive clinical trial testing protocols, any health uncertainties could slow down or halt the use of either vaccine.

The SFMTA continues its operations as an essential service. This section describes some of the impacts that COVID-19 and the City’s stay-at-home orders have had on the SFMTA’s transit operations, parking and traffic functions, financial condition and current assets, operating revenues and expenses, capital program and operating budget, as well as the SFMTA’s budgetary and operational strategy for the next few Fiscal Years.

COVID-19 and the City’s stay-at-home orders have had, and are expected to continue to have in the near future, a materially adverse effect on the SFMTA’s operations and revenues. Accordingly, any historical information or budgets or projections described in this Official Statement which predate the COVID-19 pandemic, or do not fully reflect its potential impact, should be considered in the light of a possible or probable negative impact from the COVID-19 pandemic. The projections and other forward-looking statements in this Official Statement are based on current expectations and 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.

### *Impact on Transit Operations*

Transit ridership declined by approximately 95% during the initial shelter-in-place period from March to May 2020, as compared to the same period in 2019. In Fiscal Year 2019-20, total transit ridership declined by 23.6% from approximately 222.9 million in Fiscal Year 2018-19 to approximately 170.3 million in Fiscal Year 2019-20. See also “Table 2 – Historical Fixed Route Ridership by Mode.” The SFMTA currently projects total ridership in Fiscal Year 2020-21 and Fiscal Year 2021-22 will be approximately 63.3 million and 134.3 million, respectively, a decline of approximately 72% and 40% from Fiscal Year 2018-19 total ridership, respectively. The SFMTA projects that total ridership will gradually increase to pre-COVID-19 levels by the end of Fiscal Year 2023-24.

Because of the decline in ridership as described above, the SFMTA created and implemented its COVID-19 Muni Core Service Plan (the “**Core Service Plan**”), which reduced the number of operating bus routes and temporarily closed the Muni Metro light rail system, replacing some rail lines with bus routes. Under the Core Service Plan, 30 core bus routes operate from 5 a.m. to 10 p.m. and a reduced “owl” network comprised of 12 routes operates overnight from 10 p.m. to 5 a.m. To determine which routes to maintain under the Core Service Plan, the SFMTA considered factors such as hospital access, ridership levels, equity needs and Citywide coverage. A phased reopening of the Muni Metro light rail system began on December 19, 2020, and two rail lines have been restored as of January 25, 2021. Additional rail lines and service will be added as ridership demand increases and subway repairs are completed.

The SFMTA has taken extensive actions to reduce COVID-19 risks to Muni drivers and passengers. The SFMTA has established and implemented employee protection protocols, including but not limited to providing operators with personal protective equipment and cleaning supplies, temporarily limiting passenger boardings to rear doors only, discontinuing high-risk modes of transportation such as cable car and historic trolley service, establishing

daily deep-cleaning routines on vehicles, redesigning schedules so operators start their shifts in recently sanitized buses, and working with the City's Department of Public Health to establish procedures for when staff test positive for COVID-19, such as contact tracing.

The SFMTA has also implemented modified operating procedures, including a mandatory operator barrier, mandatory mask wearing requirements and lower passenger loads to support social distancing. The SFMTA has implemented a Muni marketing campaign (including customer announcements, signage and the use of social media) to urge people to wear protective masks and promote social distancing, and an ambassador program along Market Street to promote social distancing at stops.

To support the City's goals of getting San Franciscans vaccinated as soon as possible, the SFMTA will begin offering a free round trip fare for all Muni and paratransit customers traveling for their COVID-19 vaccine and who choose to present proof of their appointment, beginning February 23, 2021. The fare is expected to be in place for up to one year.

### ***Impact on Parking and Traffic Functions***

The COVID-19 pandemic has substantially impacted the SFMTA's on-street parking facilities, which consists of approximately 28,000 on-street parking meters, and the SFMTA's off-street parking facilities, which consists of 21 public garages and 18 metered surface parking lots. In April 2020, following the initial stay-at-home orders in San Francisco, transient parking garage utilization based on a count of paid parking transactions declined to approximately 5% of pre-COVID-19 levels, and the number of monthly garage passholders declined to approximately 70% of pre-COVID-19 levels.

In response to such declines, and to minimize the risk of spreading COVID-19, the SFMTA closed some City-owned parking garages and limited others to monthly passholders only. To determine which parking garages to keep open, the SFMTA considered factors such as proximity to essential services such as medical facilities and markets. The SFMTA has also taken measures to reduce COVID-19 risks to parking staff and customers, including transitioning parking staff from handling customer tickets and money to supporting garage operations and customer service, and directing customers to use paying machines. In addition, the SFMTA's contracted operator has implemented updated protocols aligned with public health guidelines for parking staff and customers, including social distancing and routine cleaning and facility maintenance.

As of November 2020, transient parking garage utilization has gradually increased to approximately 50% of pre-COVID-19 levels, and the number of monthly garage passholders has remained at approximately 70% of pre-COVID-19 levels.

As of December 2020, of the 21 garages managed and operated by the SFMTA, 12 are open at full operation, eight are operating on modified schedules and one is closed, with approximately 64% of total parking garage spaces available. Of the SFMTA's 18 surface lots, 16 are open at full operation and two are temporarily dedicated to alternate uses, with approximately 85% of total surface lot parking spaces available as of December 2020.

In Fiscal Year 2019-20, total paid hours for on-street parking (a rough proxy for occupancy) was approximately 70% of total paid hours in Fiscal Year 2018-19.

COVID-19 and the City's stay-at-home orders have required many local businesses, especially restaurants and shops providing non-essential goods and services, to close. To aid such local businesses, the SFMTA and the City created the Shared Spaces program, which temporarily repurposes curbside parking spaces for pick-up and drop-off spaces for delivery, and small, open-air dining and retail spaces while indoor dining and non-essential shopping is prohibited. Between June and November 2020, approximately 2,484 parking spaces have been temporarily repurposed, approximately 1,110 of which are metered parking spaces that could otherwise generate revenue. The Shared Spaces program is currently being offered to local businesses at no cost through July 2021; however, a fee per parking space may be charged after July 2021.

In addition, from April to June 2020, the SFMTA suspended almost all parking enforcement to limit the adverse impact of COVID-19, particularly on people experiencing financial hardship and people who are vehicularly housed. Although the SFMTA has resumed giving citations for parking violations, it continues to suspend enforcement of tow-away zones (except in temporary emergency transit lanes) and violations of the 72-hour overtime parking limit.

### ***Operating Revenues***

The COVID-19 pandemic has substantially affected sources that support the SFMTA's financial operations, including passenger fares, parking and citation, advertising, real estate rents, and City General Fund transfers, each of which are further described below.

#### ***Passenger Fare Revenue***

In Fiscal Year 2019-20, passenger fare revenue declined by 22% from approximately \$196 million in Fiscal Year 2018-19 to approximately \$154 million in Fiscal Year 2019-20. In Fiscal Years 2020-21 and 2021-22, the SFMTA projects that it will receive approximately \$29 million and \$75 million in passenger fare revenue, respectively, a decline of approximately 85% and 62% from Fiscal Year 2018-19 revenues, respectively.

#### ***Parking and Citation Revenues***

In Fiscal Year 2019-20, off-street parking revenues declined by 23% from approximately \$72 million in Fiscal Year 2018-19 to approximately \$56 million in Fiscal Year 2019-20. In Fiscal Years 2020-21 and 2021-22, the SFMTA projects that it will receive approximately \$35 million and \$56 million in parking garage revenues, respectively, a decline of approximately 51% and 22% from Fiscal Year 2018-19 revenues, respectively. Net income from garages and surface lots turned negative in April 2020 and continued through June 2020. Following significant expense cuts, and with rebounding utilization, net income totaled \$1.7 million in October 2020, which is approximately 50% of pre-COVID-19 monthly net income, which averaged approximately \$3.25 million.

In Fiscal Year 2019-20, on-street meter revenues declined by 28% from approximately \$61 million in Fiscal Year 2018-19 to approximately \$44 million in Fiscal Year 2019-20. In Fiscal Years 2020-21 and 2021-22, the SFMTA projects that it will receive approximately \$37 million and \$66 million in on-street meter revenues, respectively, a decline of approximately 39% and increase of 7% from Fiscal Year 2018-19 revenues, respectively. The SFMTA reduced on-street parking meter rates from April 2020 to June 2020, but has since resumed regular rate implementation. While rate reductions may naturally result from standard demand-responsive rate adjustments at meters, the SFMTA does not have plans to implement reduced rates in the future.

In Fiscal Year 2019-20, traffic fines, fees, permits and taxi revenues declined by 23% from approximately \$151 million in Fiscal Year 2018-19 to approximately \$116 million in Fiscal Year 2019-20. In Fiscal Years 2020-21 and 2021-22, the SFMTA projects that it will receive approximately \$101 million and \$140 million in traffic fines, fees, permits and taxi revenues, respectively, a decline of approximately 33% and 7% from Fiscal Year 2018-19 revenues, respectively.

In addition, the Shared Spaces program costs the SFMTA approximately \$1.0 million to maintain per quarter, coupled with an estimated loss of approximately \$1.1 million in parking revenues. The SFMTA is considering transitioning the program into a paid program with a fee per parking space after July 2021. The current estimated total cost of the program in Fiscal Year 2020-21 is \$8.1 million, with a target for the program to be self-sustaining in Fiscal Year 2021-22.

#### ***Advertising Revenue***

The SFMTA receives advertising revenue from advertising agreements with Clear Channel Outdoor and Intersection Media. In Fiscal Year 2019-20, advertising revenues declined by 15% from approximately \$25 million in Fiscal Year 2018-19 to approximately \$22 million in Fiscal Year 2019-20.



In Fiscal Year 2020-21, both advertising companies have been unable to meet the minimum annual guarantees under their respective agreements and have requested payment forgiveness of such minimum annual guarantees through Fiscal Year 2021-22. The SFMTA has agreed to payment forbearance through December 2020, which may extend through the end of Fiscal Year 2020-21. Payment forgiveness, which requires additional approvals, including from the Board, the Board of Supervisors and the Port Commission, as applicable, would result in reduced guaranteed payments to the SFMTA.

In Fiscal Years 2020-21 and 2021-22, the SFMTA projects that it will receive approximately \$8 million and \$8 million in advertising revenues, respectively, a decline of approximately 69% and 66% from Fiscal Year 2018-19 revenues, respectively.

#### *Real Estate Rents*

The SFMTA manages over 25 agency-owned or leased facilities, and administers over 390 real estate related contracts. The SFMTA receives rental revenue from retail shops in SFMTA-controlled parking garages and from telecom service providers that lease and license SFMTA property for telecom infrastructure. Retail rents typically account for approximately \$3.7 million in revenues annually. Because the SFMTA's retail tenants have been adversely impacted by COVID-19 and the City's stay-at-home order, the SFMTA allowed the retail tenants to forbear rent payments through December 2020, with rents now payable by June 30, 2021. Telecom rents typically account for approximately \$1.5 million in revenues annually, and have not been adversely impacted by COVID-19 or the City's stay-at-home order.

In Fiscal Year 2019-20, total retail rents declined by 4.6% from approximately \$3.1 million in Fiscal Year 2018-19 to approximately \$3.0 million in Fiscal Year 2019-20, due in part to the retail rent forbearance described above. Because of continued business closures due to COVID-19 and City stay-at-home orders, and continued retail rent forbearance, the SFMTA projects that it will receive approximately \$1 million in rent revenues in Fiscal Year 2020-21, a decline of approximately 63% from Fiscal Year 2018-19 revenues. In Fiscal Year 2021-22, the SFMTA projects that it will receive approximately \$3 million in rent revenues, returning to approximately the same levels as Fiscal Year 2018-19.

#### *City General Fund Transfers*

The SFMTA receives annual non-discretionary transfers, referred to herein as General Fund Transfer No. 1, from the City's General Fund (which amount is determined pursuant to a formula), as well as an additional guaranteed annual amount from the City's General Fund equivalent to 80% of the revenues from the City's tax on occupancy of commercial off-street parking spaces, referred to herein as General Fund Transfer No. 2. In Fiscal Year 2019-20, revenues from General Fund Transfer No. 1 declined by 10.1% from approximately \$408.7 million in Fiscal Year 2018-19 to approximately \$367.5 million in Fiscal Year 2019-20, and revenues from General Fund Transfer No. 2 declined by approximately 19.3% from approximately \$68.8 million in Fiscal Year 2018-19 to approximately \$55.6 million in Fiscal Year 2019-20. The SFMTA projects that it will receive approximately \$317.5 million from General Fund Transfer No. 1 and approximately \$33.2 million from General Fund Transfer No. 2 in Fiscal Year 2020-21, a decline of approximately 22% and 52% from Fiscal Year 2018-19 revenues, respectively. For more information regarding the City General Fund transfers, see "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers."

#### *Federal Relief*

As of December 31, 2020, the SFMTA had received approximately \$374 million under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and approximately \$2.4 million from the Federal Emergency Management Agency ("FEMA") Disaster Grants – Public Assistance Program, all of which has been fully expended. Of the \$374 million received under the CARES Act, approximately \$197 million was allocated to operating expenses in Fiscal Year 2019-20, and approximately \$177 million has been allocated to operating expenses in Fiscal Year 2020-21.

The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (the “**2021 Coronavirus Act**”), which became law on December 27, 2020, provided additional federal relief for public transportation. Federal relief funds will be provided to the SFMTA through the MTC and, assuming such funds will be allocated in the same manner as funds distributed under the CARES Act, the SFMTA projects that it will receive approximately \$230 million in additional federal relief under the 2021 Coronavirus Act, with approximately \$123.9 million expected to be allocated to operating expenses in Fiscal Year 2020-21, and approximately \$106.1 million expected to be allocated to operating expenses in Fiscal Year 2021-22. However, the SFMTA has not yet received such federal relief funds and there can be no assurance that the SFMTA will receive such amounts. **For recent developments relating to federal relief funds expected to be provided to the SFMTA under the 2021 Coronavirus Act since the date of this Official Statement, see “RECENT DEVELOPMENTS – 2021 Coronavirus Act.”**

### *Pledged Revenues*

The following table sets forth historical and projected SFMTA revenues that constitute “Pledged Revenues” in Fiscal Years 2018-19 through 2021-22, including federal relief funds received in Fiscal Year 2019-20 and expected to be received in Fiscal Years 2020-21 and 2021-22. In addition, beginning in Fiscal Year 2020-21, proceeds of the Traffic Congestion Mitigation Tax will also constitute “Pledged Revenues” under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under the Indenture.”

### **HISTORICAL AND PROJECTED PLEDGED REVENUES (IN THOUSANDS) (FISCAL YEAR ENDING JUNE 30)**

<b>Revenue Source</b>	<b>Fiscal Year 2018-19 Actuals</b>	<b>Fiscal Year 2019-20 Actuals</b>	<b>Fiscal Year 2020-21 Projection<sup>(1)</sup></b>	<b>Fiscal Year 2021-22 Projection<sup>(1)</sup></b>
Passenger Fares (fixed route & paratransit)	\$197,110	\$154,100	\$ 28,730	\$ 75,369
Traffic Fines, Fees, Permits & Taxi	151,066	116,028	101,001	140,005
Parking Meters	61,264	43,913	36,530	65,798
Parking Garages	72,412	56,049	35,439	56,157
Other (includes rent, advertising & interest)	50,478	39,889	27,584	33,052
AB 1107	46,776	44,486	41,500	41,500
State Transit Assistance (STA)	64,727	61,228	48,136	60,464
Transportation Development Act (TDA)	46,163	49,434	39,410	44,648
Federal Pandemic Support (CARES Act & FEMA)	0	199,629	176,583	0
Federal Pandemic Support (Dec. 2020)	0	0	123,919	106,081
Traffic Congestion Mitigation Tax	0	0	7,384	8,881
<b>Total Pledged Revenues<sup>(2)</sup></b>	<b>\$689,996</b>	<b>\$764,755</b>	<b>\$666,216</b>	<b>\$631,955</b>

<sup>(1)</sup> Projections have been prepared by SFMTA staff based upon data available as of February 12, 2021, and based upon certain assumptions, some of which are described under “Budgetary Strategy/Short-Term Financial Plan.”

<sup>(2)</sup> Totals may not add due to rounding.

Source: SFMTA

### *Operating Expenses/Cost Controls*

The SFMTA has implemented a strict hiring freeze for all non-critical positions. In addition, a new Cost Control Committee reviews all proposed positions and has implemented strict cost controls on hiring and overtime. The SFMTA projects that in Fiscal Year 2020-21 the combined effects of the hiring freeze and overtime reductions will save approximately \$50.0 million, controls on materials and supplies will save approximately \$17.2 million, reductions in claims, judgements and workers compensation will save approximately \$5.0 million and contract expenditure controls will save approximately \$30.0 million. In addition, the SFMTA has eliminated a \$15.5 million discretionary board reserve that was originally enacted to provide expenditure appropriation flexibility. Projected total cost savings in Fiscal Year 2020-21 are approximately \$117.6 million.

Although the SFMTA has been able to minimize short-term negative impacts to services and has not furloughed or laid off any of its workforce, the SFMTA may be required to cut service and make structural adjustments to its labor force, subject to any limitations under its labor contracts, to close the projected Fiscal Year 2021-22 deficit. See “– Budgetary Strategy/Short-Term Financial Plan.”

### ***Impact on Contingency Reserve***

The SFMTA maintains a contingency reserve fund, which has approximately \$125 million on deposit as of January 1, 2021. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Contingency Reserve Policy.” The SFMTA did not use any funds from the contingency reserve fund in Fiscal Year 2019-20. The SFMTA estimates receipt of additional federal relief funds of approximately \$230 million in Fiscal Year 2020-21 under the 2021 Coronavirus Act and therefore does not anticipate that it will need to use any funds from the contingency reserve fund in Fiscal Year 2020-21. However, given currently projected deficits in Fiscal Year 2021-22 the SFMTA may use part of the contingency reserve fund to balance the budget for Fiscal Year 2021-22.

**For recent developments relating to federal relief funds expected to be provided to the SFMTA under the 2021 Coronavirus Act since the date of this Official Statement, see “RECENT DEVELOPMENTS – 2021 Coronavirus Act.”**

### ***Impacts on Capital Program***

The Board approved the SFMTA’s five-year capital improvement program covering the five-year period from Fiscal Year 2020-21 to Fiscal Year 2024-25 on April 21, 2020 (the “**Original Five-Year CIP**”), which totaled \$2.54 billion for 188 projects within 10 capital program areas. In December 2020, due to financial impacts related to the COVID-19 pandemic, the SFMTA revised the Original Five-Year CIP (as revised, the “**Revised Five-Year CIP**”). The Revised Five-Year CIP totals \$2.33 billion, an 8% decrease from the Original Five-Year CIP. See also “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program.” The following table sets forth a summary of changes from the Original Five-Year CIP to the Revised Five-Year CIP based on information available as of December 22, 2020.

#### **SUMMARY OF CHANGES TO FIVE-YEAR CAPITAL IMPROVEMENT PLAN (IN THOUSANDS) FISCAL YEAR 2020-21 TO FISCAL YEAR 2024-25**

<b>Program</b>	<b>Original Five-Year CIP (Approved April 2020)</b>	<b>Adjustments to Original Five-Year CIP</b>	<b>Revised Five-Year CIP (December 2020 Update)</b>	<b>Original to Revised Five- Year CIP (%)</b>
Communication & IT	\$25,290	(\$543)	\$24,747	(2%)
Facility	242,529	654	243,183	0
Fleet	916,070	(119,719)	796,351	(13)
Parking	22,500	(\$190)	22,310	(1)
Security	10,241	(2,241)	8,000	(22)
Signals	91,580	(15,240)	76,340	(17)
Streets	282,350	(48,029)	234,321	(17)
Taxi	2,250	222	2,472	10
Transit Fixed Guideway	392,859	33,295	426,154	8
Transit Optimization	549,668	(50,414)	499,254	(9)
<b>Total<sup>(1)</sup></b>	<b>\$2,535,338</b>	<b>(\$202,206)</b>	<b>\$2,333,132</b>	<b>(8%)</b>

<sup>(1)</sup> Totals may not add due to rounding.

Source: SFMTA

The Board also approved the SFMTA's two-year capital budget for Fiscal Years 2020-21 and 2021-22 on April 21, 2020, in the amounts of \$559.8 million and \$553.1 million, respectively (the "**Original Two-Year Capital Budget**"). The SFMTA has also revised the Original Two-Year Capital Budget, with net changes resulting in totals similar to the Original Two-Year Capital Budget, in the amounts of \$559.7 million and \$532.2 million for Fiscal Years 2020-21 and 2021-22, respectively (as revised, the "**Two-Year Capital Budget**"). See also "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program."

The full impact of the COVID-19 pandemic on the capital improvement program and the two-year capital budget is difficult to predict given the uncertainties surround the duration of the COVID-19 pandemic. The SFMTA's funding sources consist of grants from other governmental agencies that derive their funds from other sources including, but not limited to, bridge toll revenues, sales tax revenues and cap-and-trade revenues, that may be adversely impacted by the COVID-19 pandemic. The SFMTA has allocated less variable sources of funding, such as funds from the Federal Transit Administration and proceeds of the half-cent sales tax imposed pursuant to Proposition K, and cash-on-hand to near-term projects in the Revised Five-Year CIP in the Two-Year Capital Budget. For more information regarding funding sources for the Revised Five-Year CIP, see "Table 18 – Estimated SFMTA Five-Year Capital Funding by Funding Source."

### ***Current Assets***

From July 1, 2020, through January 31, 2021, the SFMTA spent approximately \$84.5 million per month on operations. The following table sets forth the SFMTA's current assets as of February 15, 2021. Current assets may fluctuate in the ordinary course of business. See also "Appendix A – "SFMTA AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 – Notes 2 and 3."

#### **SFMTA CURRENT ASSETS (IN THOUSANDS) (AS OF FEBRUARY 15, 2021)**

<b>Account</b>	<b>Balance</b>
Unrestricted Asset: Deposits and Investments with City Treasury	\$608,660
Unrestricted Asset: Deposits and Investments outside City Treasury <sup>(1)</sup>	2,667
Restricted Asset: Deposits and Investments with City Treasury	214,206
Restricted Asset: Deposits and Investments outside City Treasury <sup>(2)</sup>	26,785
Total	<u>\$852,318</u>

<sup>(1)</sup> Includes cash held by garage non-profits on behalf of SFMTA and taxi medallion funds.

<sup>(2)</sup> Includes approximately \$14.0 million in Prior Bond Reserve Accounts, which was released to the SFMTA upon the defeasance of the Series 2012 Bonds, the Series 2013 Bonds and the Series 2014 Bonds on February 23, 2021. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Obligations Secured by Pledged Revenues."

Source: SFMTA

### ***Fiscal Year 2020-21 and 2021-22 Operating Budget***

In April 2020, the SFMTA approved an operating budget for Fiscal Years 2020-21 and 2021-22 of \$1.28 billion and \$1.34 billion, respectively. In June 2020, due to the impacts of the COVID-19 pandemic on transit and parking revenues, the SFMTA submitted a revised Fiscal Year 2020-21 and Fiscal Year 2021-22 operating budget, which totals \$1.26 billion and \$1.31 billion, respectively (as revised, the "**Approved Operating Budget**").

Throughout the budget cycle, the SFMTA monitors revenues and expenditures and continues to update its financial projections as new information becomes available. As of February 12, 2021, SFMTA projects Fiscal Year 2020-21 and Fiscal Year 2021-22 revenues will be approximately \$1.14 billion and \$1.17 billion, respectively, approximately 9.3% and 10.6% lower than the Approved Operating Budget, and approximately 5.7% and 3.6% lower than Fiscal Year 2019-20 revenues, respectively.

The SFMTA projects Fiscal Year 2020-21 and Fiscal Year 2021-22 expenditures will be approximately \$1.14 billion and \$1.21 billion (including currently identified cost savings), respectively, approximately 9.3% and 7.0% lower than the Approved Operating Budget, respectively, and approximately 1.3% lower and 10.0% higher than Fiscal Year 2019-20 expenditures, respectively. The SFMTA currently projects a deficit of approximately \$47.5 million in Fiscal Year 2021-22 and is exploring different scenarios to aid in planning for a deficit reduction. See “Budgetary Strategy/Short-Term Financial Plan” below.

Revenues and expenditures for Fiscal Year 2019-20 and major changes between the Approved Operating Budget and the SFMTA’s current budget projections for Fiscal Year 2020-21 are set forth in the following tables. Revenues and expenditures set forth in the following tables are budget based; therefore, line items in the following tables will not correspond to similar line items in Table 6.

**SFMTA OPERATING BUDGET REVENUES  
(IN THOUSANDS)  
AS OF FEBRUARY 12, 2021**

Category	Fiscal Year 2019-20 Actuals <sup>(1)</sup>	Fiscal Year 2020-21 Approved Operating Budget	Fiscal Year 2020-21 Operating Budget Projection <sup>(2)</sup>	Fiscal Year 2020-21 Approved Operating Budget vs. Projection	Fiscal Year 2021-22 Approved Operating Budget	Fiscal Year 2021-22 Operating Budget Projection <sup>(2)</sup>	Fiscal Year 2021-22 Approved Operating Budget vs. Projection
General Fund Transfer No. 1	\$ 367,478	\$ 328,120	\$ 317,477	(3%)	\$ 374,610	\$ 334,512	(11%)
Traffic Fines, Fees, Permits & Taxi	116,028	136,364	101,001	(26)	162,719	140,005	(14)
Parking Meters	43,913	66,267	36,530	(45)	75,217	65,798	(13)
Parking Garages	56,049	66,555	35,439	(47)	73,539	56,157	(24)
Federal Pandemic Support	199,629	176,583	176,583	0	-	-	-
December 2020 Federal Relief	-	-	123,919	-	-	106,081	-
Operating Grants	177,394	166,049	166,762	0	193,848	184,748	(5)
Transit Fares	154,100	139,926	28,730	(79)	188,755	75,369	(60)
General Fund Transfer No. 2	55,570	47,480	33,180	(30)	67,670	48,000	(29)
Rent	2,991	2,952	1,134	(62)	3,304	3,304	0
Advertising	21,576	12,956	7,702	(41)	21,122	8,449	(60)
Other	15,322	21,594	18,748	(13)	21,320	21,299	(0)
City Population-Based Baseline	-	30,000	30,000	0	30,000	30,000	0
Transit Development Fees	-	26,072	\$26,072	0	45,093	45,093	0
Traffic Congestion Mitigation Tax	-	7,384	\$7,384	0	8,881	8,881	0
Use of Fund Balances	-	30,421	\$30,421	0	39,058	39,058	0
Total <sup>(3)</sup>	\$1,210,050	\$1,258,723	\$1,141,082	(9%)	\$1,305,136	\$1,166,754	(11%)

<sup>(1)</sup> Budget-based; line items do not correspond to similar line items in Table 6.

<sup>(2)</sup> Projections have been prepared by SFMTA staff based upon data available as of February 12, 2021, and based upon certain assumptions, some of which are described under “Budgetary Strategy/Short-Term Financial Plan.”

<sup>(3)</sup> Totals may not add due to rounding.

Source: SFMTA

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**SFMTA OPERATING BUDGET EXPENDITURES  
(IN THOUSANDS)  
AS OF FEBRUARY 12, 2021**

Category	Fiscal Year 2019-20 Actuals <sup>(1)</sup>	Fiscal Year 2020-21 Approved Operating Budget	Fiscal Year 2020-21 Operating Budget Projection <sup>(2)</sup>	Fiscal Year 2020-21 Approved Operating Budget vs. Projection	Fiscal Year 2021-22 Approved Operating Budget	Fiscal Year 2021-22 Operating Budget Projection <sup>(2)</sup>	Fiscal Year 2021-22 Approved Operating Budget vs. Projection
Salaries & Benefits	\$ 742,601	\$ 841,841	\$ 791,841	(6%)	\$ 873,689	\$ 814,393	(7%)
Contracts & Other Services	157,153	183,113	153,147	(16)	189,272	176,334	(7)
Services of Other Departments	82,618	85,309	85,309	0	89,503	89,503	0
Materials & Supplies	68,693	73,654	56,504	(23)	73,645	73,645	0
Judgements, Claims & Workers Comp	33,996	41,698	36,698	(12)	41,698	41,698	0
Equipment, Rent & Maintenance	26,620	30,041	30,041	0	31,477	31,477	0
Debt Service	25,137	23,380	23,380	0	23,362	23,362	0
Offset to Capital Projects	(32,745)	(35,837)	(35,837)	0	(36,168)	(36,168)	0
Reserve	-	15,524	-	(100)	18,659	-	0
Total <sup>(3)</sup>	\$1,104,074	\$1,258,723	\$1,141,082	(9%)	\$1,305,136	\$1,214,243	(7%)

<sup>(1)</sup> Budget-based; line items do not correspond to similar line items in Table 6.

<sup>(2)</sup> Projections have been prepared by SFMTA staff based upon data available as of February 12, 2021, and based upon certain assumptions, some of which are described under "Budgetary Strategy/Short-Term Financial Plan."

<sup>(3)</sup> Totals may not add due to rounding.

Source: SFMTA

***Budgetary Strategy/Short-Term Financial Plan***

**For recent developments relating to federal relief funds expected to be provided to the SFMTA under the 2021 Coronavirus Act since the date of this Official Statement, see "RECENT DEVELOPMENTS – 2021 Coronavirus Act."**

The SFMTA anticipates it will receive approximately \$230 million in federal relief funds under the 2021 Coronavirus Act. Approximately \$123.9 million is expected to be allocated to Fiscal Year 2020-21 operating expenses, allowing the SFMTA to produce a balanced budget in the same Fiscal Year. Approximately \$106.1 million is expected to be allocated to Fiscal Year 2021-22 operating expenses, which, combined with continued cost control measures, would result in a projected deficit of approximately \$47.5 million. The deficit may be addressed through use of contingency reserves, employee layoffs, transit service cuts, reduced customer service levels, decreased maintenance services and/or additional federal relief funds.

Key assumptions underlying the SFMTA's future projections include:

- **Transit Ridership** – Ridership levels remain low in Fiscal Year 2020-21, reaching 40% of Fiscal Year 2018-19 levels by the end of Fiscal Year 2020-21, and begin recovery in Fiscal Year 2021-22, reaching 77% of Fiscal Year 2018-19 levels by the end of Fiscal Year 2021-22, 90% of Fiscal Year 2018-19 levels by the end of Fiscal Year 2022-23, and 100% of Fiscal Year 2018-19 levels by the end of Fiscal Year 2023-24.
- **A COVID-19 Vaccine** – The return of large numbers of transit riders will depend on the development and wide administration of an effective COVID-19 vaccine.
- **Economic Recovery** – Steady increases in SFMTA's ridership is reliant on attenuation of COVID-19, the lifting of restrictive public health orders and resumption of robust retail and commercial activity, driven by the return of office workers to the Financial District as well as domestic and global tourism.
- **Parking Revenues** – The SFMTA expects parking and traffic revenues will fully rebound in Fiscal Year 2021-22, as evidenced by a comparatively robust recovery in Fiscal Year 2020-21. Parking revenues are currently at 53% of pre-pandemic levels. As San Francisco retail and commercial activity recovers, the

SFMTA projects that individuals will more readily turn to automobile-based forms of transportation, which are a key driver of parking fee and fine revenues.

- **Reductions in General Fund Transfers** – The projected general fund transfers are based on the same revenue assumptions as the Office of the Controller’s Three-, Six, and Nine-Month Reports. Considering the impacts of COVID-19 on the local and national economy, further downward revisions may occur in Fiscal Year 2020-21, with Fiscal Year 2021-22 transfers dependent on the speed and extent of San Francisco’s economic recovery.
- **Reductions to State Operating Grants** – The SFMTA receives revenue from various state sources tied to sales taxes and projects, such as AB 1107, STA and TDA. The SFMTA projects that revenues from these sources in Fiscal Year 2020-21 will be less than originally budgeted amounts, and will return to pre-COVID-19 levels by the end of Fiscal Year 2021-22. See also “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Federal, State, Regional and Local Grants – State Regional and Local Grants.”
- **Federal Relief** – The federal bill signed on December 27, 2020 includes funding for transit agencies. Apportionment is dependent on a determination by the Metropolitan Transportation Commission. The SFMTA currently assumes relief amounts from this bill to be apportioned using the same formula as was used to apportion prior CARES Act funding.

The eventual extent of full fiscal impacts of the COVID-19 global pandemic on the finances and operations of the SFMTA is difficult to predict due to the evolving nature of the pandemic and uncertainties relating thereto, and will depend on, among other things: (i) the attenuation of COVID-19 and resumption of robust retail and commercial activity driven by a return of office workers to San Francisco’s Financial District, as well as domestic and global tourism, (ii) the duration of current and potential future City stay-at-home orders and the extent of the disruption to or decline in the local and global economies and financial markets; (iii) the ramifications of future actions that may be taken or required by governmental authorities to contain and respond to the pandemic; and (iv) the severity of the economic recession and the speed of the economic recovery. If the COVID-19 pandemic and/or the economic recovery is prolonged, the likelihood or magnitude of potential adverse impacts to the SFMTA’s finances or operations from the factors discussed herein or from other factors, could be increased.

## **TERMS OF THE SERIES 2021C BONDS**

### **General**

The Series 2021C Bonds will be executed and delivered only as one fully-registered Series 2021C Bond for each maturity shown on the inside cover page hereof. The Series 2021C Bonds will be delivered only in denominations of \$5,000 or an integral multiple thereof and interest on the Series 2021C Bonds shall be payable on each March 1 and September 1 (each an “**Interest Payment Date**”), commencing September 1, 2021, so long as any Series 2021C Bonds are outstanding. Interest on the Series 2021C Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Series 2021C Bonds will accrue from the date of delivery thereof at the rates per annum set forth on the inside cover page of this Official Statement. The principal of the Series 2021C Bonds will be payable, subject to redemption, as described below, on the dates and in the principal amounts set forth on the inside cover page of this Official Statement.

### **Form and Registration**

The Series 2021C Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“**DTC**,” together with any successor securities depository, the “**Securities Depository**”). DTC will act as initial Securities Depository for the Series 2021C Bonds so purchased. Individual purchases will be made in book-entry only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Series 2021C Bonds. So long as Cede & Co. is the registered owner of the Series 2021C Bonds, as nominee of DTC, references herein to the Bondholders, holders or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the Series 2021C Bonds. In this Official

Statement, the term “Beneficial Owner” shall mean the person for whom a Participant (as defined herein) acquires an interest in the Series 2021C Bonds.

So long as Cede & Co. is the registered owner of the Series 2021C Bonds, all payments of principal and interest on the Series 2021C Bonds will be payable by wire transfer of same day funds by the Trustee to Cede & Co., as nominee of DTC as the sole registered owner of the Series 2021C Bonds. DTC and its Participants are solely responsible for payments to the Beneficial Owners.

In the event the use of the book-entry only system is discontinued, principal of, premium, if any, on the Series 2021C Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee in San Francisco, California. Interest payable on the Series 2021C Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Series 2021C Bond is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date, in accordance with the provisions set forth in the Indenture.

A more detailed description of the Book-Entry Only System is contained in Appendix F – “DTC AND THE BOOK-ENTRY ONLY SYSTEM” attached hereto.

## Redemption

Optional Redemption of Series 2021C Bonds. The Series 2021C Bonds are subject to redemption at the option of the SFMTA, as a whole or in part among such maturities (and by lot within any one maturity) as designated by the SFMTA prior to their respective maturity dates, on any date on or after March 1, 2031, from funds derived by the SFMTA from any legally available source, at a redemption price equal to 100% of the principal amount of the Series 2021C Bonds called for redemption, together with interest accrued thereon to the date of redemption.

Mandatory Sinking Fund Redemption of Series 2021C Bonds. The Series 2021C Bonds maturing on March 1, 2046 (the “**Series 2021C 2046 Term Bonds**”), are subject to mandatory redemption in part by lot prior to their maturity date, on March 1, commencing March 1, 2043 solely from money which has been deposited into the Series 2021C Debt Service Account for such purpose in amounts and upon the dates established for such Series 2021C 2046 Term Bonds, as follows:

Year (March 1)	Mandatory Sinking Fund Payment
2043	\$2,500,000
2044	2,605,000
2045	7,210,000
2046 <sup>†</sup>	7,500,000

<sup>†</sup> Maturity

The Series 2021C Bonds maturing on March 1, 2051, and bearing interest at the rate of 4.00% per annum (the “**Series 2021C 2051 4.00% Term Bonds**”) are subject to mandatory redemption in part by lot prior to their maturity date, on March 1, commencing March 1, 2047 solely from money which has been deposited into the Series 2021C Debt Service Account for such purpose in amounts and upon the dates established for such Series 2021C 2051 4.00% Term Bonds, as follows:

Year (March 1)	Mandatory Sinking Fund Payment
2047	\$3,805,000
2048	9,030,000
2049	9,435,000
2050	9,860,000
2051 <sup>†</sup>	9,870,000

<sup>†</sup> Maturity



The Series 2021C Bonds maturing on March 1, 2051, and bearing interest at the rate of 5.00% per annum (the “**Series 2021C 2051 5.00% Term Bonds**”) are subject to mandatory redemption in part by lot prior to their maturity date, on March 1, commencing March 1, 2047 solely from money which has been deposited into the Series 2021C Debt Service Account for such purpose in amounts and upon the dates established for such Series 2021C 2051 5.00% Term Bonds, as follows:

Year (March 1)	Mandatory Sinking Fund Payment
2047	\$ 3,775,000
2048	8,945,000
2049	9,345,000
2050	9,765,000
2051 <sup>†</sup>	10,640,000

<sup>†</sup> Maturity

If some but not all of the Series 2021C Bonds maturing on any date have been redeemed pursuant to optional redemption, the total amount of all remaining mandatory sinking fund payments relating to such Series 2021C Bonds shall be reduced by the aggregate principal amount of such Series 2021C Bonds so redeemed to be allocated among such mandatory sinking fund payments as determined by the SFMTA.

**Notice of Redemption.** The Trustee is required to send a notice of redemption to the Owners of any Series 2021C Bonds selected for redemption not less than 20 days prior to the date set for redemption by first class mail or electronic mail, as appropriate (i) with respect to each Series 2021C Bond to be redeemed, to the Owner of such Series 2021C Bond at his or her address as it appears on the records maintained by the Registrar, and (ii) to any information services of national recognition which disseminate redemption information with respect to municipal securities, as directed by the SFMTA. However, so long as any Series 2021C Bonds of such Series are in book-entry form through the facilities of DTC, notice of redemption will be provided to Cede & Co., as the registered owner of the Series 2021C Bonds, and not directly to the Owners.

Each notice of redemption will specify: (i) the date of such notice and the date fixed for redemption, (ii) the Principal Amount of Series 2021C Bonds or portions thereof to be redeemed; (iii) the place or places where the redemption will be made, including the name and address of the Trustee; (iv) the redemption price; (v) the CUSIP numbers, if any, assigned to the Series 2021C Bonds to be redeemed; (vi) that payment of the principal amount and premium, if any, shall be made upon presentation and surrender to the Trustee or paying agent, as applicable, of the Series 2021C Bonds to be redeemed; (vii) that interest accrued to the date fixed for redemption shall be paid as specified in such notice; and (viii) that on and after said date interest on the Series 2021C Bonds called for redemption shall cease to accrue.

Neither the failure to receive any redemption notice nor any defect in such redemption notice so given shall affect the sufficiency of the proceedings for such redemption of the Series 2021C Bonds.

**Conditional Notice: Cancellation of Optional Redemption.** Any notice of optional redemption may be conditional and may be modified or cancelled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Series 2021C Bonds then called for redemption or any other condition to the redemption has not been satisfied, and such modification or cancellation shall not constitute an Event of Default under the Indenture. The notice of redemption shall indicate whether it is conditional and a conditional redemption date may be extended with three (3) business days’ notice.

**Partial Redemption of Series 2021C Bonds.** Whenever provision is made in the Indenture for the redemption of the Series 2021C Bonds (other than from the Sinking Fund Installments) and less than all of the Outstanding Series 2021C Bonds of a Series are to be redeemed, the SFMTA will designate the maturity or maturities to be redeemed and specify to the Trustee the principal amount in each maturity to be redeemed. Whenever less than all of the Outstanding Series 2021C Bonds of a Series maturing on any one date are called for redemption, the Trustee will select the portions to be redeemed by lot in a manner the Trustee deems fair and appropriate.

**Effect of Notice of Redemption.** When a notice of redemption has been duly given as provided in the Indenture and sufficient moneys for the redemption of the Series 2021C Bonds selected for redemption, together with accrued interest to such redemption date are held by the Trustee; then, from and after such redemption date, interest on the Series 2021C Bonds selected for redemption will cease to accrue, and all such Series 2021C Bonds will cease to be entitled to any benefit or security under the Indenture, except for the right of the Owners to receive payment of the redemption price thereof.

**Purchase of Series 2021C Bonds.** The SFMTA may at any time purchase Series 2021C Bonds and such Series 2021C Bonds shall be deemed cancelled or Outstanding as determined by the SFMTA in a writing of an Authorized SFMTA Representative delivered to the Trustee. Further, the SFMTA may purchase Series 2021C Bonds in lieu of redemption, including sinking fund redemption, and such purchase shall be a credit to any obligation to redeem such Series 2021C Bonds and in the case of Series 2021C Bonds subject to sinking fund installment redemption, the SFMTA may indicate in writing to the Trustee which sinking fund installments are to be credited. The remarketing or resale of any Series 2021C Bonds purchased by or on behalf of the SFMTA shall be conditioned upon delivery of an Opinion of Bond Counsel.

## SERIES 2021C PROJECTS

The SFMTA expects to apply a portion of the proceeds of the Series 2021C Bonds to finance the planning, design, acquisition, construction, reconstruction, rehabilitation or improvement of certain projects briefly described below (the “**Series 2021C Projects**”). These descriptions are not intended to and do not constitute a commitment by the SFMTA to finance or complete any particular project. The SFMTA is permitted to substitute other projects, including the projects listed below and other projects in its Five-Year Capital Improvement Plan, for some or all of the Series 2021C Projects. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program.”

### ANTICIPATED APPLICATION OF BOND PROCEEDS FOR SERIES 2021C PROJECTS

Projects	Bond Proceeds
1200 15th Street Renovation	\$ 20,000,000
Train Control System Upgrade	41,000,000
Parking Meter Replacement	22,000,000
Transit Optimization	35,000,000
<i>Total Uses of Funds</i>	\$118,000,000

Source: SFMTA

**1200 15<sup>th</sup> Street Renovation.** This project includes the renovation of the 1200 15<sup>th</sup> Street facility, which will house the SFMTA’s parking control officers. According to MTA, the existing facility for parking control officers at 505 7th Street is outdated and will not accommodate additional staff members that the SFMTA is planning to hire. Preliminary engineering work began in January 2021 and construction is expected to be complete in November 2025.

**Train Control System Upgrade.** The SFMTA’s current Automatic Train Control System is aging and frequently responsible for Muni Metro subway slowdowns. This project includes the design and procurement of a next-generation communications-based train control system for the rail network, including both surface and subway alignments to bring the train control system into a state of good repair and enable the expansion of rail service. Preliminary engineering work is expected to begin in February 2022 and construction is expected to be complete in September 2029.

**Parking Meter Replacement.** This project includes funding a portion of the replacement costs associated with over 29,000 of the City’s parking meters with updated equipment based on end-of-life issues and the use of current wireless technology. The current meters have reached their useful lifespan and the current cellular technology used will soon be obsolete as the industry moves to 5G technology. Construction is expected to begin in January 2022 and be complete by the end of 2022.

***Transit Optimization.*** This project includes constructing a package of transit, streetscape and pedestrian safety improvements along a two-mile corridor of Van Ness Avenue. Key features include conversion of two mixed-flow traffic lanes into dedicated bus lanes, consolidated transit stops, high quality stations, transit signal priority and pedestrian safety enhancements.

### **Bond Oversight Committee**

In 2011, the Board established the SFMTA Bond Oversight Committee (the “**BOC**”) to oversee the expenditure of bond proceeds funded by SFMTA revenue bonds and other forms of indebtedness. The purpose of the BOC is to ensure that bond proceeds are spent on permitted purposes and that prudent internal controls are established. The BOC consists of seven members: three members recommended by the Chair of the Board and approved by the Board, two members of the SFMTA’s Citizens’ Advisory Council, one member appointed by the SFMTA’s Director of Transportation and one member appointed by the Controller. The BOC provides annual reports about its activities.

### **ESTIMATED SOURCES AND USES OF FUNDS**

Proceeds of the Series 2021C Bonds are expected to be applied as set forth below:

	<u>Series 2021C Bonds</u>
<i>Sources</i>	
Bond Principal	\$104,285,000.00
Original Issue Premium	19,006,780.75
<i>Total Sources of Funds</i>	<u>\$123,291,780.75</u>
<i>Uses</i>	
Series 2021C Project Costs Account <sup>(1)</sup>	\$118,236,000.00
Capitalized Interest <sup>(2)</sup>	4,468,430.56
Costs of Issuance <sup>(3)</sup>	338,967.41
Underwriters’ Discount	248,382.78
<i>Total Uses of Funds</i>	<u>\$123,291,780.75</u>

<sup>(1)</sup> Of the total Series 2021C Project Costs Account deposit, \$118,000,000 will be used to pay for Series 2021C Projects and \$236,000 (representing 0.2% of the Series 2021C Project Costs Account for Series 2021C Projects) will be used to pay the City services auditor fee.

<sup>(2)</sup> Interest on the Series 2021C Bonds is capitalized through March 1, 2022.

<sup>(3)</sup> Including amounts for rating agency fees, fees for legal services, fees for municipal advisor, Trustee fees and expenses, printing costs, and other costs relating to the issuance of the Series 2021C Bonds.

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## DEBT SERVICE SCHEDULE

The table below sets forth the debt service requirements for the Outstanding Bonds (which upon the issuance of the Series 2021AB Bonds excludes the Series 2012 Bonds, the Series 2013 Bonds and the Series 2014 Bonds which were refunded and defeased thereby), the Series 2021AB Bonds and the Series 2021C Bonds.

<b>Fiscal Year Ending June 30</b>	<b>Outstanding Bonds<sup>(1)</sup></b>	<b>Series 2021A Bonds</b>	<b>Series 2021B Bonds</b>	<b>Series 2021C Bonds Principal</b>	<b>Series 2021C Bonds Interest<sup>(2)</sup></b>	<b>Total Debt Service<sup>(3)</sup></b>
2021	\$13,885,709	--	--	--	--	\$ 13,885,709
2022	10,056,788	\$ 3,112,680	\$ 183,182	--	--	13,352,650
2023	10,055,788	8,215,013	179,200	--	\$ 4,596,100	23,046,101
2024	10,056,038	13,097,140	179,200	--	4,596,100	27,928,478
2025	10,052,038	13,102,987	179,200	--	4,596,100	27,930,325
2026	10,053,538	13,096,867	179,200	--	4,596,100	27,925,705
2027	10,054,788	13,098,066	179,200	--	4,596,100	27,928,154
2028	10,055,288	13,095,056	179,200	--	4,596,100	27,925,644
2029	10,054,538	13,100,104	179,200	--	4,596,100	27,929,942
2030	10,052,038	13,098,642	179,200	--	4,596,100	27,925,980
2031	10,052,288	8,623,724	4,659,200	--	4,596,100	27,931,312
2032	10,054,538	13,274,892	--	--	4,596,100	27,925,530
2033	10,052,638	13,282,547	--	--	4,596,100	27,931,285
2034	10,055,638	7,304,652	--	--	4,596,100	21,956,390
2035	10,053,238	7,301,555	--	--	4,596,100	21,950,893
2036	10,055,438	7,305,315	--	--	4,596,100	21,956,853
2037	10,052,438	7,301,525	--	--	4,596,100	21,950,063
2038	10,054,525	7,303,846	--	--	4,596,100	21,954,471
2039	10,054,463	7,301,400	--	--	4,596,100	21,951,963
2040	10,053,463	7,299,187	--	--	4,596,100	21,948,750
2041	10,051,825	7,297,067	--	--	4,596,100	21,944,992
2042	10,054,825	7,304,900	--	--	4,596,100	21,955,825
2043	10,055,425	4,502,266	--	\$ 2,500,000	4,596,100	21,653,791
2044	10,053,225	4,502,815	--	2,605,000	4,496,100	21,657,140
2045	10,052,825	--	--	7,210,000	4,391,900	21,654,725
2046	10,053,625	--	--	7,500,000	4,103,500	21,657,125
2047	10,055,025	--	--	7,580,000	3,803,500	21,438,525
2048	--	--	--	17,975,000	3,462,550	21,437,550
2049	--	--	--	18,780,000	2,654,100	21,434,100
2050	--	--	--	19,625,000	1,809,450	21,434,450
2051	--	--	--	20,510,000	926,800	21,436,800
<b>TOTAL<sup>(2)</sup></b>	<b>\$275,291,993</b>	<b>\$212,922,247</b>	<b>\$6,275,982</b>	<b>\$104,285,000</b>	<b>\$122,166,000</b>	<b>\$720,941,222</b>

<sup>(1)</sup> Reflects the refunding of the Series 2012 Bonds, the Series 2013 Bonds and the Series 2014 Bonds. Consists of debt service on the Series 2017 Bonds and September 1, 2020 debt service on the Series 2012 Bonds, the Series 2013 Bonds and the Series 2014 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Obligations Secured by Pledged Revenues."

<sup>(2)</sup> Net of capitalized interest.

<sup>(3)</sup> Totals may not add due to rounding.

## GREEN BONDS DESIGNATION

The SFMTA has designated the Series 2021C Bonds as "Green Bonds" based on the intended use of the proceeds of the Series 2021C Bonds to finance four environmental beneficial projects, including (i) the 1200 15th Street Renovation project; (ii) the Train Control System Upgrade project; (iii) the Parking Meter Replacement project; and (iv) the Transit Optimization project, each as further described under "SERIES 2021C PROJECTS."

The SFMTA engaged S&P Global Ratings (“S&P”) to provide a Green Transaction Evaluation score pursuant to S&P’s Green Transaction Evaluation criteria. Although the SFMTA considers all of the projects listed above to be green projects, S&P deemed the Parking Meter Replacement project to be outside the scope of its Green Transaction Evaluation framework. Based on its evaluation of the remaining projects for which 81% of the project funds are intended to be used, S&P gave the financing of such projects a Green Transaction Evaluation score of E2/74.

The SFMTA has determined that the Series 2021C Bonds issued to finance the projects not evaluated by S&P will consist of the Series 2021C Bonds in the aggregate principal amount of \$19,815,000 maturing March 1, 2046. The SFMTA has further determined that the balance of the Series 2021C Bonds in the aggregate principal amount of \$84,470,000 maturing March 1, 2051 will be issued to finance the projects evaluated by S&P.

A copy of the Green Transaction Evaluation report, which describes S&P’s Green Transaction Evaluation criteria and provides the rationale for the SFMTA’s Green Transaction Evaluation score, is attached as Appendix H to this Official Statement.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **Special, Limited Obligations**

The Series 2021C Bonds are special, limited obligations of the SFMTA secured by and payable solely from Pledged Revenues of the SFMTA and from moneys held in certain funds and accounts established pursuant to the Indenture. The SFMTA is not obligated to pay the principal of, premium, if any, or interest on the Series 2021C Bonds from any source of funds other than Pledged Revenues and amounts on deposit in certain funds and accounts held under the Indenture and subject to the terms thereof. The SFMTA has no taxing power. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the Series 2021C Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the Series 2021C Bonds. The Series 2021C Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or of the SFMTA or any of its income or receipts, except Pledged Revenues and amounts on deposit in certain funds and accounts held under the Indenture and subject to the terms thereof.

### **Pledge of Pledged Revenues Under the Indenture**

The Indenture provides the Bonds shall be payable as to principal, premium, if any, and interest exclusively from, and shall be secured by a pledge of, first lien on and security interest in Pledged Revenues. Under the Indenture, for the benefit of the Bondholders and the holders of any other Parity Obligations, the SFMTA also grants a first lien on and security interest in, amounts on deposit from time to time in the Funds and Accounts created pursuant to the Indenture, subject to the provisions of the Indenture and any Supplemental Indenture permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Indenture.

The Fifth Supplemental Indenture amends the definition of “Pledged Revenues” under the Master Indenture to include amounts received by the SFMTA from proceeds of the Traffic Congestion Mitigation Tax. As amended, the term “**Pledged Revenues**” is defined under the Indenture to mean all revenue of the SFMTA from or with respect to its management, supervision, operation and control of the Transportation System of the City, as determined in accordance with generally accepted accounting principles. Pledged Revenues shall include, but not be limited to, (i) grants or transfers funded pursuant to the Transportation Development Act (Sections 99200 et seq. of the California Public Utilities Code) (the “**TDA**”) and AB 1107 (Sections 29140 et seq. of the Public Utilities Code) (“**AB 1107**”), (ii) SFMTA parking meter revenues (but only to the extent Bonds or other Parity Obligations have financed traffic regulation and control functions), and (iii) amounts received by the SFMTA from proceeds of the Traffic Congestion Mitigation Tax levied by the City pursuant to the City’s Traffic Congestion Mitigation Tax Ordinance (Article 32 of the City’s Business and Tax Regulations Code), or any successor legislation. Pledged Revenues shall not include: (a) Special Facility Revenue and any interest income or profit realized from the investment thereof, unless such receipts or a portion thereof are designated as Pledged Revenues by the SFMTA, (b) grants or contributions, which by their terms would be restricted to uses inconsistent with the payment of the Bonds, (c) any State or federal grant (except for grants or transfers funded pursuant to the TDA or AB 1107) unless such grant by its terms may be used to pay debt service and is designated as Pledged Revenues in a Supplemental Indenture or certificate of an Authorized SFMTA

Representative, (d) any amounts transferred to the SFMTA from the City's General Fund and any amounts in the SFMTA General Fund Transfer Account or (e) SFMTA parking meter revenues allocable to all or a portion of any Bonds or Parity Obligations that have not financed traffic regulation and control functions. See Table 7 under "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Operating Revenues" for a description of historical receipts which would have constituted Pledged Revenues under the Indenture definition. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Traffic Congestion Mitigation Tax" for a description of how proceeds of the Traffic Congestion Mitigation Tax are allocated to the SFMTA.

Although the Charter requires the City to make significant fund transfers from the City's General Fund to the SFMTA to support the SFMTA's activities, the Indenture provides that such funds will be expended on operation and maintenance expenses and other SFMTA purposes, but are not to be used to pay debt service on Bonds, including the Series 2021C Bonds. The City has no obligation to transfer any amounts from the City's General Fund to the SFMTA for the purpose of repaying the principal of, premium, if any, and interest on the Series 2021C Bonds or, except with respect to transfers required by the Charter, for the purpose of paying any additional expenses, including operation and maintenance expenses, of the SFMTA. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers" herein. The SFMTA currently does not derive revenue from any facility classifiable as "Special Facility Revenue" under the Indenture and does not have any "Special Facility Bonds" outstanding. See "– Additional Bonds and Other Indebtedness – Special Facilities and Special Facility Bonds."

"**Transportation System**" is defined to mean the transportation system of the City over which the SFMTA has jurisdiction pursuant to the Charter and includes the City's public transit, paratransit, street and traffic management and improvements, including parking meters and fines, bicycle and pedestrian safety and enhancement programs, on and off-street parking improvements and programs, including the parking garages owned or overseen by the SFMTA, the regulation of taxis and commercial vehicles within the City and any other revenue producing activities of the SFMTA.

#### **Application of Pledged Revenues and Enterprise Account**

Section 8A.105 of the Charter establishes the "Municipal Transportation Fund." The Municipal Transportation Fund receives moneys from: (a) the City's General Fund (pursuant to a formula described under the heading "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers"); (b) the revenues generated by Muni, the operations of the Sustainable Streets Division and the Parking Authority; and (c) all other funds received by the City from any source, including State and federal sources, for the support of the SFMTA. The Municipal Transportation Fund is maintained separate and apart from all other City funds. Moneys therein are appropriated, expended, or used by the SFMTA solely and exclusively for the operation including, without limitation, capital improvements, management, supervision, maintenance, extension and day-to-day operation of the SFMTA, including any division subsequently created or incorporated into the SFMTA and performing transportation-related functions.

**Enterprise Account.** All Pledged Revenues as received shall be set aside and deposited by the SFMTA in the Enterprise Account established, pursuant to the Indenture, within the Municipal Transportation Fund, and any successor to such account (the "**Enterprise Account**"). Moneys in the Enterprise Account shall be applied by the SFMTA for the following purposes in the following amounts and order of priority, each priority to be fully satisfied before the next priority:

(a) Moneys in the Enterprise Account shall be transferred to the Trustee for deposit in the Debt Service Fund in amounts sufficient to pay principal and purchase price of and interest and redemption premium on the Bonds. Moneys in the Enterprise Account or Debt Service Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations or other Parity Obligations to the extent provided in the Indenture. If and to the extent provided for in any Supplemental Indenture authorizing the issuance of a Series of Bonds, Swap Payments may be paid directly out of moneys in the Enterprise Account or Debt Service Fund. Moneys shall be transferred from the Enterprise Account to the Trustee for deposit in the Debt Service Fund at the following times and amounts:

(i) for any Bond payment that is due monthly or more frequently than a monthly basis, the amount due shall be transferred to the Trustee for deposit in the Debt Service Fund at least five Business Days prior to the Payment Date. Reasonable estimates may be made by the SFMTA in the case of Bonds

with variable rates of interest and proceeds of refinancing obligations that are expected to refinance Amortized Bonds or other Bonds may be taken into account in lieu of transfers in advance from the Enterprise Account;

(ii) for any Bond payment that is due annually, semi-annually, quarterly or less frequently than a monthly basis, the amount due shall be transferred to the Trustee for deposit in the Debt Service Fund in approximately equal monthly installments prior to the Payment Date. The monthly installments for any such Payment Date shall begin the month after the prior related Payment Date and have the final installment at least five Business Days prior to such Payment Date. Reasonable estimates may be made by the SFMTA in the case of Bonds with variable rates of interest and proceeds of refinancing obligations that are expected to refinance Amortized Bonds or other Bonds may be taken into account in lieu of transfers in advance from the Enterprise Account. The SFMTA may choose to transfer the monthly amounts due for Bond payments in advance; and

(b) On or before each Payment Date, moneys in the Enterprise Account shall be transferred to the Trustee for deposit in the appropriate account within the Reserve Fund in the amount that is needed to satisfy any deficiency in the funding of the Reserve Requirement for a Series of Bonds (provided that replenishment of the Reserve Fund (or any account therein) after any draw from the Reserve Fund to pay debt service on Bonds shall be funded in approximately equal monthly installments over eighteen (18) months).

(c) Any amounts remaining after the applications pursuant to paragraph (a) or (b) above shall be used for any lawful purpose of the SFMTA and in accordance with all relevant provisions of the Charter, including but not limited to operation and maintenance expenses and payment of Subordinate Bonds.

***Series 2021C Debt Service Account.*** Moneys held by the Trustee in the Debt Service Fund are to be transferred to the Series 2021C Debt Service Account established and maintained by the Trustee within the Debt Service Fund pursuant to the Indenture, as follows:

On or before the Business Day prior to each Series 2021 Payment Date, the Trustee is required to transfer from the Debt Service Fund to the Series 2021C Debt Service Account established and maintained by the Trustee within the Debt Service Fund pursuant to the Indenture the interest and principal amount to become due on the Series 2021C Bonds on such Series 2021 Payment Date; provided that the SFMTA need not transfer any moneys at such time as the balance in the Series 2021C Debt Service Account is equal to the aggregate amount of interest and principal amount becoming due and payable on the then Outstanding Series 2021C Bonds on such Series 2021 Payment Date. The obligation to make such transfers shall be on a parity with the obligation to fund any interest accounts created in the future under the Indenture with respect to any additional Series of Bonds issued pursuant to the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

***General Fund Transfer Account.*** All proceeds of transfers from the City's General Fund as received shall be set aside and deposited by the SFMTA in the General Fund Transfer Account established by the Indenture within the Municipal Transportation Fund. Amounts in the General Fund Transfer Account may not be transferred to the Enterprise Account and are not pledged to the payment of principal of, premium, if any, and interest on the Bonds. The SFMTA has covenanted in the Indenture to apply amounts on deposit in the General Fund Transfer Account solely to pay operation and maintenance expenses or other costs of the SFMTA. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under the Indenture."

#### **No Reserve Account for the Series 2021C Bonds**

The Series 2021C Bonds will not be secured by any reserve account.

Reserve Accounts were established in connection with the issuance of the Series 2012 Bonds, the Series 2013 Bonds, and the Series 2014 Bonds (collectively, the "**Prior Bond Reserve Accounts**"). Upon the issuance of the Series 2021AB Bonds and the defeasance of the Series 2012 Bonds, the Series 2013 Bonds and the Series 2014 Bonds, which occurred on February 23, 2021, all amounts in the Prior Bond Reserve Accounts were released to the SFMTA.

## **Permitted Investments**

The Indenture provides that moneys in all funds and accounts held by the Trustee under the Indenture shall be invested upon receipt in Permitted Investments as directed by the SFMTA. For a summary of the definition of Permitted Investments and information regarding the investment of moneys held in the various funds and accounts relating to the Bonds, see Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – THE MASTER INDENTURE – Funds – Investment of Moneys” attached hereto. For information regarding the investment of moneys held in the various funds and accounts of the SFMTA, see “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Investment of SFMTA Funds” herein.

## **Covenant to Adopt a Balanced Budget and Maintain Adequate Pledged Revenues**

Under the Indenture, the SFMTA covenants that it will adopt for each Fiscal Year or every two Fiscal Years a budget that is balanced in accordance with Section 8A.106 of the Charter and that provides for payment of Annual Debt Service in such Fiscal Year(s). The SFMTA has further covenanted to manage its operations and set charges (including but not limited to fares, rates and fees) for the Transportation System so that Pledged Revenues in each Fiscal Year, and available fund balances held by the SFMTA or the Trustee, will be at least equal to Annual Debt Service, payments due on Subordinate Bonds (as defined below) and payment of all costs reasonably necessary to operate the Transportation System in such Fiscal Year (but not including costs that have been funded from other sources not constituting Pledged Revenues or that may be reasonably deferred).

The SFMTA further covenants in the Indenture that if it is unable to comply with the covenant described in the previous paragraph, the SFMTA will review its operations and its schedule of fares, rates, fees and charges and prepare a plan with reasonable measures to comply with such covenant. The SFMTA shall take such plan into account for future budgets and management.

See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Financial Operations – Budget Process” for more information about the SFMTA’s budget procedures and see generally “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY” for further information about the SFMTA’s revenues and expenditures. See also “CERTAIN RISK FACTORS” for a discussion of certain risk factors that could adversely affect the ability of the SFMTA to maintain Pledged Revenues as required by the Indenture.

## **Other Obligations Secured by Pledged Revenues**

**The SFMTA issued its Series 2021AB Bonds in an aggregate principal amount of \$174,950,000 on February 23, 2021, to refund and defease all of the then-outstanding Series 2012 Bonds, Series 2013 Bonds and Series 2014 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Obligations Secured by Pledged Revenues.”**

The Series 2021C Bonds are payable from Pledged Revenues under the Indenture on a parity with the SFMTA’s Revenue Bonds, Series 2017, currently outstanding in the aggregate principal amount of \$166,865,000, and the Series 2021AB Bonds.

## **Additional Bonds and Other Indebtedness**

Pursuant to the Indenture, the SFMTA is permitted to issue additional Bonds pursuant to a Supplemental Indenture and to enter into additional obligations secured by Pledged Revenues on parity with the payment of principal of, premium, if any, and interest on the Bonds, provided that the conditions described below are satisfied. In addition to the Bonds, the SFMTA anticipates incurring future debt payable from Pledged Revenues on parity with the payment of principal of, premium, if any, and interest on the Series 2021C Bonds.

**Additional Bonds.** The SFMTA may not issue any additional Series of Bonds or other Parity Obligations (other than refunding Bonds as described below) unless the Trustee has been provided with, among other things, a report of the SFMTA demonstrating that either:



(i) for the most recently ended Fiscal Year prior to the issuance of such additional Series of Bonds or other Parity Obligations, the SFMTA: (A) complied with the covenant described under the heading “Covenant to Adopt a Balanced Budget and Maintain Adequate Pledged Revenues,” and (B) Pledged Revenues in such prior Fiscal Year were at least equal to 300% of Maximum Annual Debt Service, calculated assuming such additional Series of Bonds or other Parity Obligations were Outstanding during such prior Fiscal Year; or

(ii) based on projections for the period from and including the first full Fiscal Year following the issuance of such Bonds or other Parity Obligations through and including the later of (A) the fifth full Fiscal Year following the issuance of such Bonds or other Parity Obligations or (B) the third full Fiscal Year during which no interest on such Bonds or other Parity Obligations is expected to be paid from the proceeds thereof, projected Pledged Revenues in each such Fiscal Year will be at least equal to 300% of Maximum Annual Debt Service and be sufficient to allow the SFMTA to be able to comply with the covenant described under the heading “– Covenant to Adopt a Balanced Budget and Maintain Adequate Pledged Revenues.”

In determining projected Pledged Revenues for purposes of the report of the SFMTA described in the paragraph above, the SFMTA may take into account any reasonably anticipated changes in Pledged Revenues over such period, which assumed changes and the basis therefor shall be described in the calculations provided by the SFMTA. In determining Annual Debt Service for such purposes, (i) Bonds that will be paid or discharged immediately after the issuance of the Series of Bonds proposed to be issued from the proceeds thereof or other moneys shall be disregarded, and (ii) Variable Rate Bonds and variable rate Interest Rate Swaps shall generally be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the lower of 125% of the average Index Rate (i.e., generally defined under the Indenture as the SIFMA Municipal Swap Index) during the twelve calendar months immediately preceding the date on which such calculation is made or the maximum rate of interest payable under such Variable Rate Bonds, Amortized Bonds or Interest Rate Swaps.

The SFMTA may also issue Bonds for the purpose of refunding any Bonds or other Parity Obligations on or prior to maturity.

***Repayment Obligations as Bonds.*** If so provided in the applicable Supplemental Indenture and in the written agreement between the SFMTA and a Credit Provider, a Repayment Obligation (other than a Repayment Obligation with respect to a Credit Facility credited to the Reserve Fund) may be accorded the status of an obligation payable on a parity from Pledged Revenues with the Bonds for purposes of securing such Repayment Obligation under the Indenture. The foregoing rights of a Credit Provider are in addition to any rights of subrogation which the Credit Provider may otherwise have or be granted under law or pursuant to any Supplemental Indenture. Currently, there are no Repayment Obligations outstanding.

***Interest Rate Swaps as Bonds.*** If so provided in the applicable Supplemental Indenture and in the written agreement establishing an Interest Rate Swap between the SFMTA and a Swap Counter Party, Swap Payments under an Interest Rate Swap (including a termination payment) may be accorded the status of an obligation payable on a parity from Pledged Revenues with the Bonds for purposes of securing such obligation to make Swap Payments under the Indenture. As of the date of this Official Statement, the SFMTA had not entered into any Interest Rate Swaps.

***Special Facilities and Special Facility Bonds.*** The SFMTA from time to time, subject to the terms and conditions of the Indenture and all applicable laws, may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is under its jurisdiction, as a “Special Facility,” (b) provide that revenues earned by the SFMTA from or with respect to such Special Facility shall constitute “Special Facility Revenue” and shall not be included as Pledged Revenues, and (c) issue Special Facility Bonds primarily for the purpose of acquiring, constructing, renovating or improving, or providing financing to a third party to acquire, construct, renovate or improve, such Special Facility. The Special Facility Bonds shall be payable as to principal, purchase price, if any, redemption premium, if any, and interest from and secured by the Special Facility Revenue with respect thereto, and not from or by Pledged Revenues. The SFMTA from time to time may refinance any such Special Facility Bonds with other Special Facility Bonds.

No Special Facility Bonds may be issued by the SFMTA unless there shall have been filed with the Trustee (i) a certificate of the SFMTA to the effect that no Event of Default then exists under the Indenture, (ii) an opinion of

Bond Counsel to the effect that such Special Facility Bonds may lawfully be issued in accordance with the Charter and all other applicable laws and (iii) a report of the SFMTA providing the following projections:

(a) the estimated Special Facility Revenue with respect to the proposed Special Facility are at least sufficient to pay the principal (either at maturity or by mandatory sinking fund redemptions) or purchase price of and interest on such Special Facility Bonds as and when the same shall become due, all costs of operating and maintaining such Special Facility to be paid by the SFMTA, and all sinking fund, reserve fund and other payments required with respect to such Special Facility Bonds as and when the same will become due; and,

(b) the estimated Pledged Revenues calculated without including the Special Facility Revenue and without including any operation and maintenance expenses of the Special Facility will be sufficient so that the SFMTA is able to be in compliance with its covenants under the Indenture (see “– Covenant to Adopt a Balanced Budget and Maintain Adequate Pledged Revenues” above) during each of the five full Fiscal Years immediately following the issuance of such Special Facility Bonds.

At such time as the Special Facility Bonds issued for a Special Facility, including Special Facility Bonds issued to refinance such Special Facility Bonds, are fully paid or otherwise discharged and no longer outstanding, the Special Facility Revenue with respect to such Special Facility shall be included as Pledged Revenues. As of the date of this Official Statement, the SFMTA has not designated any facility as a Special Facility, nor has it issued Special Facility Bonds.

***Subordinate Bonds.*** Under the Indenture, the SFMTA may issue at any time Subordinate Bonds with a pledge of, lien on, and security interest in Pledged Revenues which are junior and subordinate to those of the Bonds and other Parity Obligations. The principal and purchase price of and interest, redemption premium and reserve requirements on such Subordinate Bonds are payable from time to time out of Pledged Revenues only if all amounts then required to have been paid or deposited under the Indenture from Pledged Revenues with respect to principal, purchase price, redemption premium, interest and reserve requirements on the Bonds then Outstanding shall have been paid or deposited as required in the Indenture.

***Charter Requirements Concerning Additional Indebtedness.*** The Charter also requires that, prior to the SFMTA’s issuance of any additional Bonds or other indebtedness, the Board of Supervisors authorize such issuance and the City Controller (the “**Controller**”) provide a certificate stating that sufficient unencumbered balances are expected to be available in the proper fund to meet all payments due on such Bonds or other indebtedness and that any such obligation, if secured, is secured by revenues or assets under the jurisdiction of the SFMTA.

## THE CITY AND COUNTY OF SAN FRANCISCO

THE FOLLOWING INFORMATION IS PROVIDED FOR CONVENIENCE ONLY. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF DEBT SERVICE ON THE BONDS AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT THEREOF.

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 Napa-Sonoma wine country is about an hour’s drive to the north. The City estimates the City’s population in fiscal year 2018-19 was 887,463.

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, healthcare and higher education. The California State Supreme Court is also based in San Francisco.

The City has historically been a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2019, approximately 26.2 million tourists visited San Francisco, with total spending estimated at \$10.2 billion, including spending from conventions, trade shows and group meetings. The COVID-19 pandemic has significantly adversely impacted and is expected to continue to adversely impact tourism and convention activities in San Francisco.

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. The City estimates the per-capita personal income of the City for fiscal year 2018-19 was \$130,961. The San Francisco Unified School District (“**SFUSD**”), which is a separate legal entity from the City, operates 14 transitional kindergarten (“**TK**”) 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 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, is owned by the City and is operated by the San Francisco Airport Commission (the “**Airport Commission**”), and 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 2018-19, SFO serviced approximately 57.6 million passengers and handled 564,485 metric tons of cargo. In fiscal year 2019-20, predominately due to airline service suspensions resulting from the COVID-19 pandemic, SFO serviced approximately 40.6 million passengers and handled 489,505 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (“**BART**”), a heavy 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 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.

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 four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. The City’s final adopted budget for fiscal year 2020-21 and 2021-22 totals \$13.6 billion and \$12.4 billion, respectively. The General Fund portion of each year’s final adopted budget is \$6.2 billion in fiscal year 2020-21 and \$5.8 billion in fiscal year 2021-22, with the balance allocated to all other funds, including enterprise fund departments, such as the SFMTA, the Airport Commission, the Port Commission and the San Francisco Public Utilities Commission (“**SFPUC**”). According to the City’s Treasurer and Tax Collector, at the start of fiscal year 2020-21, total net assessed valuation of taxable property in the City was approximately \$301.4 billion, which represents an increase of 7.2% over fiscal year 2019-20.

More detailed information about the City’s governance, organization and finances, including the impact of the COVID-19 pandemic on the City’s finances and operations may be found in APPENDIX B – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES.” The material in Appendix B was prepared by the City.

## THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Organization and Purpose

The SFMTA is an enterprise department of the City and County of San Francisco and a multi-modal transportation agency responsible for planning, designing, constructing, managing, operating and maintaining public transit, paratransit, street and traffic management and improvements, bicycle and pedestrian safety and enhancement programs, on and off-street parking improvements and programs and the regulation of taxis within the City. The SFMTA was established by voter approval of the addition of Article VIIIA to the Charter in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all transportation functions within a single City department, and to provide the Transportation System with the resources, independence and focus necessary to improve transit service and the City's transportation system. Among City departments, the SFMTA was given exceptional authority to control its operations, purchasing, contracting, and labor relations, as well as a guaranteed share of City General Fund resources. San Francisco voters approved additional Charter amendments in 2007 (Proposition A) and 2010 (Proposition G), which, further increased the autonomy of and revenues to the SFMTA and increased management flexibility, respectively. In November 2014, San Francisco voters approved Proposition A and Proposition B which, respectively, authorized the City to issue up to \$500 million in general obligation bonds (of which, \$377.215 million have been issued) the proceeds of which may be applied to finance transportation-related projects and provided for annual increases in certain amounts transferred to the SFMTA by the City from its General Fund based on increases in population of the City. In November 2019, San Francisco voters approved Proposition D, which imposed a tax on commercial ride-share companies and driverless vehicle companies to fund public transportation and pedestrian and bicycle infrastructure. See “– City General Obligation Bonds,” “– City General Fund Transfers” and “– Traffic Congestion Mitigation Tax.”

The Charter states that the SFMTA is to adhere to a “Transit First Policy” in its management of the City's Transportation System and that the SFMTA's goal is to “manage San Francisco's transportation system which includes automobile, freight, transit, bicycle, and pedestrian networks” to help the City achieve its goals for “quality of life, environmental sustainability, public health, social justice, and economic growth.” This “Transit First Policy” further requires that within the City, “travel by public transit, by bicycle and on foot must be an attractive alternative to travel by private automobile.”

The SFMTA connects San Francisco through a safe, equitable, and sustainable transportation system. It manages Muni, which is the eighth largest provider of public transit service in the United States and historically has over 700,000 boardings per day on its motor buses, trolley buses, light rail vehicles, historic streetcars, and cable cars. The SFMTA also oversees the management and operation of 39 public off-street parking facilities owned by the SFMTA, Recreation and Park and the Parking Authority, a separate legal entity created under the laws of the State. Members of the Board serve *ex officio* as members of the governing body for the Parking Authority. The SFMTA also manages traffic engineering functions within the City, including the placement of signs, signals, traffic striping, curb markings, and parking meters. Finally, the SFMTA regulates the taxi industry within the City.

Across its various functions and missions, the SFMTA's overarching mission is to work together to plan, build, operate, regulate and maintain the transportation network, with its partners, to connect communities. In furtherance of this mission, the SFMTA has developed a strategic plan which identifies four key goals: (1) create a safer transportation experience for everyone; (2) make transit and other sustainable modes of transportation the most attractive and preferred means of travel; (3) improve the quality of life and environment in San Francisco and the region; and (4) create a workplace that delivers outstanding service.

***SFMTA Organizational Structure.*** The SFMTA organizational structure includes the following primary divisions along with other functional areas which report directly to the Director of Transportation:

***Transit Services Division.*** The Transit Services Division is responsible for delivering multi-modal public transit service within the City through Muni operations. The division's more than 3,800 staff operate motor coaches, light rail vehicles, electric trolleys, historic trolley vehicles and cable cars; maintain vehicles, transit facilities and infrastructure (e.g. rail track and signals, rail stations, garages and maintenance shops); and are responsible for short-term and long-term service planning.

Sustainable Streets Division. The Sustainable Streets Division manages non-transit modes of transportation, including bicycles, pedestrians and vehicles other than taxis. The division’s mission is to provide multi-modal transportation planning, engineering and operational improvements to the City’s transportation system to support sustainable community and economic development. The division is responsible for the City’s traffic signs, pavement markings, pedestrian, traffic calming, bicycle and school area safety programs and management of the parking garages, planning, and Traffic Engineering. The division is also responsible for overseeing the enforcement of the City’s parking regulations and Proof of Payment program, and provides assistance relating to deployment of San Francisco Police Department (“SFPD”) personnel dedicated to security and investigations relating to crime prevention on Muni and certain other services provided by the SFPD Traffic Division.

Capital Programs and Construction Division. The Capital Programs and Construction Division is responsible for the planning, design and construction of SFMTA transit capital projects.

Finance and Information Technology Division. The Finance and Information Technology Division is responsible for budgets, grants, revenue collection and sales, financial services, revenue contracts, real estate, accounting, parking pricing and related policy, information technology and performance, contracts and procurement and administrative proceedings.

Other Functional Areas. The Human Resources Division, Taxi and Accessible Services Division, System Safety Division, Governmental Affairs Division, Communications and Marketing Division and other related organizational structures each report separately to the Director of Transportation.

## Board of Directors

The SFMTA is governed by a Board of Directors consisting of up to seven members, which is appointed by the City’s Mayor and confirmed by the City’s Board of Supervisors. The Board has the authority to appoint the Director of Transportation, approve the budget and set SFMTA policy. The directors serve staggered four-year terms. No person may serve more than three terms as a director. At least four of the directors must be regular riders of Muni, and must continue to be regular riders during their terms. The directors must possess significant knowledge of, or professional experience in, one or more of the fields of government, finance or labor relations. At least two of the directors must possess significant knowledge of, or professional experience in, the field of public transportation.

The current members of the Board and their appointment and expiration dates of their terms are:

Name and Title	Originally Appointed	Term Expires
Gwyneth Borden, Chair	March 1, 2018	March 1, 2022
Amanda Eaken, Vice-Chair	March 1, 2019	March 1, 2023
Cheryl Brinkman, Director	March 1, 2018	March 1, 2022
Steve Heminger, Director	June 7, 2019	March 1, 2023
Fiona Hinze, Director	January 5, 2021	March 1, 2025
Sharon Lai, Director	August 28, 2020	March 1, 2021
Manny Yekutieli, Director	January 5, 2021	March 1, 2025

## Management

The SFMTA’s management team is led by the Director of Transportation. The Director of Transportation is appointed by the Board and serves at the pleasure of the Board. Brief biographies of the Director of Transportation and the principal members of the SFMTA senior management team are set forth below.

**Jeffrey Tumlin.** Jeffrey Tumlin is Director of Transportation of the SFMTA. He was named Director of Transportation in December 2019 and oversees the Muni, parking, traffic engineering, bicycle and pedestrian safety, transportation accessibility and taxi regulation for the City. Mr. Tumlin is the former director of strategy at Nelson\Nygaard Consulting Associates, a San Francisco-based transportation planning and engineering firm that focuses on sustainable mobility. Previously, he served as Interim Director of the new Oakland Department of

Transportation. For more than 20 years, he has led station area, downtown, citywide, and campus plans and delivered various lectures and classes in 20 U.S. states and five countries. His major development projects have succeeded in reducing traffic and CO<sub>2</sub> emissions by as much as 40% and accommodated many millions of square feet of growth with no net increase in motor vehicle traffic. These projects have won awards from the U.S. General Services Administration, Institute of Transportation Engineers, American Planning Association, American Society of Landscape Architects, Congress for the New Urbanism and Urban Land Institute. He is the author of *Sustainable Transportation: Tools for Creating Healthy, Vibrant and Resilient Communities* (Wiley, 2012).

**Jonathan Rewers.** Jonathan Rewers is Acting Chief Financial Officer of the SFMTA. He was appointed as Interim CFO in December 2020 and as Acting CFO in January 2021. Mr. Rewers was previously Senior Manager of Budget, Financial Planning and Analysis, and has more than 15 years of complex municipal finance experience in the areas of grant management, financial reporting, financial analysis and budget as well as extensive experience in capital project delivery and finance. Mr. Rewers was also previously the Manager of Design Strategy and Delivery overseeing finances of the \$1.4 billion Building Progress Program, managing financial projections for capital delivery across the SFMTA and the asset management program. He also served as the Manager of Capital Financial Planning and Analysis for the SFMTA, overseeing the development of the first financially constrained Five-Year Capital Improvement Program, the full funding plans of the Central Subway, Van Ness Bus Rapid Transit and Islais Creek Bus Yard projects. Mr. Rewers has graduate degrees from San Jose State University in Urban and Regional Planning and from The New School in Strategic Design and Management. His undergraduate degree is from the University of California, Davis.

**Julie Kirschbaum.** Julie Kirschbaum is Director of Transit of the SFMTA. She joined the SFMTA in 2007 with more than 20 years of experience in the transportation sector. In 2017, she was selected to serve as the SFMTA's Chief Transportation Officer and is responsible for managing day-to-day Muni operations, leading a system-wide redesign, and managing the Transit Planning and Scheduling Groups. Prior to joining the SFMTA, Ms. Kirschbaum served as a senior transportation planner with the San Francisco County Transportation Authority, and as a consultant in the private sector. Her current work is focused on making Muni service more reliable, safer and customer-oriented. She is focused on designing complete streets and transportation systems that promote alternatives to the private automobile and that are accessible to all users. Ms. Kirschbaum is a graduate of Brown University and received her Master of City Planning degree from the Massachusetts Institute of Technology.

**Siew-Chin Yeong.** Siew-Chin Yeong is Director of Capital Programs and Construction of the SFMTA. Ms. Yeong is a licensed engineer with more than 21 years of experience in design and construction. Prior to joining the SFMTA, Ms. Yeong managed heavy highway construction projects, transportation systems, transit systems, as well as building and facilities modernization projects in both the private and public sectors. She worked for Flatiron Construction Corporation, BART, San Francisco Public Works, and the SFMTA. Ms. Yeong holds a Master of Science degree and Bachelor of Science degree in Civil Engineering and Construction Management from Iowa State University.

**Tom Maguire.** Tom Maguire is the Director of Sustainable Streets for the SFMTA. He leads the City's efforts to achieve its Vision Zero goal of zero traffic fatalities. He is working to create world-class, equitable streets for all San Franciscans by managing the City's traffic, bicycle and pedestrian safety, on- and off-street parking, and emerging mobility. The Sustainable Streets Division consists of 1,035 employees who operate, engineer, design, and plan the City's traffic, parking, pedestrian and bicycle infrastructure and provide transit security and parking enforcement. Mr. Maguire joined SFMTA in October 2014 after serving as Assistant Commissioner at the New York City Department of Transportation, where he managed Bus Rapid Transit, Freight Mobility, Peak Rate Parking, congestion pricing, and sustainability, and resiliency programs. He has also worked for the engineering and design firm Arup. He holds a Master's degree in City and Regional Planning from University of California, Berkeley and a Bachelor of Arts degree from Rutgers University.

## Transit

**Background and History.** The San Francisco Municipal Railway (the "**Municipal Railway**") began service in 1912 as one of the first publicly owned and operated transit systems in the United States, competing with privately operated systems, and initiating service to areas of the City not served by those systems. In 1944, the Municipal Railway absorbed the much larger, privately owned Market Street Railway Company, creating a combined system

that was about three times as large as the prior Municipal Railway system. The City’s acquisition of the California Street Railroad in 1952 conveyed to public control all transit services within San Francisco. From 1932 until 1994, the SFPUC governed the Municipal Railway. In 1993, the City’s voters passed Proposition M, which created the Public Transportation Commission and the Public Transportation Department, and removed the Municipal Railway from the authority of the SFPUC. Governance of Muni changed again in 1999 with the passage of Proposition E, which created the SFMTA and consolidated the management of Muni with the parking and traffic related functions performed by the previous Department of Parking and Traffic (the “DPT”).

**Transit Operations.** The SFMTA operates Muni, which is the City’s public transportation system. Muni operates 365 days a year, and connects with regional transportation services, such as those provided by the BART, the Peninsula Corridor Joint Powers Board (“PCJPB”), the San Mateo County Transit District (“**SamTrans**”) and the Alameda-Contra Costa Transit District (“**AC Transit**”). Based on ridership, Muni is the eighth largest system in the United States and the Bay Area’s largest and most heavily used public transit system, transporting approximately 44.6% of all transit passengers in the region. Historically, Muni has averaged approximately 700,000 weekday boardings (totaling in excess of 225 million trips per year). By way of comparison, BART carries approximately 400,000 weekday passengers, AC Transit carries approximately 190,000 weekday passengers and Santa Clara VTA carries approximately 140,000 weekday passengers.

Muni’s fixed route network has historically consisted of 50 motor coach lines, 14 electric trolley bus lines (i.e. rubber-tired vehicles that operate on electricity provided from overhead wires), seven light rail lines that operate above ground and in the City’s Market Street subway tunnel (“**Muni Metro**”), three cable car lines and two historic streetcar lines. Muni also provides paratransit service for passengers who are unable to use fixed route service through a service contract.

Transit ridership declined by approximately 95% during the initial shelter-in-place period from March to May 2020, as compared to the same period in 2019. Because of the decline in ridership as described above, the SFMTA created and implemented the Core Service Plan, which reduced the number of operating bus routes and temporarily closed the Muni Metro light rail system, replacing some rail lines with bus routes. A phased reopening of the Muni Metro light rail system began on December 19, 2020, and two rail lines have been restored as of January 25, 2021. Additional rail lines and service will be added as ridership demand increases and subway repairs are completed. For more information regarding the impact of COVID-19 on transit operations, see “IMPACT OF COVID-19 PANDEMIC.”

The table below summarizes the composition of Muni’s transit revenue vehicle fleet.

**TABLE 1**  
**SUMMARY OF MUNI’S REVENUE VEHICLE FLEET**  
**AS OF JUNE 30, 2020**

Motor Buses	604 vehicles
Trolley Buses	262 vehicles
Light Rail Vehicles	219 vehicles <sup>(1)</sup>
Historic Streetcars	42 vehicles
Cable Cars	28 vehicles

<sup>(1)</sup> In 2014, the Board and the Board of Supervisors approved a contract to acquire up to 264 new light rail vehicles. As of December 2020, the SFMTA has received 68 new light rail vehicles, expanding the fleet of light rail vehicles from 151 to 219. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program – Current Projects – Light Rail Vehicle Acquisition.”

Source: SFMTA

Of Muni’s five fixed route modes of service, motorbuses serve the highest number of passengers, followed by light rail, trolley buses, streetcar rail and cable car. During the period from Fiscal Year 2015-16 through Fiscal Year 2018-19, annual Muni ridership varied between approximately 232 million and 222 million boardings.

In Fiscal Year 2019-20, total transit ridership declined by 23.6% from approximately 222.9 million in Fiscal Year 2018-19 to approximately 170.3 million in Fiscal Year 2019-20 due to COVID-19 and the City's stay-at-home order. The SFMTA projects total ridership in Fiscal Year 2020-21 and Fiscal Year 2021-22 will be approximately 63.3 million and 134.3 million, respectively, a decline of approximately 72% and 40% from Fiscal Year 2018-19 total ridership, respectively. See "IMPACT OF COVID-19 PANDEMIC."

The following table sets forth historic fixed route ridership by mode.

**TABLE 2**  
**HISTORICAL FIXED ROUTE RIDERSHIP BY MODE**  
**(ANNUAL BOARDINGS IN THOUSANDS)<sup>(1)</sup>**  
**(FISCAL YEARS ENDED JUNE 30)**

Mode	2016	2017	2018	2019	2020 <sup>(2)</sup>
Motor Bus	101,847	107,796	111,809	110,803	86,175
Trolley Bus	65,121	53,301	49,200	49,248	38,098
Light Rail	52,125	50,993	49,834	49,796	37,419
Street Rail	7,456	7,472	7,476	7,387	4,580
Cable Car	5,800	6,224	6,292	5,704	4,012
Total Ridership	232,349	225,786	224,611	222,938	170,284

<sup>(1)</sup> Figures do not include riders that attend special events that occur in San Francisco throughout the year, which the SFMTA estimates to be over a million annually prior to Fiscal Year 2019-20.

<sup>(2)</sup> The SFMTA submits ridership numbers to the Federal Transit Administration for the National Transit Database ("NTD") for approval each year. Fiscal Year 2019-20 ridership numbers have been submitted but have not yet been approved by the Federal Transit Administration for the NTD. Decrease in ridership numbers was due in substantial part to the COVID-19 pandemic. See "IMPACT OF COVID-19 PANDEMIC."

Source: SFMTA

According to a report by the Congressional Research Service, Trends in Public Transportation Ridership: Implications for Federal Policy, dated March 26, 2018, not including New York, transit ridership nationally declined by 7% between 2008 and 2018. By contrast, between 2008 and 2018, Muni ridership increased by 2%. Muni's peak year of ridership was Fiscal Year 2015-16, with ridership slightly declining through Fiscal Year 2018-19.

To counteract declining trends in ridership, the SFMTA has implemented programs to improve transit system efficiency and attract ridership. As part of the Muni Forward program, between Fiscal Year 2014-15 through Fiscal Year 2019-20, the SFMTA increased service by over 10% and realigned routes to improve connections, which resulted in increased ridership where those improvements were implemented. The Muni Forward program has resulted in greater reliability, reduced crowding and a better customer experience. The SFMTA has also implemented an extensive program of street design improvements to improve transit reliability and efficiency, including transit lanes, traffic signals that stay green longer for buses and trains, optimized stop locations. While total ridership generally declined from Fiscal Year 2015-16 to Fiscal Year 2018-19 by 4.1%, ridership on Muni's Rapid Network (comprised of 10 of the SFMTA's most heavily used routes) increased by 23% over the same period.

In April 2019, the SFMTA launched its Transportation Management Center ("TMC") that utilizes new technologies, strategies, and procedures to more actively manage Muni service and San Francisco's transportation system. With the TMC, the SFMTA is in a new era of modern service management and communications that will drive improvements in system performance and communications with the SFMTA's workforce and customers.

As part of its efforts to improve transit system service reliability, the SFMTA is also focused on improving vehicle performance. Using a three-part program, the SFMTA fleet program targets regular fleet replacement to smooth out the procurement cycle to ensure the overall fleet age remains consistent, targeted at half the expected useful life of a vehicle. The SFMTA has implemented a mid-life overhaul program to keep the existing fleet in a high state of repair through the end of its useful life. Finally, the SFMTA has modernized ongoing maintenance activities to make use of new on-board diagnostic systems, enhanced staff training, and responsive maintenance practices to continually update maintenance cycles to reflect the needs of the fleet over time.



The SFMTA recently finished taking delivery of 68 LRVs, expanding the size of the existing fleet to 219 trains. Beginning in 2021, the SFMTA will begin receiving the remaining 151 LRVs to replace the aging legacy vehicles. These new vehicles reflect the nearly 20 years of improvements in technology since the procurement of the SFMTA's legacy vehicles. They are four times more reliable than the current fleet (based on the mean distance between failures) and require fewer and less labor-intensive maintenance cycles. This investment will provide San Francisco with an expanded zero-emissions fleet necessary for achieving the SFMTA's climate goals. In the next 12 months, the SFMTA expects to procure 30 30-32' motor coaches to replace the SFMTA's oldest remaining coaches in revenue service. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program – Current Projects – Light Rail Vehicle Acquisition."

**Transit Facilities.** The SFMTA owns and maintains several operations, maintenance and administrative facilities, as well as an extensive network of stations, tracks, overhead power supply lines, and power distribution facilities. The following table sets forth a summary of the SFMTA's transit and bicycle facilities.

**TABLE 3**  
**SUMMARY OF SFMTA'S TRANSIT AND BICYCLE FACILITIES**  
**AS OF JUNE 30, 2020**

Miles of light rail track for revenue service	71.1 miles
Miles of subway track	13.4 miles
Miles of cable car track for revenue service	10.2 miles
Miles of overhead power supply wires for light rail and trolley bus revenue service operations	209.5 miles
Number of light rail stations	9 Subway and 23 Surface Stations
Number of light rail boarding platforms	168
Number of substations for electrical power distribution	26
Operations, maintenance and administrative – major facilities	29
Signalized intersections	1,271
Bike lanes and shared use paths	458 miles

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Source: SFMTA

The SFMTA Facilities Program develops, manages and maintains space for operating, maintenance, administrative and storage needs in support of the SFMTA's transit activities. The majority of the SFMTA's operation and maintenance facilities are dedicated to the storage, maintenance and dispatch of Muni's fleet of vehicles. Three facilities house motor coaches: Woods Division, Flynn Divisions and Kirkland Divisions. Two facilities house trolley coaches: Potrero Division and Presidio Division. Five facilities support Muni's rail operations: Green Division, the Muni Metro East, the Geneva Yard, the Cable Car Barn and the Duboce Yard. Seven other facilities, including the Central Control Center, Scott Division, Marin Street and the Burke Avenue Facility, provide support to all transit modes. Finally, the SFMTA's administrative offices are distributed among six different sites in San Francisco.

The current condition of the SFMTA's transit facilities varies broadly. Certain transit facilities are new, while others have no serious defects noted, and still others require significant renovation or seismic improvement, are outmoded or are inadequately sized for the current operational requirements of the SFMTA. See "– Capital Program – State of Good Repair Analysis."

In 2013, the SFMTA completed a real estate study to determine the SFMTA's long-term facility needs, including potential transit-oriented development projects. This study was revised in 2014 and in 2017. The results of the study were transferred into an implementation plan titled "The Building Progress Program," a \$1.2 billion multi-year effort to repair, renovate, and modernize the SFMTA's aging facilities. The Potrero Yard Modernization Project, located at Bryant and Mariposa streets, is the first site scheduled under the program that the SFMTA will modernize and renovate. The Potrero Yard Modernization Project will replace the obsolete two-story maintenance building and bus yard with a modern, three-story, efficient bus maintenance and storage garage, equipped to serve the SFMTA's growing fleet as it transitions to battery electric vehicles.

**Regulatory Issues.** The SFMTA is regulated by various federal, State and local agencies, including the Federal Transit Administration and the California Public Utilities Commission (“CPUC”). The Federal Transit Administration performs a triennial review, as well as fiscal, procurement and other periodic audits, to determine whether the SFMTA is administering its Federal Transit Administration funded programs in accordance with statutory and Federal Transit Administration requirements and is meeting program objectives. In addition, the CPUC conducts a triennial safety review to verify compliance and evaluate the effectiveness of the SFMTA’s rail system safety program plan. The CPUC does not have any jurisdiction over the SFMTA’s fares, rates and fees. A determination that the SFMTA is not in compliance with regulatory requirements could lead to a loss of federal funding or the levying of fines, and changes in regulatory requirements could impact the SFMTA’s operations or increase operating costs or capital requirements. To date, the SFMTA is not aware of any past or expected loss of funding or fines due to non-compliance with any regulatory requirements. See “CERTAIN RISK FACTORS – Statutory and Regulatory Compliance” and “– Reliance Upon Grants and City General Fund Transfers.”

## **Parking and Traffic Functions**

The SFMTA currently manages 21 public garages and 18 metered surface parking lots in the City, which account for nearly 15,000 parking spaces; manages on-street parking through the use of approximately 28,000 on-street parking meters, color curbs and various permits; and sells parking meter cards. The parking garage and lot spaces managed by the SFMTA currently constitute approximately 30% of all spaces downtown and approximately 15% of all spaces Citywide. The SFMTA’s traffic responsibilities include managing nearly 200,000 traffic signs, 1,203 signalized traffic intersections, approximately 900 miles of striped streets, pavement messages, and special curb zones throughout the City. In addition, the SFMTA also enforces parking regulations through its Enforcement Division through the issuance of parking citations by the SFMTA parking control officers, San Francisco Police, and other agencies.

In response to the COVID-19 pandemic and parking utilization declines due in part to the City’s stay-at-home orders, the SFMTA closed some City-owned parking garages and limited others while prioritizing access to parking garages near essential services such as medical facilities and markets. The SFMTA also created the Shared Spaces program, repurposing curbside parking spaces for pick-up, drop-off and open-air dining and retail spaces while indoor dining and non-essential commerce has been prohibited from time-to-time depending on COVID-19 related City stay-at-home orders. Almost all parking enforcement was suspended from April to June 2020. For more information regarding the impact of COVID-19 on the SFMTA’s parking and traffic functions, see “IMPACT OF COVID-19 PANDEMIC.”

**Parking Garages.** The 21 parking garages that the SFMTA currently manages include parking facilities owned by the SFMTA, the Parking Authority and Recreation and Park.

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The following table lists the public parking garages managed by the SFMTA as of June 30, 2020.

**TABLE 4**  
**SFMTA-MANAGED PARKING GARAGES**  
**AS OF JUNE 30, 2020**

<u>Facility Name</u>	<u>Number of Spaces</u>	<u>Year Opened</u>
7th & Harrison	101	n/a
16th & Hoff	98	1996
Civic Center <sup>(1)</sup>	843	1958
Ellis O'Farrell	950	1964
Fifth & Mission	2,585	1957
Golden Gateway	1,095	1965
Japan Center	920	1965
Lombard Street	205	1988
Kezar <sup>(1), (3)</sup>	300	n/a
Mission-Bartlett	350	1983
Moscone Center	732	1984
North Beach	203	2002
Performing Arts	598	1983
Pierce Street	116	1969
Polk-Bush	129	1993
Portsmouth Square <sup>(1)</sup>	504	1960
St. Mary's Square <sup>(2)</sup>	414	1952
SF General Hospital	1,657	1996
Sutter Stockton	1,865	1959
Union Square <sup>(1)</sup>	985	1941
Vallejo Street	163	1969
Total	14,813	

(1) Owned by Recreation and Park.

(2) Recreation and Park and SFMTA each own 50%.

(3) Kezar is a surface parking lot that is managed by the SFMTA like a public parking garage.

Source: SFMTA

The age of the garages ranges from 18 years to 79 years. Other than with respect to the Recreation and Park Garages (defined below), all revenues from the operations of each parking facility operated by the SFMTA, less parking taxes and amounts applied to pay for operating expenses (including routine maintenance), are used to fund public transit pursuant to the City Charter. While routine repairs, including repairs of concrete failures, drainage issues, lighting, out-of-service elevator, revenue control equipment and signage, are regularly funded and completed, significant repair and rehabilitation projects have been deferred. As a result, substantial maintenance and repair backlogs exist with respect to such repairs and rehabilitation projects at certain facilities and the condition of most garages has declined over the years. These facilities require extensive rehabilitation and equipment upgrades to bring them in line with current standards and to make them more environmentally friendly. Significant repairs currently include projects related to seismic strengthening, waterproofing, elevator upgrades and ventilation systems.

Some of the garages owned by the SFMTA and Recreation and Park were historically leased (the “**Prior Leases**”) by non-profit parking corporations (collectively, the “**Parking Corporations**”), which managed the operations of such garages and transmitted revenues of the garages in excess of certain operating and administrative expenses to the SFMTA. Except for the leases relating to the Japan Center Garage and the Portsmouth Square Garage, the Parking Corporations terminated the Prior Leases and returned direct control of the applicable garage to the SFMTA between 2012 and 2018. The Japan Center Garage Corporation entered into a new lease with the SFMTA, commencing on February 26, 2013, and expiring in 2023, unless it is terminated earlier in accordance with its terms, which provides for daily operational oversight of the Japan Center Garage. The Portsmouth Plaza Parking Corporation continues to oversee the operations of the Portsmouth Square Garage pursuant to a lease that commenced on April 1,

2011, and expires on March 31, 2051, unless it is terminated earlier in accordance with its terms. These remaining leases require that the Parking Corporations contract with professional parking companies to operate their facilities in accordance with the leases and the SFMTA Parking Facility Operation and Management Regulations (“OMR”). All gross revenues and parking taxes collected or received by the Parking Corporations operating a parking garage are deposited in a revenue account on the next banking day following receipt. Periodically, but at least once each month, the SFMTA authorizes the withdrawal and transfer of funds from the revenue account for the purpose of paying operating expenses and purpose of paying the corporate employee salaries and payroll expense. Each Parking Corporation is required to transfer all net income to the SFMTA by the twentieth day of each month or at such other more frequent periodic intervals as specified by the SFMTA. During the first three years of the initial term of these new leases, 100% of net income was transferred to the SFMTA on a monthly basis. Upon commencement of the fourth year of the initial term, and on a monthly basis thereafter, the SFMTA may authorize the withdrawal and transfer of funds from the revenue account to the related capital account for the purpose of performing capital improvements to the respective garages.

The SFMTA contracts directly with professional parking management vendors, selected through a request-for-proposal process, to manage the day-to-day operations of all other garages, excluding oversight of retail lease space, which is managed internally, in accordance with a management agreement that outlines the vendor responsibilities and incorporates City contracting requirements. The vendor is also responsible for operating the garage in accordance with the OMR and provides all parking management services necessary to operate and maintain the parking facility. The garage operator is responsible for collection of all garage revenue and making deposits on the next business day into an SFMTA or Recreation and Park held revenue account. The operator is responsible for staffing and daily maintenance/operations of the facility in accordance with SFMTA annually approved operating budgets. Expenses incurred by the operator are submitted for reimbursement to the SFMTA twice per month for review and approval.

The SFMTA oversees parking operations at the following garages owned by Recreation and Park: Civic Center, Portsmouth Square and Union Square, and at St. Mary’s Square Garage, half of which is owned by SFMTA and half of which is owned by Recreation and Park (collectively, including the half of St. Mary’s Square Garage owned by Recreation and Park, the “**Recreation and Park Garages**”). From revenues of the Recreation and Park Garages, Recreation and Park is obligated to pay to the SFMTA an administrative fee that includes all costs of operating the Recreation and Park Garages and a proportional share of debt service on bonds and other obligations the proceeds of which funded capital improvements at the Recreation and Park Garages. Such administrative fees include a portion of the debt service on the Outstanding Bonds and, upon their issuance, the Series 2021C Bonds, equal to the ratio of proceeds of such Series of Bonds applied to finance or refinance capital improvements at the Recreation and Park Garages to net proceeds of such Series of Bonds after paying costs of issuance. The SFMTA expects to withhold a portion of gross revenues from operation of the Recreation and Park Garages equal to such fee and transfer all remaining monies to Recreation and Park.

In 2016, the SFMTA awarded a contract to upgrade its revenue control system at parking facilities, which as of December 1, 2020, is active at 19 of the 21 garages. The new system Parking Access Revenue Control Systems (“**PARCS**”), brings up-to-date technology to the garages that enhances revenue-security, assures that credit card transactions are securely processed, and improves customer service through enhanced efficiency of operations, resulting in an improved customer experience and better accounting of revenues.

The Series 2021C Bonds will not be secured by either the revenues of, or any moneys held in funds and accounts by, Recreation and Park or the Parking Corporations.

***Surface Parking Lots, Parking Meters and Parking Enforcement.*** The SFMTA also manages 18 surface, metered lots. The following table lists the metered surface lots owned by the City and managed by the SFMTA:

**TABLE 5**  
**SFMTA-MANAGED METERED SURFACE LOTS**  
**AS OF JUNE 30, 2020**

<u>Facility Name</u>	<u>Number of Spaces</u>
Cal-Steiner	48
9th & Irving	41
7th & Irving	36
18th & Geary	34
Norton & Mission	28
8th & Clement	26
20th & Irving	24
Ulloa & Claremont	23
9th & Clement	21
Geary & 21st	21
Castro & 18th	20
18th & Collingwood	20
Ocean & Junipero Serra	20
19th & Ocean	20
West Portal & 14th	19
Lilac & 24 <sup>th</sup>	18
24th & Noe	16
Felton & San Bruno	10
Total	445

Source: SFMTA

All revenues from the operations of each metered surface lot, less amounts applied to pay for operating costs (including routine maintenance), are used to fund public transit pursuant to the City Charter.

The SFMTA currently has approximately 27,000 total on-street metered and off-street surface lot spaces throughout the City. Rates vary by block, by time of day and by weekday or weekend, with periodic rate adjustments based on demand estimated using meter payment data. Rates vary between \$0.50 and \$8 per hour. Meters are generally in operation from 7 a.m. or 9 a.m. to 6 p.m. Monday through Saturday, except for three meter holidays (Thanksgiving Day, Christmas Day, and New Year's Day). In Fisherman's Wharf, meters are in operation from 7 a.m. to 7 p.m. seven days per week. Meters within a few blocks of Oracle Park and the Chase Center operate from 9 a.m. to 10 p.m., Monday through Saturday, and from 12 p.m. to 6 p.m. on special event Sundays. Meters on two blocks of 18<sup>th</sup> Street in the Potrero Hill neighborhood operate from 9 a.m. to 10 p.m., Monday through Saturday. SFMTA also charges a \$7.00/hour special event rate during events at meters near Oracle Park and the Chase Center.

All SFMTA meters accept payment by phone, credit card, debit card, coins and prepaid SFMTA parking cards. The SFMTA receives revenue from citations issued to vehicles on any City street or surface metered parking lot. The Port has jurisdiction over approximately 1,100 additional metered spaces in the City. The revenues generated by the Port's meters are completely separate from SFMTA's meter revenues and go directly to the Port. However, the SFMTA enforces the Port meters and receives revenue from citations issued to vehicles on any City street or surface metered parking lot, including meters within the Port's jurisdiction.

**Smart Parking Management and Demand-Responsive Pricing.** Beginning in 2011, the SFMTA implemented a series of enhancements to its management of all paid parking facilities, with the goal of applying a transparent, data-driven methodology to parking management in order to manage parking demand. The program utilizes smart parking meters that change their prices according to location, time of day, and day of the week, with the goal of keeping about 15% of spaces vacant on any given block. The SFMTA believes drivers will find parking more quickly and easily, thus reducing the level of costly negative externalities associated with traffic in the City (e.g., double parking or circling). This smart parking management approach, which includes adjusting prices based on demand and broadcasting those prices to public, has not only improved driver convenience, but also accomplished a

host of other goals, such as improving the speed and reliability of Muni service on surface streets, reducing traffic congestion, accidents and transportation-related greenhouse gas emissions, and improving economic vitality.

**Other Programs.** The following section describes other significant SFMTA programs that do not generate revenues for the SFMTA, many of which operate on a cost-recovery basis.

In December 2008, the Board of Supervisors transferred the functions, powers and duties of the Taxi Commission to the SFMTA. On March 1, 2009, the SFMTA assumed responsibility for regulating the City's taxi industry. Under the Taxi Medallion Sale program, the SFMTA issues permits, or medallions, to taxi drivers to operate taxis in San Francisco at a fixed price of \$250,000. Approximately 3,000 taxi drivers operate about 1,200 taxis in San Francisco. In addition, 35 wheelchair accessible vans, or ramp vans, are in operation pursuant to ramp medallions issued by the SFMTA. Transportation network companies, such as Uber and Lyft, directly compete with the taxi industry and have significantly impacted the Taxi Medallion Sale program. Since 2016, the SFMTA has not sold any new medallions to San Francisco taxi drivers.

Taxi vehicles average 56,000 miles per year, up to five times as much as a private vehicle, and there is a desire to make this highly used fleet more environmentally friendly. Over 95% of vehicles in the taxicab fleet (not including the 35 ramp vans) are either hybrid or compressed natural gas vehicles. Hybrid ramp vans recently became available, with the first hybrid ramp van entering service in San Francisco in fall 2020. Applicants that green their vehicles may be reimbursed for hybrid vehicles up-to 90% of the purchase cost with a \$7,700 maximum rebate. A recently acquired grant also allows a rebate for the purchase of used hybrid vehicles. The program is funded by the Bay Area Air Quality Management District, which passes funds through the San Francisco County Transportation Authority, and then to the SFMTA. Ramp Taxis for accessible use are now also eligible for the rebate.

Following the shelter-in-place orders due to the COVID-19 pandemic, the taxi industry in San Francisco experienced a decrease of approximately 80% in overall trip volumes, including a decrease of approximately 95% in trips originating at SFO, a historically significant trip generator.

Because of the COVID-19 pandemic, the SFMTA has reduced Muni service; however, walking to an alternate bus or paying for another form of transportation is not possible for many riders. To help seniors and people with disabilities, the SFMTA created the Essential Trip Card program, which provides taxi rides to essential businesses (i.e., grocery stores and doctor's offices) at discounted rates during the shelter-in-place period. In addition, the SFMTA is providing personal protective equipment, such as masks, cleaning products and passenger shields, to taxi drivers to allow cabs to continue to operate safely during the pandemic. The SFMTA has contributed \$35,474 to subsidize the Essential Trip Card program in Fiscal Year 2019-20, and expects to contribute \$590,482 in Fiscal Year 2020-21. For more information regarding the impact of COVID-19 on the San Francisco Taxi Industry, see "IMPACT OF COVID-19 PANDEMIC."

In addition, the SFMTA is responsible for designing, directing and managing all traffic engineering functions within San Francisco, including placement of signs, signals, traffic striping and curb markings to promote the safe and efficient movement of people and goods throughout San Francisco and to assist Muni's efficient operation.

The Commuter Shuttle Program, which commenced in 2016, permits eligible commuter shuttle operators to use a designated network of stops including both designated Muni stops and a number of permitted commuter shuttle-only loading zones in San Francisco. Participating commuter shuttle operators are required to pay a per-stop fee calculated on a cost-recovery basis to fund enforcement and program administration.

The SFMTA is responsible for making bicycling a safe and comfortable means of transportation for all San Franciscans through planning, engineering and implementing bicycle facilities throughout San Francisco. The SFMTA supports a variety of bicycle education efforts targeting a diverse set of stakeholders. Since 2019, the SFMTA has completed more than 14 quick build projects that help prioritize the safety of bicycle transportation on some of San Francisco's most challenging corridors and is also working to implement 20 miles of protected bike lanes between 2019 and 2029. The City currently has a bicycle network spanning 458 miles, including 117 miles of bicycles lanes, 21 miles of buffered bicycle lanes, and 33 miles of separated bikeways. The SFMTA also continues to add bicycle parking, approximately 100 bicycle racks are installed on sidewalks and in bicycle corrals per month and currently has well over 10,000 bicycle parking spaces.

The SFMTA is the largest partner in the regional Bay Area Bike Share system managed by the MTC. The SFMTA continues to lead San Francisco's efforts to permit expansion and promote the service in partnership with a private operator. Launching in 2017, there are presently approximately 3,000 shared bicycles in San Francisco's system that is managed by the currently permitted operator, BayWheels. Over 3,800 trips on an average weekday and over 2,000 trips on an average weekend day are taken on shared bicycles. The system is steadily advancing towards a planned 320 stations and 6,000 bikes, including stationless functionality for a city-wide service area, with specific operational targets in Communities of Concern and for low-income access. The SFMTA supports and facilitates a growing array of shared mobility services as key elements of its strategic plan. With transit service severely reduced under the COVID-19 emergency, sustainable mobility options have become even more important to serving San Francisco's residents and visitors for essential trip-making. Permit fees are priced on a cost recovery basis.

The On-Street Shared Vehicle Parking Permit program grants reserved on-street parking spaces to qualified vehicle sharing operators, such as Zipcar and Getaround, as well as discounting permits in SFMTA-managed public garages for those operators' shared vehicles. By leveraging the SFMTA's citywide inventory of curb parking to help make car sharing more accessible and convenient, the benefits of car sharing are extended to more residents and businesses as the entire city benefits from reduced vehicle ownership and associated reductions in vehicle miles travelled and congestion, in the street and at the curb. Permit fees are priced on a cost recovery basis.

The Shared Electric Moped Parking Permit Program grants permits to qualified Shared Electric Moped Organizations, extending a few limited parking exemptions to facilitate the service in exchange for utilization and parking data, as well as an annual per-moped permit fee. Electric mopeds are a small, quiet, inexpensive, zero-emission way to get around the City. An average of 2,000-2,500 trips per day are taken on shared mopeds, with 2.5-3.5 trips per moped per day, carrying users approximately 2.3 million miles in 2019. Permit fees are priced on a cost recovery basis.

From mid-October 2018 to mid-October 2019, the SFMTA conducted a scooter share pilot program, with the goal of creating a more useful, safe and equitable citywide program. Under the full Powered Scooter Share Permit Program, which began October 15, 2019, three permittees (Lime, Spin and Scoot) may operate approximately 4,500 shared stand-up electric scooters through April 2021. The scooters are available for rent for short trips throughout most of San Francisco. Permit fees are priced on a cost recovery basis.

## **Sustainability and Climate Action**

San Francisco has been a global leader in addressing climate change. By 2017, San Francisco had achieved two significant climate goals: First, San Francisco had reduced its annual greenhouse gas emissions by 28% below 1990 levels despite population increasing by 19.5% since 1990. Second, consistent with the City's Transit First policy, more than 52% of all trips to, from and within San Francisco used transit, bicycling and walking. San Francisco has declared a climate emergency and the City's mid-century climate goals therefore call for reducing greenhouse gas emissions by 80% from 1990 levels by 2050, for shifting 80% of all trips to, from and within San Francisco to environmentally sustainable modes by 2030 and for electrifying 100% of private cars and trucks by 2040. The majority of San Francisco's greenhouse gas emissions and air pollutants are generated by the transportation sector which relies heavily on fossil fuels.

The SFMTA has developed a Transportation Sector Climate Action Strategy (the "**Strategy**"), most recently updated in 2017, which provides a framework for reducing greenhouse gas emissions from the San Francisco transportation sector and increasing the resilience of the San Francisco transportation system to future climate impacts. Some of the climate actions identified in the Strategy also help to build a healthy, resilient and equitable city by: improving public health through the reduction of harmful air pollutants by prioritizing transit and active transportation modes; reducing economic costs associated with congestion; improving safety for all; promoting dense, affordable and environmentally sustainable development; providing safe, reliable, efficient and affordable transit for all; and building a more resilient transportation system in the face of a changing climate.

One of the climate mitigation program areas described in the Strategy is transit. The SFMTA transit system plays an important role in the local and regional economy by reducing traffic congestion, reducing commute times and energy consumption and facilitating walking and bicycling trips which collectively reduces emissions. While the transportation sector contributes approximately 46% of San Francisco's overall emissions, the SFMTA's energy-

efficient fleet contributes less than 1% of the sector's emissions because the SFMTA transit fleet uses renewable diesel and renewable electricity provided by the SFPUC and PG&E.

The SFMTA plans to expand transit, bike and pedestrian facilities and to install charging infrastructure to support the broad use of electric vehicles in the coming years. The SFMTA has made progress towards net zero emissions from its operations by committing to an all-electric bus fleet by 2035. In addition, the SFMTA has also implemented temporary, emergency transit-only lanes, established the Slow Streets Program designed to limit through traffic on certain residential streets to be used as a shared space for people traveling by foot and by bicycle, created the Great Highway-Golden Gate Park network of car-free streets, conducted an electric vehicle bus pilot program and released a request for proposals for electric vehicle charging infrastructure.

The Strategy includes various other climate mitigation program areas and climate adaptation program areas and is periodically updated. For more information regarding risks relating to climate change on the SFMTA, see "CERTAIN RISK FACTORS – Climate Change, Risk of Sea Level Rise and Flooding Damage – Impact on SFMTA."

## **Financial Operations**

**General.** The SFMTA is an enterprise department of the City. As a result, its financial operations are included in the Comprehensive Annual Financial Report of the City and shown as an enterprise fund. The SFMTA also has independent financial statements included as Appendix A.

**Municipal Transportation Fund.** The Charter establishes the "Municipal Transportation Fund." The Municipal Transportation Fund receives moneys from: (a) the City's General Fund (pursuant to a formula described under "– City General Fund Transfers"); (b) the revenues generated by Muni and the SFMTA's Parking and Traffic functions; and (c) all other funds received by the City from any source, including State and federal sources, for the support of the SFMTA. The Municipal Transportation Fund is maintained separate and apart from all other City funds. Moneys therein are appropriated, expended, or used by the SFMTA solely and exclusively for the operation of the SFMTA, including, without limitation, capital improvements, management, supervision, maintenance, extension and day-to-day operations, including any division subsequently created or incorporated into the SFMTA and performing transportation-related functions. The Enterprise Account established pursuant to the Indenture is an account within the Municipal Transportation Fund.

**Basis of Accounting.** The accounts of the SFMTA are organized on the basis of a proprietary fund, specifically an enterprise fund. The financial activities of the SFMTA are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the net statement of assets; revenues are recorded when earned and expenses are recorded when the liabilities are incurred. The SFMTA applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements. See Appendix A – "SFMTA AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019."

**Establishment of Rates, Charges, Fares, Fines and Penalties.** Under Section 8A.102(b)(6) of the Charter, the Board has exclusive authority to set Muni fares, rates for off-street and on-street parking and all other rates, fees, fines, penalties and charges for services provided for functions performed by the SFMTA (collectively referred to herein as "**Managed Revenues**"). In addition, charges that are not otherwise governed by law are increased on a periodic basis based upon a preset formula as part of SFMTA's two-year operating budget process pursuant to the Board's "Automatic Indexing Implementation Plan." See "– Operating Revenues – Automatic Indexing Policy Applicable to Fares, Fees and Charges." Muni fare increases, including increases pursuant to the Automatic Indexing Implementation Plan, must be submitted to the Board of Supervisors for consideration in accordance with the Charter as part of the SFMTA budget process or in a budget amendment. Any budget or budget amendment that includes rate increases may be rejected in its entirety, but not modified, by the Board of Supervisors by a seven-elevenths vote. See "– Budget Process."

**Budget Process.** The SFMTA develops a two-year operating budget. In accordance with the Charter, the SFMTA's two-year budget must be presented to the SFMTA Citizen's Advisory Council and the public for review and comment. No later than May 1st of each even-numbered year, the proposed budget for each of the next two years must be submitted to the Mayor and the Board of Supervisors. To the extent that the proposed budget does not seek



additional General Fund financial support beyond that required by the Charter, and does not request additional General Fund resources or support, the Board of Supervisors may allow the SFMTA's budget to take effect without any action on its part, or it may reject the budget in its entirety by a seven-elevenths vote. If the Board of Supervisors rejects the SFMTA budget, it must make appropriations to sustain the SFMTA operations at the previously approved level until a budget is approved.

The SFMTA may move funds within its budget and direct the hiring of personnel, so long as the SFMTA remains within its budget as deemed by the Controller. In determining whether the SFMTA remains within budget, the Controller must confirm that anticipated work orders and revenues are balanced and may, if any revenues are deemed to be contingent, place a reserve on certain expenditures or impose other appropriate controls in his discretion to keep the SFMTA within budget. The SFMTA may also adjust its budget at any time pursuant to a budget amendment process in order to reflect updated budget projections and changes in anticipated or realized revenues and expenditures. Budget amendments are submitted to the Mayor and the Board of Supervisors and, with the exception of the deadline for submission, are subject to the same procedural requirements as described in the prior paragraph with respect to the SFMTA's budget.

The Board approved an operating budget for Fiscal Years 2020-21 and 2021-22 on April 21, 2020, in the amounts of \$1.28 billion and \$1.34 billion, respectively. Due to updated economic forecasts as a result of the COVID-19 pandemic, the operating budget was subsequently revised and approved on June 30, 2020, in the amounts of \$1.26 billion and \$1.31 billion for Fiscal Years 2020-21 and 2021-22, respectively. For more information regarding the Approved Operating Budget, see "IMPACT OF COVID-19 PANDEMIC."

***Debt Management Policy.*** The SFMTA adopted a debt policy (the "**Debt Policy**") in February 2017 to organize and formalize its debt-issuance related policies and procedures. Pursuant to the Debt Policy, the SFMTA will aim to meet the following targets for all borrowings: (i) seek to maintain aggregate annual debt service on long-term debt at a level not-to-exceed 5% of the SFMTA's annual Board approved operating budget; (ii) seek to minimize the level of debt outstanding consistent with the most recent capital budget and five-year capital improvement plan; and (iii) the SFMTA will comply with all applicable tax laws relating to tax exempt debt. The SFMTA makes no representation that the Debt Policy will not be revised or amended.

## **Operating Revenues**

The SFMTA's financial operations are generally supported from passenger fares, parking revenues (including fines, fees and permits), transfers from the City's General Fund, rent and advertising revenues, and federal, State and regional grants. This diversity of sources gives the SFMTA a relatively stable base of operating revenues. In addition, the SFMTA has received federal relief funds due to the COVID-19 pandemic under the CARES Act and FEMA's Disaster Grants – Public Assistance Program. For more information regarding federal relief funds, see "IMPACT OF COVID-19 PANDEMIC."

The following table summarizes the SFMTA's historical operating revenues and expenses.

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**TABLE 6**  
**SFMTA HISTORICAL OPERATING REVENUES AND EXPENSES<sup>(1)</sup>**  
**(FISCAL YEARS ENDING JUNE 30)**

	2016	2017	2018	2019	2020
<b>Operating Revenues</b>					
Passenger Fares (fixed route & paratransit)	\$ 206,757,542	\$ 197,226,565	\$ 203,786,619	\$ 197,109,784	\$ 154,100,412
Fines, Fees, & Permits	127,316,062	142,189,098	146,843,303	151,066,069	116,027,827
Parking Meters	63,603,024	66,681,541	63,813,492	61,264,074	43,912,682
Parking Garage	68,183,966	65,117,322	70,747,995	72,412,231	56,049,361
General Fund Transfer No. 2 <sup>(2)</sup>	68,812,637	67,420,000	66,790,000	68,820,000	55,570,000
Other (includes rent, advertising & interest)	34,568,135	30,920,928	37,147,775	50,477,804	39,888,998
Operating Grants:					
Regional Grants (AB 1107, TDA, Bridge Tolls)	87,180,536	89,428,039	90,636,494	95,626,666	96,371,546
State Transit Assistance (STA)	36,379,697	27,211,840	42,630,948	64,726,627	61,227,565
Gas Tax Adjustment	3,098,525	3,098,525	3,098,525	3,098,525	3,039,033
Restricted Paratransit Grants (5307, Prop K, Other)	16,594,109	17,194,348	16,503,739	18,432,443	16,756,134
Federal Pandemic Support <sup>(3)</sup>	--	--	--	--	199,628,866
Subtotal Operating Grants	143,252,867	136,932,752	152,869,706	181,884,261	377,023,144
General Fund Transfer No. 1 <sup>(2)</sup>	284,730,000	312,600,000	338,850,000	408,734,000	367,478,127
Appropriated Prior Year Fund Balance	20,009,965	45,350,000	47,088,034	33,200,000	--
<b>TOTAL OPERATING REVENUES</b>	<b>\$1,017,234,198</b>	<b>\$1,064,438,206</b>	<b>\$1,127,936,924</b>	<b>\$1,224,968,223</b>	<b>\$1,210,050,551</b>
<b>Operating Expenses</b>					
Salaries	\$ 450,546,839	\$ 478,547,829	\$ 506,525,413	\$ 531,992,859	\$ 552,428,459
Less: Overhead/Recoveries	(46,208,785)	(52,987,924)	(49,126,475)	(59,243,916)	(56,268,531)
Net Salaries	404,338,054	425,559,905	457,398,938	472,748,943	496,159,928
Fringe Benefits:					
Pension	78,590,585	77,067,260	82,088,678	83,112,307	97,807,821
Medical	99,515,495	105,639,073	112,087,780	116,887,329	122,571,401
Less: Overhead/Recoveries	(13,802,624)	(15,827,562)	(14,674,142)	(17,696,235)	(16,807,483)
Net Pension & Medical	164,303,456	166,878,771	179,502,316	182,303,401	203,571,739
All Other Fringe Benefits	36,018,903	37,909,733	40,266,143	41,810,394	42,869,711
Fuel & Lubricants	11,246,552	11,220,353	11,386,423	11,042,471	9,200,641
All Other Materials and Supplies	84,454,524	68,005,816	76,326,938	73,774,504	73,803,191
Paratransit Service Contract	22,545,250	24,008,387	24,557,402	27,369,236	27,020,855
All Other Professional Services	80,786,337	102,137,996	82,269,967	107,640,263	99,646,509
Service of Other City Departments <sup>(4)</sup>	55,249,813	60,423,371	61,280,476	70,801,366	71,382,008
Rent and Buildings	12,858,888	14,310,866	15,369,687	17,270,986	20,776,131
Insurance and Claims	50,332,041	52,798,927	54,993,344	59,644,538	52,904,630
Payments to Other Governmental Entities	13,292,429	12,711,031	11,234,963	13,766,844	13,645,034
Debt Service	17,018,022	17,171,462	28,652,912	25,259,913	25,137,403
Subtotal Operating Expenses before Transfers	952,444,269	993,136,618	1,043,239,509	1,103,432,859	1,136,117,780
Transfers:					
Transfers to Current Capital Projects	5,636,235	30,017,486	25,758,135	54,776,004	30,404,749
Transfers to Future Capital Projects and Net Changes to Operating Carryforwards	3,559,394	13,427,343	7,089,918	(17,199,804) <sup>(5)</sup>	1,483,920
Transfers to Reserves	2,340,000	6,165,317	2,340,000	2,340,000	2,340,000
<b>TOTAL OPERATING EXPENSES &amp; TRANSFERS</b>	<b>\$ 963,979,898</b>	<b>\$1,042,746,764</b>	<b>\$1,078,427,562</b>	<b>\$1,143,349,059</b>	<b>\$1,170,346,449</b>

<sup>(1)</sup> Detailed information regarding specific line items is set forth in “– Operating Revenues,” including Tables 7, 8, 9 and 10 and accompanying footnotes; “– Interest Income”; “– Federal, State, Regional and Local Grants,” including Table 11 and the accompanying footnote; “– City General Fund Transfers,” including Table 12; “– Appropriated Prior Year Fund Balance;” “Contingency Reserve Policy;” “– Operating and Maintenance Expenses,” including Tables 13 and 14 and the accompanying footnotes; and “– Labor Relations,” including Table 17 and the accompanying footnotes.

<sup>(2)</sup> General Fund Transfer No. 1 is reported in the SFMTA’s audited financial statements as “General Fund Baseline Transfer (by City Charter).” General Fund Transfer No. 2 is reported in the SFMTA’s audited financial statements as “General Fund in lieu of Parking Tax.”

<sup>(3)</sup> Funding received under the Coronavirus Aid, Relief, and Economic Security Act and FEMA’s Disaster Grants – Public Assistance Program.

<sup>(4)</sup> Service of Other City Departments includes amounts paid to various cities departments for services such as SFPUC for electricity.

<sup>(5)</sup> Encumbrance and manual carryforwards were \$73 million in Fiscal Year 2017-18 and \$56 million in Fiscal Year 2018-19. In Fiscal Year 2019-20 there was no transfers to future capital projects to offset the decrease in carryforwards.

Source: SFMTA

The amounts in Table 7 (extracted from Table 6) represent the SFMTA revenues that constituted “Pledged Revenues” in Fiscal Years 2015-16 through 2019-20. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under the Indenture.” Revenues shown in Table 6 but not in Table 7 do not constitute “Pledged Revenues” under the Indenture. In addition, beginning in Fiscal Year 2020-21, proceeds of the Traffic Congestion Mitigation Tax will also constitute “Pledged Revenues” under the Indenture. The SFMTA projects that proceeds of the Traffic Congestion Mitigation Tax will be approximately \$7.0 million for Fiscal Year 2020-21, and approximately \$14.0 million annually thereafter. See “– Traffic Congestion Mitigation Tax.”

**TABLE 7**  
**PLEDGED REVENUES**  
**(IN THOUSANDS)**  
**(FISCAL YEARS ENDED JUNE 30)**

REVENUE SOURCE	2016	2017	2018	2019	2020
Passenger Fares (fixed route & paratransit) <sup>(1)</sup>	\$206,758	\$197,227	\$203,787	\$197,110	\$154,100
Fines, Fees, Permits & Taxis <sup>(1)</sup>	127,316	142,189	146,843	151,066	116,028
Parking Meters <sup>(1), (2)</sup>	63,603	66,682	63,813	61,264	43,913
Parking Garages <sup>(1), (3)</sup>	68,184	65,117	70,748	72,412	56,049
Other (includes rent, advertising & interest)	34,568	30,921	37,148	50,478	39,889
AB 1107	40,262	41,215	43,009	46,776	44,486
State Transit Assistance (STA) <sup>(4)</sup>	36,380	27,212	42,631	64,727	61,228
Transportation Development (TDA)	44,231	45,526	44,940	46,163	49,434
Federal Pandemic Support <sup>(5)</sup>	--	--	--	--	199,629
Total Pledged Revenues <sup>(6)</sup>	\$621,302	\$616,089	\$652,919	\$689,996	\$764,756

(1) Managed Revenues over which the SFMTA has rate-setting authority. See “– Financial Operations – Establishment of Rates, Charges, Fares, Fines and Penalties” and “– Budget Process.”

(2) Amounts shown include all parking meter revenues received by the SFMTA in the applicable Fiscal Year. Parking meter revenues constitute Pledged Revenues only to the extent Bonds or other Parity Obligations have financed traffic regulation and control functions. As of January 1, 2021, Outstanding Bonds have financed or refinanced sufficient traffic regulation and control functions so as to result in all parking meter revenues constituting Pledged Revenues for such Bonds in the Fiscal Years set forth in Table 7. Should this change in the future, however, some or all of such parking meter revenues may be unavailable to pay debt service on the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under the Indenture.”

(3) Net of operating and maintenance expenses of the Parking Corporations. See “– Parking and Traffic Functions – Parking Garages.”

(4) A portion of the State Transit Assistance funds received by the SFMTA are restricted to application for paratransit purposes and therefore do not constitute Pledged Revenues under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under the Indenture.” These restricted amounts are not included in Table 7 and are included as part of the “Restricted Paratransit Grants (5307, Prop K, STA, Other)” shown in Table 6.

(5) Funding received under the Coronavirus Aid, Relief, and Economic Security Act and FEMA’s Disaster Grants-Public Assistance.

(6) Totals may not add due to rounding.

Source: SFMTA

**Automatic Indexing Policy Applicable to Fares, Fees and Charges.** In April 2009, the Board adopted an “Automatic Indexing Implementation Plan” (“AIIP”) applicable to Muni fares, SFMTA parking citations and SFMTA garage parking rates, among other charges. Under the AIIP, which took effect in Fiscal Year 2010-11, charges that are not otherwise governed by law will be increased on a periodic basis based upon a preset formula as part of SFMTA’s two-year operating budget process. The formula increases (or decreases) such charges by a rate equal to one half of any change in the Bay Area Consumer Price Index, as determined by the California Department of Finance’s Bay Area CPI-U forecast, plus one-half of the annual percentage increase or decrease in the SFMTA’s labor costs included in the SFMTA’s two-year operating budget (the “Automatic Inflator”). Any resulting increase in fares or fees will be rounded up to the nearest \$0.25, \$0.50 or \$1.00, depending upon the base charge, so long as the rounding impact does not result in more than a 10% increase in the applicable charge. The Board may act to increase (or decrease) fares by more or less than the amount determined in accordance with the formula. Such increases (or decreases) would be determined as part of the budget process or in a budget amendment as described in the section

“– Financial Operations – Establishment of Rates, Charges, Fares, Fines and Penalties.” The budget, when it includes any rate increases, remains subject to rejection by the Board of Supervisors on a seven-elevenths vote.

The AIIP permits the SFMTA to forego an automatic inflator if the SFMTA’s budget projections allow. In April 2020, the Board decided to forego fare increases in Fiscal Years 2020-21 and 2021-22. See “– Financial Operations – Budget Process” and “– Establishment of Rates, Charges, Fares, Fines and Penalties.”

**Passenger Fares.** Muni’s passenger fare revenues include fares paid by transit riders and paratransit users, as well as proof of payment citations. The basic adult cash fare is \$3.00 for regular service, which includes fixed route service on motorbuses, trolley buses, light rail and historic streetcars, but excludes cable cars. Transfers are issued for each cash fare paid for regular Muni service and are valid for 120 minutes in any direction. Frequent riders may purchase a monthly pass, which is good for unlimited rides on all regular service and cable cars. Since September 2011, Muni monthly passes have only been available on the Clipper Card fare instrument, a contactless smart card (the “**Clipper Card**”), which is also accepted on many other transit systems in the Bay Area. MuniMobile, the SFMTA’s official ticketing application, offers single ride tickets for \$2.50 and a day pass for \$5.00.

Senior citizens over age 65, persons with disabilities, and youth between the ages of 5 and 17 qualify for discounted cash and pass fares. A discounted monthly Lifeline Pass is available for adults who meet income eligibility requirements, and is administered by the City’s Human Services Agency.

The following table presents Muni’s basic adult cash fares and adult monthly passes in force since September 2003:

**TABLE 8  
BASIC ADULT FARES**

<b>Effective Date</b>	<b>Adult Cash Fare</b>	<b>Adult Monthly Pass</b>
July 1, 2019	\$3.00	\$98(A) or \$81(M)
September 1, 2018	\$2.75	\$94(A) or \$78(M)
July 1, 2017	\$2.75	\$94(A) or \$75(M)
January 1, 2017	\$2.50	\$91(A) or \$73(M)
July 1, 2015	\$2.25	\$83(A) or \$70(M)
September 1, 2014	\$2.25	\$80(A) or \$68(M)
July 1, 2013	\$2.00	\$76(A) or \$66(M) <sup>†</sup>
July 1, 2012	\$2.00	\$74(A) or \$64(M) <sup>†</sup>
July 1, 2011	\$2.00	\$72(A) or \$62(M) <sup>†</sup>
January 1, 2010	\$2.00	\$70(A) or \$60(M) <sup>†</sup>
July 1, 2009	\$2.00	\$55
September 1, 2005	\$1.50	\$45
September 1, 2003	\$1.25	\$45

<sup>†</sup> Beginning in 2010, the adult “A” monthly pass allows pass holders to ride Muni, as well as BART within the City (between BART’s Embarcadero and Balboa Park stations), while the adult “M” monthly pass covers only travel on Muni. Prior to 2010, all adult monthly passes entitled the holder to the use of BART within the City.

Source: SFMTA

The basic adult cash fare is expected to remain unchanged in Fiscal Years 2020-21 and 2021-22.

In 2013, the SFMTA launched a 16-month pilot program to provide free, unlimited rides on Muni to youths between the ages of 5 and 17 who live in households with a gross annual family income at or below the Bay Area median (the “**Youth Program**”). In 2014, the Board approved expanding the Youth Program to include 18 year-olds and 19-22 year-old students enrolled in the San Francisco Unified School District’s Special Education Services and English Learner Programs, and extended the Youth Program through the end of Fiscal Year 2015-16. The costs of the expanded and extended Youth Program were funded by a gift from Google of approximately \$6.8 million.

In 2015, the Board expanded the program to include senior citizens over age 65 and persons with disabilities through the end of Fiscal Year 2015-16 (as expanded, the “Free Muni Program”). In June 2020, the Board expanded the Free Muni Program to include people experiencing homelessness. The Free Muni Program is now ongoing with no expected end date. The SFMTA contributed approximately \$19 million in Fiscal Years 2018-19 and 2019-20 to subsidize the Free Muni Program.

As shown in the following table, in the 10 fiscal years prior to Fiscal Year 2019-20, annual ridership remained relatively stable while Muni’s adult case fare, the cost of an adult monthly pass and Muni’s average fare per passenger have generally increased, with declines in average fare per passenger in Fiscal Year 2013-14 corresponding to the Youth Program and other discounts implemented by the SFMTA, and in Fiscal Year 2015-16 corresponding to further expansion of the Free Muni Program to include seniors and people with disabilities. Figures show in the following table for Fiscal Year 2019-20 reflect a decline in annual ridership due in substantial part to the COVID-19 pandemic and City stay-at-home orders. See “IMPACT OF COVID-19 PANDEMIC.”

**TABLE 9  
FARE REVENUE, RIDERSHIP AND  
AVERAGE FARES PER PASSENGER**

<b>Fiscal Year</b>	<b>Total Fare Revenue<sup>(1)</sup> (In Thousands)</b>	<b>Total Annual Boardings (In Thousands)</b>	<b>Percentage Change in Boardings</b>	<b>Average Fare Per Passenger<sup>(2)</sup></b>	<b>Percentage Change in Average Fare<sup>(3)</sup></b>
2019-20 <sup>(4)</sup>	\$154,100	170,284 <sup>(4)</sup>	(23.6)%	\$0.90	2.4%
2018-19	197,110	222,938	(0.7)	0.88	(2.6)
2017-18	203,787	224,611	(0.5)	0.91	3.9
2016-17	197,227	225,786	(2.8)	0.87	(1.8)
2015-16	206,758	232,349	5.9	0.89	(9.1)
2014-15	214,698	219,326	(3.8)	0.98	4.8
2013-14	212,861	227,977	2.2	0.93	(5.4)
2012-13	220,101	222,991	0.4	0.99	8.4
2011-12	202,284	222,126	3.9	0.91	1.6
2010-11	191,637	213,748	(1.0)	0.90	3.2
2009-10	187,642	215,982	(4.4)	0.87	28.3

(1) Pursuant to a contract finalized with BART in Fiscal Year 2012-13, Fare Revenues for Fiscal Year 2012-13 include a one-time payment totaling approximately \$8.0 million made by BART for feeder services provided by SFMTA during Fiscal years 2009-10 to 2011-12, and a payment of approximately \$2.8 million for feeder services provided by SFMTA in Fiscal Year 2012-13. Fare Revenues for Fiscal Years 2013-14, 2014-2015, 2015-2016, 2016-17, 2017-18, 2018-19 and 2019-20 include payments for feeder services provided by SFMTA to BART of \$2.9 million, \$3.1 million, \$3.2 million, \$3.4 million, \$3.5 million, \$3.6 million and \$3.8 million, respectively.

(2) Average fare per passenger is equal to revenue divided by boardings and reflects the impact of transfers, monthly passes and discounted fares, including the Youth Program. Rounded to the nearest \$0.01.

(3) Percentages based on non-rounded average fare per passenger.

(4) Fiscal Year 2019-20 ridership numbers have been submitted but have not yet been approved by the Federal Transit Administration and the NTD. Decrease in ridership numbers was due in substantial part to the COVID-19 pandemic.

Source: SFMTA

Passengers are expected to keep proof of payment such as a tagged Clipper Card, a transfer, a subway ticket or an active MuniMobile ticket. The SFMTA has revised its approach to fare enforcement in an effort to increase fare compliance and increase passenger fare revenues. Rather than focusing solely on punitive citations, fare enforcement will shift to an emphasis on compliance with fare policies by informing customers of their payment options. Fare evasion citations will continue to be issued; however, customers that qualify for a Free Muni Program may have their first violation waived if they enroll in a Free Muni Program within 30 days of receiving the citation.

**Parking and Citation Revenues.** In accordance with the Charter, the SFMTA receives dedicated revenues from 21 parking garages and 18 surface parking lots other than those under the jurisdiction of Recreation and Park. Additionally, the SFMTA receives revenues from all on-street parking meters in the City except for meters on

Recreation and Park and Port of San Francisco properties. Finally, the SFMTA receives revenue from residential parking permits, special traffic permits, boot removal fees, automobile towing, and fees for violations captured by the City's red light photo enforcement program.

Pledged Revenues include parking meter revenues, but only to the extent Bonds or other Parity Obligations have financed traffic regulation and control functions.

Parking and citation revenues for Fiscal Year 2019-20 have been adversely impacted by the COVID-19 pandemic and City stay-at-home orders. See "IMPACT OF COVID-19 PANDEMIC."

**Other Operating Revenues.** The SFMTA receives a portion of its advertising revenue from (i) a Transit Shelter Advertising Agreement with Clear Channel Outdoor, which runs through December 2022, with an option to extend, at the City's discretion, for an additional five years, and (ii) an Agreement for Advertising on the SFMTA Vehicles and Other Property with Intersection Media, which runs through June 30, 2024, with an option to extend, at the City's discretion, for an additional five years. The SFMTA derives another portion of its advertising revenues from an agreement with BART. The SFMTA receives interest earnings on cash balances it maintains on deposit in the City Treasurer's pooled funds. The SFMTA also receives certain rents, including rental revenues from properties, space rentals for antenna installation and rentals from kiosks, equipment and facilities. The following table summarizes other operating revenue. Declines in revenue from rents and concessions and advertising for Fiscal Year 2019-20 were due in part to the COVID-19 pandemic. See "IMPACT OF COVID-19 PANDEMIC."

**TABLE 10**  
**OTHER OPERATING REVENUE**  
**(IN MILLIONS)**  
**(FISCAL YEARS ENDING JUNE 30)**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Rents and Concessions	\$ 3.3	\$ 2.5	\$ 2.9	\$ 3.1	\$ 3.0
Advertising	21.7	21.8	23.3	25.4	21.6
Charges for Services & Other	6.5	2.2	2.5	6.9	3.3
Total	\$31.5	\$26.5	\$28.7	\$35.4	\$27.9

Source: SFMTA

### **Traffic Congestion Mitigation Tax**

In November 2019, San Francisco voters approved Proposition D, which imposes a Traffic Congestion Mitigation Tax (the "**Traffic Congestion Mitigation Tax**") on commercial ride-share companies and driverless-vehicle companies for fares generated by rides that originate in San Francisco. Shared rides are subject to a 1.5% business tax and private rides are subject to a 3.25% business tax from January 1, 2020 through November 5, 2045. Passenger rides in zero-emission vehicles are subject to a 1.5% business tax from January 1, 2020 through December 31, 2024.

Revenues from the Traffic Congestion Mitigation Tax, estimated at \$30-35 million annually prior to the COVID-19 pandemic, are deposited into a Traffic Congestion Mitigation Fund. Roughly half of the revenues are allocated to the SFMTA for Muni transit service and affordability, system reliability and capacity, and keeping transit infrastructure in a state of good repair, to be used for the following purposes: (i) improving bus and rail service frequency and reliability; (ii) maintaining and expanding Muni fleet and facilities; (iii) improving access, including stations, escalators, and elevators; and (iv) improving reliability through fixing and/or replacing rails, overhead wires, associated fixed guideway infrastructure, and traffic signals. Revenues from the Traffic Congestion Mitigation Tax may also be used to pay debt service on projects related to the purposes described above. The SFMTA projects to receive approximately \$7 million in Traffic Congestion Mitigation Tax revenues in Fiscal Year 2020-21.

In connection with the issuance of the Series 2021AB Bonds, which occurred on February 23, 2021, the Fifth Supplemental Indenture amended the definition of "Pledged Revenues" to include revenues of the Traffic Congestion

Mitigation Tax allocated to the SFMTA. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under the Indenture.

### **Interest Income**

The SFMTA invests operating cash balances in the City Treasurer’s pooled funds and earned approximately \$3.0 million, \$4.4 million, \$8.4 million, \$15.0 million and \$12.1 million in Fiscal Years 2015-16 through 2019-2020, respectively. The City Treasurer’s pooled funds are permitted investments for amounts held by the Trustee under the Indenture. See “– Investment of SFMTA Funds.”

### **Federal, State, Regional and Local Grants**

The SFMTA receives grants and funding to support its operations from a variety of federal, State, regional and local sources. The operating grants the SFMTA receives from AB 1107 and the TDA grants (as each is described below) constitute Pledged Revenues. Remaining grants will be applied to other lawful purposes of the SFMTA, including as restricted by the terms of any such grant. The SFMTA may, but is not required to, designate as Pledged Revenues other federal, State, regional or local grants that by their terms may be used to pay debt service. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS – Pledge of Pledged Revenues Under the Indenture.”

Although the grants described below are not dependent on the SFMTA’s ridership levels, some grants are dependent on sales tax receipts, which have been significantly impacted by the COVID-19 pandemic. See “IMPACT OF COVID-19 PANDEMIC.”

**Federal Grants.** The Federal Transit Administration’s Urbanized Area Formula Funding program (49 U.S.C. 5307) (“**Section 5307**”) makes federal grant funds available to urbanized areas for transit capital and operating assistance and for transportation related planning. In the Bay Area, MTC, a public agency created in 1970 by the State Legislature to provide regional transportation planning and organization in the Bay Area, allocates Section 5307 funds to transit agencies. Although this funding source is primarily used for capital purposes, it also may be used to fund preventive maintenance costs, which are operating expenses. The SFMTA and other transit agencies throughout the country have made significant use of Section 5307 to fund preventive maintenance expenses in recent years. A small portion of the Section 5307 grants are applied to flexible capital needs and paratransit operating expenses. See “CERTAIN RISK FACTORS – U.S. Government Funding.”

The SFMTA received approximately \$374 million in CARES Act funding, of which approximately \$197 million was allocated to Fiscal Year 2019-20 operating expenses and approximately \$177 million has been allocated to Fiscal Year 2020-21 operating expenses. All CARES Act funding has been expended as of December 2020. In addition, the SFMTA received approximately \$2.4 million from FEMA, all of which was allocated to Fiscal Year 2019-20 operating expenses. The SFMTA projects it will receive approximately \$230 million in additional federal relief funds under the 2021 Coronavirus Act, with approximately \$123.9 million to be allocated to Fiscal Year 2020-21 operating expenses and approximately \$106.1 million to be allocated to Fiscal Year 2021-22 operating expenses. For more information regarding federal relief funds related to the COVID-19 pandemic, see “IMPACT OF COVID-19 PANDEMIC.”

**For recent developments relating to federal relief funds expected to be provided to the SFMTA under the 2021 Coronavirus Act since the date of this Official Statement, see “RECENT DEVELOPMENTS – 2021 Coronavirus Act.”**

**State, Regional and Local Grants.** AB 1107, passed in 1977, made permanent a previously temporary half-cent sales tax imposed to provide funding for BART. Pursuant to AB 1107, the half-cent sales tax is imposed within Alameda County, Contra Costa County and the City. MTC allocates proceeds of the sales tax to BART, AC Transit and the SFMTA. The allocation to the SFMTA is based on MTC estimates of AB 1107 sales tax receipts within the three counties. Due to the COVID-19 pandemic, AB 1107 sales tax receipts received in Fiscal Year 2019-20 were approximately 5.0% less than amounts received in Fiscal Year 2018-19. See “Table 11 – Operating Grants” and

“IMPACT OF COVID-19 PANDEMIC.” The SFMTA projects to receive approximately \$38 million from AB 1107 funds in Fiscal Year 2020-21, approximately 19% less than amounts received in Fiscal Year 2018-19.

Pursuant to the TDA, a portion of certain sales taxes (1/4 of 1% of the total 8.5% sales tax imposed within the City) is allocated to provide funding for SFMTA operations. Sales tax revenues are apportioned to the City on the basis of the amount of sales tax revenues collected by the State Board of Equalization within the City. Such Local Transportation Funds (the “**LTF Funds**”) are apportioned, allocated and paid by designated regional transportation planning agencies to individual transportation service entities. MTC is the agency responsible for approving allocations of LTF Funds from the Municipal Transportation Fund.

There is a three-step process for obtaining LTF Funds: (1) apportionment, (2) allocation, and (3) payment. The designated regional transportation planning agencies determine each area’s share of the anticipated LTF Funds annually. Generally, revenues from the county’s LTF Funds must be apportioned, by population, to areas within the county. Once funds are apportioned to a given area, they are typically available only for allocation by the designated regional transportation planning agencies to claimants in that area for a specific purpose. The SFMTA receives LTF Funds by submitting an annual claim form and supporting documents to MTC. MTC may specify payment in a lump sum, in installments, or as funds become available. See “– Operating Revenues.”

The SFMTA also receives grants made by the County Transportation Authority from proceeds of a half-cent sales tax imposed in the City pursuant to Proposition K, approved in the City in 2003 (“**Proposition K**”). Although proceeds of the Proposition K sales tax are reserved primarily for funding capital projects, approximately \$10 million is allocated annually to support Muni’s paratransit operations.

In addition, the SFMTA receives State Transit Assistance (“**STA**”) funds for operations associated with local mass transportation programs. These funds are derived from proceeds of a Statewide sales tax on diesel fuel. The amount of funds available Statewide through the STA program has varied significantly, from a record allocation of approximately \$624 million in the State’s 2006-07 fiscal year, some of which constituted repayment by the State General Fund of previous loans out of the account that funds the STA program, to \$0 in the State’s 2009-10 fiscal year, due to the suspension of the program in the State Legislature’s fiscal year 2009-10 budget. Following the suspension of the STA program by the State Legislature, then Governor Schwarzenegger, in his fiscal year 2010-11 budget proposal, proposed eliminating the transit-related sources of funding altogether and instead dedicating those amounts to the State General Fund. The former Governor’s proposal to eliminate transit-related STA funding was never enacted, however, and, in 2009, courts in the State held that certain portions of prior diversions of such funds to the State’s General Fund for non-transportation and non-transit purposes exceeded the Legislature’s authority following the enactment of Proposition 116 in June 1990.

In April 2017, for the first time since 1983, when the Legislature voted to increase the fuel user fee from seven cents to nine cents, the Legislature approved a major state transportation funding package with ongoing revenue backed by new transportation-related taxes and fees. Senate Bill 1 (Beall and Frazier), formally known as the Road Repair and Accountability Act of 2017, is expected to generate \$52.4 billion for transportation investments over the next decade, with the funding sources continuing in perpetuity and indexed to keep pace with inflation. The legislation establishes new programs and funding sources increased formula-funded programs, as well as statewide funding levels for various competitive programs. The SFMTA received approximately \$65 million in Fiscal Year 2018-19, and approximately \$61 million in Fiscal Year 2019-20. Based on MTC projections, the SFMTA is projected to receive approximately \$65 million annually from State Transit Assistance, a Senate Bill 1 program.

In March 2004, voters in the Bay Area region passed Regional Measure 2 (“**RM2**”), which raised the toll by \$1.00 on seven State-owned toll bridges in the Bay Area. Proceeds of this additional toll fund are allocated to various transportation projects within the Bay Area that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors, as identified in State Senate Bill 916, enacted in 2004. Specifically, RM2 establishes the Regional Traffic Relief Plan and identifies specific transit operating assistance and capital projects and programs eligible to receive RM2 funding, including operating assistance that the SFMTA receives annually for its Third Street Rail line operations and for the Owl Bus Service on the BART corridor.

In June 2018, voters in the Bay Area region passed Regional Measure 3 (“**RM3**”), which raised the toll on seven State-owned toll bridges in the Bay Area by \$1.00 beginning January 1, 2019, and will raise the toll by another



\$1.00 beginning January 1, 2022, and by another \$1.00 beginning January 1, 2025. Under the RM3 final expenditure plan, the SFMTA expects to receive approximately \$140 million through 2045 for expansion and replacement of Muni's fleet and facilities. However, RM3 is currently under litigation and collected tolls are deposited into an escrow account and not available pursuant to the final expenditure plan. In October 2020, the California Supreme Court granted review of the case; however, a final decision will depend on the Court's resolution of a related issue in another case.

From time to time, subject to authorization by the State Legislature, Bay Area voters may be asked to approve a new regional measure to increase tolls on the Bay Area's State-owned toll bridges. If such a measure were to be enacted, it may result in increased operating and/or capital funding for SFMTA.

Grants designated for specific operating purposes or for capital projects, such as local sales tax revenues received pursuant to Proposition K, STA restricted grants, RM2 grants and RM3 grants, are not included in Pledged Revenues.

**Other Operating Grants.** This category includes: (1) BART reimbursement to the SFMTA for Paratransit services that the SFMTA provides in the BART corridor and (2) Federal funds for Paratransit services under Federal Transit Act ("FTA") Section 5307. As determined under the American with Disabilities Act ("ADA"), BART's reimbursement to the SFMTA is calculated at 7.9% of actual Paratransit contract expenditures less Paratransit fare revenues and State funding.

**TABLE 11  
OPERATING GRANTS  
(IN MILLIONS)  
(FISCAL YEARS ENDING JUNE 30)**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
AB 1107	\$ 40.3	\$ 41.2	\$ 43.0	\$ 46.8	\$ 44.5
State Transit Assistance (STA) <sup>(1)</sup>	36.4	27.2	42.6	64.7	61.2
Transportation Development Act (TDA)	44.2	45.5	44.9	46.2	49.4
MTC Bridge Tolls	2.7	2.7	2.7	2.7	2.5
Gas Tax Adjustment/Revenue	3.1	3.1	3.1	3.1	3.0
Restricted Paratransit Grants (5307, Prop K, STA, other)	16.6	17.2	16.5	18.4	16.8
Federal Pandemic Support <sup>(2)</sup>	--	--	--	--	199.6
<b>Total Operating Grants</b>	<b>\$143.3</b>	<b>\$136.9</b>	<b>\$152.8</b>	<b>\$181.9</b>	<b>\$377.0</b>

(1) Annual amounts have varied as a result of legislative action. See "-- Federal, State, Regional and Local Grants -- State, Regional and Local Grants."

(2) Funding received under the CARES Act and FEMA's Disaster Grants-Public Assistance. For more information regarding federal COVID-19 pandemic support, including funding expected to be received under the 2021 Coronavirus Act, see "IMPACT OF COVID-19 PANDEMIC."

Source: SFMTA

**Capital Grants and Other Restricted Grants.** The SFMTA receives a variety of capital grants and other restricted grants. Capital grants are an essential source of funds for the maintenance and improvement of the Transportation System. See "-- Capital Program -- Current Projects -- Central Subway Project" and "-- Capital Program -- Funding of Capital Improvements."

### **City General Obligation Bonds**

On November 4, 2014, voters in the City approved Proposition A authorizing the City to issue up to \$500 million in general obligation bonds the proceeds of which may be applied to finance projects that will (i) improve Muni service reliability and reduce travel time, including the SFMTA's Muni Forward program, (ii) improve street conditions for those with limited mobility or other disabilities, (iii) improve pedestrian safety, (iv) manage traffic

congestion by updating traffic and pedestrian signals, (v) build streets, improve sidewalks at intersections and establish separated bikeways and bicycle parking, (vi) upgrade streets that anchor the transit system in order to ensure people can safely and efficiently move around the City, and (vii) fix or improve the condition of SFMTA facilities. Such general obligation bonds would be secured by ad valorem property taxes imposed by the City and would not be secured by Pledged Revenues. To date, the City has issued \$377.215 million in aggregate principal amount of general obligation bonds pursuant to Proposition A.

The SFMTA plans to seek voter approval in June 2022 for the authorization of up to \$350 million in general obligation bonds to finance transportation projects.

### **City General Fund Transfers**

***Annual General Fund Transfer No. 1.*** In accordance with Section 8A.105(b) of the Charter, the SFMTA receives annual non-discretionary transfers (“**General Fund Transfer No. 1**”) from the City’s General Fund to the Municipal Transportation Fund according to a formula established when the SFMTA was created in 1999. The required “Base Amount” was determined by the Controller based on the amount of General Fund discretionary revenue appropriated to Muni and to other City departments that provided services to Muni in Fiscal Year 1999-2000 (the “**Base Year**”). When the former DPT was incorporated into the SFMTA as of July 1, 2002, the Base Amount was increased by the Controller to reflect the General Fund revenue that had been appropriated to the DPT, as well as other City departments which provided services to the DPT as of Fiscal Year 2001-02. The Base Amount was similarly adjusted to reflect incorporation into the SFMTA of responsibility for the work of the Parking Authority and the former Taxi Commission. The Base Amount is adjusted for each fiscal year by the Controller by the percentage increase or decrease in aggregate City discretionary revenues that can be appropriated by the Mayor and Board of Supervisors for any lawful purpose. As part of the City’s existing budget process, the Controller may make further mid-year refinements to adjustments in the Base Amount by increasing or decreasing such adjustments to reflect updated budget projections and any additional information available to the Controller at such time. See “– Financial Operations – Budget Process.” Adjustments are also made for any increases in General Fund appropriations to the SFMTA in subsequent years to provide ongoing services that were not provided in the Base Year.

On November 4, 2014, voters in the City approved Proposition B. Proposition B provides that, commencing in Fiscal Year 2015-16, the Controller shall further adjust the Base Amount annually by the percentage increase in the population of San Francisco as determined by data that the Controller, in his or her sole discretion, finds most reliable for the most recent available calendar year. Such increase shall be based on the greater of the increase in the daytime or nighttime population of the City; provided that, in any year in which the Controller determines that neither the daytime nor the nighttime population has increased, no adjustment shall be made. Seventy-five percent of any increase as a result of the provisions of Proposition B shall be applied by the SFMTA to make transit system improvements to Muni and 25% shall be used for transportation capital expenditures to improve street safety for all users.

***Annual General Fund Transfer No. 2.*** The City imposes a tax on the occupancy of all commercial off-street parking spaces throughout the City. The overall tax rate is 25% of total parking charges. Pursuant to Section 8A.105(f) of the Charter, the SFMTA receives an additional guaranteed annual deposit into the Municipal Transportation Fund from the City’s General Fund equivalent to 80% of the revenues from the City’s tax on the occupancy of commercial off-street parking spaces (“**General Fund Transfer No. 2**”).

Although the City transfers significant funds to the SFMTA annually pursuant to the Charter, such amounts do not constitute Pledged Revenues and the Indenture provides that such funds are not to be applied to pay debt service on the Bonds but must instead be expended on operation and maintenance expenses and for other SFMTA purposes. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Pledge of Pledged Revenues Under the Indenture.”

**TABLE 12**  
**GENERAL FUND TRANSFERS**  
**(IN MILLIONS)**  
**(FISCAL YEARS ENDING JUNE 30)**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
General Fund Transfer No. 1	\$284.7	\$312.6	\$338.9	\$408.7	\$367.5
General Fund Transfer No. 2	68.8	67.4	66.8	68.8	55.6
Population Based General Fund Baseline (Proposition B)	27.7	31.0	43.3	47.0	49.8
Total:	<u>\$381.2</u>	<u>\$411.0</u>	<u>\$449.0</u>	<u>\$524.5</u>	<u>\$472.9</u>

Source: SFMTA

### **Appropriated Prior Year Fund Balance**

This category accounts for revenue derived from funds available at the end of prior Fiscal Years. Historically the SFMTA has used unspent funds remaining from prior appropriations to roll over into subsequent years for use.

### **Contingency Reserve Policy**

In 2007, the Board approved a Contingency Reserve Policy, which directed the establishment of an operating reserve with the goal of setting aside a total of 10% of annual operating expenditures, with such goal being met over a ten-year period by adding 1% to the reserve in each Fiscal Year. Each year, during its annual budget process, the Board reviews the adequacy of the reserves. Pursuant to the Contingency Reserve Policy, the SFMTA has committed to spend no more than 30% of reserves in any year.

The target amounts for Fiscal Years 2018-19 and 2019-20 were \$126.0 million and \$126.4 million, respectively. As of June 30, 2019, and June 30, 2020, the SFMTA held \$137.0 million and \$120.1 million, respectively, on deposit in the contingency reserve fund. The SFMTA did not use any amounts from the contingency reserve fund in Fiscal Years 2018-19 or 2019-20. The target amount for Fiscal Year 2020-21 is \$125.0 million, and such amount is currently on deposit in the contingency reserve fund. The SFMTA does not anticipate that it will need to use any funds from the contingency reserve fund in Fiscal Year 2020-21, but may need to access such reserves in Fiscal Year 2021-22 to achieve a balanced budget. See also “IMPACT OF COVID-19 PANDEMIC.”

### **Operating and Maintenance Expenses**

**General.** The SFMTA’s operating and maintenance expenses are comprised of personnel expenses (salaries and fringe benefits), contracted services, financial contributions to the PCJPB to subsidize the operation of Caltrain commuter rail service between the City and San Jose, materials and supplies, equipment and maintenance expenses, insurance and claims costs, and the cost of services provided by other City departments. Any repair or maintenance activity that does not extend the useful life and/or expand the productive capacity of a capital asset is accounted for as an operating expense, and is included in the Operating and Maintenance Expenses described herein. See “– Capital Program” for a description of the SFMTA’s capital plan and major capital projects. A summary of the SFMTA’s historical operating and maintenance expenses is presented in Table 6. Between Fiscal Year 2015-16 and Fiscal Year 2019-20, the SFMTA’s total operating and maintenance expenses increased by \$183.7 million or 19.3%, from approximately \$952.4 million to approximately \$1.14 billion. Such increase was due primarily to increased salaries, pension and medical costs, other professional services and the cost of services provided by other City departments.

**Wages, Salaries and Benefits.** A significant portion of the SFMTA’s operating costs consist of wages and salaries for employees. See “– Labor Relations.” Salaries have remained relatively flat in recent years, although the cost of benefits has increased. SFMTA employees, as part of the City workforce, are eligible for benefits negotiated by the City and therefore subject to increases or decreases negotiated by the City or approved by voters.

**TABLE 13**  
**HISTORICAL PERSONNEL COSTS**  
**(IN THOUSANDS)**  
**(FISCAL YEARS ENDING JUNE 30)**

<b>Fiscal Year</b>	<b>Total Operating Expense Before Transfers (In Thousands)</b>	<b>Number of Employees<sup>(1)</sup></b>	<b>Total Personnel Costs<sup>(2)</sup> (in Thousands)</b>	<b>Percentage Change in Operating Expenses</b>	<b>Percentage Change in Personnel Costs (Salaries &amp; Fringes)</b>
2020	\$1,136,118	5,981	\$815,677	2.96%	5.41%
2019	1,103,433	5,842	773,803	5.77	4.43
2018	1,043,240	5,692	740,968	5.04	5.98
2017	993,137	5,660	699,164	4.27	5.19
2016	952,444	5,308	664,672	4.94	6.99

(1) Based on operating budget.

(2) Includes gross salaries and fringe benefits.

Source: SFMTA

Recent ballot measures passed by the voters have also provided some opportunities for controlling personnel costs for both the City and the SFMTA, including Proposition B, passed in 2008 (“**Proposition B**”), Proposition D, passed in June 2010 (“**Proposition D**”), Proposition G, passed in November 2010 (“**Proposition G**”), and Proposition C, passed in November 2011 (“**Proposition C**”). Proposition B reduces health benefits and requires employer and employee prefunding contributions for new hires to a health care trust fund (the “**RHCTF**”) established to pay for future costs relating to retiree health care; however, it also increases maximum pension benefits for employees retiring at and after age 60 and enhances cost of living increases. More than 10% of the City’s payroll is now covered by this lower cost RHCTF alternative. Proposition A, a Charter amendment approved by the voters in November 2013, prohibits withdrawals from the City’s sub-trust account within the RHCTF, which covers SFMTA employees, except during such times as the City’s actuary has determined that amounts held in such sub-trust exceed the City’s actuarial accrued liability and for certain other purposes including permitted cost-smoothing and payment of certain administrative expenses.

Proposition D increases the required pension system contributions for certain employees, directs excess City pension contributions resulting from significant investment earnings in any year to a health care trust fund for employees and changed the method for calculating an employee’s final compensation for purposes of determining pension benefits. Proposition G eliminates the floor for transit operator wages which had previously been established by City voters at the average of the two highest wage scales in effect in comparable jurisdictions. Proposition C is expected to reduce future pension and health care costs by (i) increasing certain employees contributions to the pension system in years when the City’s contribution to the pension system exceeds 12% of covered payroll, (ii) requiring elected officials to contribute at the same rate as City employees, (iii) increasing the retirement age and length of service requirements for employees hired after January 7, 2012 and (iv) requiring elected officials and employees, starting on or before January 1, 2009, to contribute up to 1% of their compensation toward their retiree health care, with a matching contribution by the City. Employee pension contribution rates will decrease, though, under Proposition C during any years in which the City’s pension contributions represent less than 11% of covered payroll. Litigation challenging certain aspects of Proposition C have been successful and resulted in increased costs to the City. See Appendix B – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS – San Francisco Employees’ Retirement System.”

As an enterprise department of the City, the SFMTA is excluded from the provisions of California Public Employees’ Pension Reform Act of 2013 (“**PEPRA**”). As of January 1, 2013, PEPRA applies to all state and local public retirement systems and their participating employers, except for those charter cities and counties whose retirement systems are not governed by State statute. The only county or city and county not subject to PEPRA is the City.

**Charter Amendment Affecting Transit Operator Wages and Benefits.** In November 2010, the voters of San Francisco adopted Proposition G, a Charter amendment that changed how the SFMTA and its transit operators (i.e., the employees who operate the SFMTA’s motor buses, trolley buses, light rail and street rail vehicles and cable cars) negotiate wages and benefits. Prior to the adoption of Proposition G, the Charter required that transit operators receive an hourly pay rate no lower than the average of the two highest paid comparable transit agencies in the United States. Proposition G eliminated references to wages and subjects transit operator collective bargaining to the same impasse resolution procedure – binding arbitration – applicable to most other City employees.

**Fuel, Lubricants and Electricity Costs.** The two primary sources of energy for Muni’s operations are diesel fuel (containing 5% to 20% biodiesel) and electricity. Approximately 65% of Muni’s buses operate on diesel, while the remaining 35% of Muni’s buses are electric. All of Muni’s light rail vehicles and cable cars operate on electricity. See “– Transit – Transit Operations.” The table below sets forth the SFMTA’s expenses for fuels and lubricants, primarily comprised of expenses relating to the purchase of diesel fuel, and its expenses for electricity over the most recent five Fiscal Years. The decrease in the costs of fuels and lubricants was due in part to reduced transit service as a result of the COVID-19 pandemic and the City’s stay-at-home orders. See “IMPACT OF COVID-19 PANDEMIC.”

**TABLE 14**  
**FUEL, LUBRICANTS AND ELECTRICITY COSTS**  
**(IN MILLIONS)**  
**(FISCAL YEARS ENDING JUNE 30)**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Fuels & Lubricants <sup>(1)</sup>	\$11.2	\$11.2	\$11.4	\$11.0	\$9.2
Electricity <sup>(2)</sup>	7.9	8.5	8.9	8.6	8.1

<sup>(1)</sup> Includes purchases of natural gas.

<sup>(2)</sup> Electricity purchased from SFPUC is included in the “Service of Other City Departments” line item in the SFMTA’s historical operating results.

Source: SFMTA

During Fiscal Years 2015-16 through 2019-20, the SFMTA purchased all of its electricity from the SFPUC. The SFPUC owns and operates the Hetch Hetchy Water and Power system, which generates 100% greenhouse-gas-free hydroelectricity, as well as supplemental in-city solar generation. Power is supplied to SFMTA through SFPUC-owned transmission, as well as PG&E-owned distribution systems.

The SFPUC prices power supplied to the SFMTA and certain other departments of the City at a rate that is lower than the SFPUC’s average cost and significantly lower than prevailing PG&E commercial power rates in the Bay Area. As of June 1, 2020, the SFMTA paid approximately \$0.01268/kWh for power purchased from the SFPUC, which is below market rate.

The SFMTA purchases fuel through a City-wide contract administered by the Office of Contract Administration (“OCA”). The OCA awarded this contract to several vendors at rates based on the diesel wholesale rack rates published by Oil Pricing Information Service rates (the “**OPIS Rate**”). The OPIS Rate represents an average daily price for ultra-low sulfur distillate diesel fuel based on wholesale terminal price data gathered from numerous sources, and thus fluctuates with the market but generally remains below retail rates.

**Peninsula Corridor Joint Power Board.** The City is a participant in the PCJPB, along with Santa Clara Valley Transportation Authority and SamTrans. The PCJPB is governed by a separate board composed of nine members, three from each participant. The PCJPB was formed in October 1991 to plan, administer, and operate the Peninsula Caltrain rail service. The PCJPB began operating the Peninsula Caltrain rail service on July 1, 1992. Prior to that time, such rail service was operated by the California Department of Transportation. The agreement establishing the PCJPB expired in 2001, since which it has continued on a year-to-year basis. Withdrawal by any participant would require one year notice. The SFMTA contributes to the net operating costs and administrative expenses of the PCJPB, based primarily on the percentage of system ridership originating in San Francisco. The SFMTA contributed \$8.0 million for operating needs in Fiscal Year 2019-20, \$7.0 million for operating needs in Fiscal Year 2018-19 and \$6.0

million for operating needs in Fiscal Year 2017-18. The PCJPB's annual financial statements are publicly available, however, they are not incorporated by reference into this Official Statement.

In November 2020, voters in the Bay Area region passed Measure RR ("**Measure RR**"), which authorized a sales tax of 0.125% in the Santa Clara and San Mateo counties and the City and County of San Francisco for a period of 30 years (terminating June 30, 2051), estimated to raise approximately \$100 million per year. Proceeds from the sales tax must be spent for the operating and capital purposes of the Caltrain rail service, and are expected to be sufficient to cover the operational needs of the Caltrain rail service, thereby eliminating the SFMTA's annual contribution beginning in Fiscal Year 2022-23.

***Payment for Services of Other City Departments.*** City departments contract with one another for services in much the same way that City departments contract with private vendors. The SFMTA reimburses the City for services provided to the SFMTA by other City departments, which include, but are not limited to, the provision of electric power by the SFPUC, police services, legal services provided by the City Attorney, telecommunications and information technology services provided by the Department of Technology and various services provided by the City's General Services Agency. The cost to the SFMTA of work orders have increased from approximately \$55.2 million in Fiscal Year 2015-16 to \$86.0 million in Fiscal Year 2019-20. These payments include non-service items such as utilities and technology.

***Other Materials, Supplies and Professional Services.*** In the normal course of its operations, the SFMTA purchases a variety of supplies other than fuel and lubricants and services other than paratransit services and services of other City departments. Such purchases include office supplies, maintenance supplies and services, auditing services, financial services and waste collection. The SFMTA's Contracts and Procurement Division ensures compliance with all contracting rules and regulations.

## **Labor Relations**

***Employee Relations.*** As of June 30, 2020, the SFMTA employed 5,981 Full-Time Equivalent employees. Although the COVID-19 pandemic has adversely affected the SFMTA's operations and revenues, the SFMTA has been able to minimize short-term negative impacts to services and has not furloughed or laid off any of its workforce. However, the SFMTA may be required to cut service and make structural adjustments to its labor force, subject to any limitations under its labor contracts, to close the projected Fiscal Year 2021-22 deficit. For more information regarding the impact of COVID-19 on the SFMTA, see "IMPACT OF COVID-19 PANDEMIC."

All of the SFMTA's employees are represented by one of 19 employee bargaining units. The SFMTA is authorized by the Charter to negotiate directly with employee bargaining units for positions the SFMTA designates as "Service Critical." As described in the Charter, "Service Critical" functions are: (1) operating a transit vehicle, whether or not in revenue service; (2) controlling dispatch of, or movement of, or access to, a transit vehicle; (3) maintaining a transit vehicle or equipment used in transit service, including both preventative maintenance and overhaul of equipment and systems, including system-related infrastructure; (4) regularly providing information services to the public or handling complaints; and (5) supervising or managing employees performing functions enumerated above.

In May 2019, the SFMTA negotiated three-year agreements (for Fiscal Years 2019-20 through 2021-22) with the unions that represent Transit Operators, Mechanics, Station Agents, Parking Control Officers and others. For the Fiscal Year 2019-20, the parties agreed to wage increases of 3% on July 1, 2019 and 1% on December 28, 2019. For Fiscal Year 2020-21, the parties agreed to a wage increase schedule of 3% on July 1, 2020 and 0.5% on December 26, 2020, with a provision to delay the Fiscal Year 2020-21 adjustment by six months if the City's deficit for fiscal year 2020-21, as projected in the March 2020 Update to the Five-Year Financial Plan, exceeds \$200 million. Because the March 2020 Update to the Five-Year Financial Plan projected a deficit for fiscal year 2020-21 in excess of \$200 million, the scheduled wage increases as described above are delayed by approximately six months. For Fiscal Year 2021-22, the parties agreed to a wage increase schedule of 3% on July 1, 2021 and 0.5% on January 8, 2022, with a provision to delay the Fiscal Year 2021-22 adjustment by six months if the City's deficit for fiscal year 2021-22, as projected in the March 2021 Update to the Five-Year Financial Plan, exceeds \$200 million.

The following table summarizes the number of employees covered by the Service Critical collective bargaining agreements and the expiration date of such agreements as of June 30, 2020.

**TABLE 15**  
**SUMMARY OF SFMTA SERVICE CRITICAL LABOR AGREEMENTS**

<b>Employee Bargaining Unit</b>	<b>Full-Time Equivalent Employment<sup>(1)</sup></b>	<b>Agreement Expiration Date<sup>(2)</sup></b>
International Association of Machinists, Local 1414	300	June 30, 2022
International Brotherhood of Electrical Workers, Local 6	509	June 30, 2022
Transport Workers Union, Local 200	315	June 30, 2022
Transport Workers Union, Local 250-A, Automotive Service Workers	96	June 30, 2022
Transport Workers Union, Local 250-A, Transit Fare Inspectors	40	June 30, 2022
Transport Workers Union, Local 250-A, Transit Operators	2,555	June 30, 2022
Service Employees International Union, Local 1021	1,006	June 30, 2022
MEA, Municipal Executives Association	136	June 30, 2022
<b>Total Critical Service Employee Count</b>	<b>4,957</b>	

<sup>(1)</sup> As of June 30, 2020. Actual full-time equivalent employment totals will differ from the number of positions budgeted by the SFMTA for a variety of reasons, including certain requirements in the respective collective bargaining agreements.

<sup>(2)</sup> As of June 30, 2020.

Source: SFMTA

The following table summarizes the number of City employees allocated to the SFMTA under the City's collective bargaining agreements and the expiration date of such collective bargaining agreements as of June 30, 2020.

**TABLE 16**  
**SUMMARY OF FULL-TIME EQUIVALENT CITY EMPLOYEES ASSIGNED TO THE SFMTA**

<b>Employee Bargaining Unit</b>	<b>Full-Time Equivalent Employment<sup>(1)</sup></b>	<b>Agreement Expiration Date<sup>(2)</sup></b>
Carpenters, Local 22	14	June 30, 2022
Glaziers, Local 718	6	June 30, 2022
International Federation of Professional and Technical Engineers, Local 21	551	June 30, 2022
Laborers, Local 261	69	June 30, 2022
Operating Engineers, Local 3	3	June 30, 2022
Painters, Local 1176	41	June 30, 2022
Plumbers, Local 38	2	June 30, 2022
Service Employees International Union, Local 1021	1,006	June 30, 2022
Sheet Metal Workers, Local 104	3	June 30, 2022
Stationary Engineers, Local 39	42	June 30, 2022
Teamsters, Local 853	12	June 30, 2022
Teamsters, Local 856	19	June 30, 2022
Unrepresented Employees (Misc.)	N/A	N/A
<b>Total Employee Count</b>	<b>1,768</b>	

<sup>(1)</sup> As of June 30, 2020. Actual full-time equivalent employment totals will differ from the number of positions budgeted by the SFMTA for a variety of reasons, including certain requirements in the respective collective bargaining agreements.

<sup>(2)</sup> As of June 30, 2020.

Source: SFMTA

The Charter prohibits SFMTA and other City employees from striking. See “CERTAIN RISK FACTORS – Labor Actions.”

***Employee Benefit Plans.*** The SFMTA employees are covered by benefit plans offered through the City. See Appendix B – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS.” SFMTA’s obligations with respect to the costs of such plans generally reflect the aggregate Pensionable Salary of SFMTA employees as a percentage of the aggregate Pensionable Salary of all plan beneficiaries.

***Retirement System Plan Description.*** The SFMTA participates in the City’s single-employer defined benefit retirement plan (the “**Plan**”), which is administered by the San Francisco City and County Employees’ Retirement System (the “**Retirement System**”). The Plan covers substantially all full-time employees of the SFMTA along with all other employees of the City. The Plan provides basic service retirement, disability and death benefits based on specific percentages of final average salary and also provides cost of living adjustments after retirement. The Plan also provides pension continuation benefits for qualified survivors. The Charter and the Administrative Code of the City are the authority that established and amended the benefit provisions and employer obligations of the Plan. See Appendix B – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS – San Francisco Employees’ Retirement System.” The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the 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. Such report is not incorporated herein by reference.

***Retirement System Funding Policy.*** Contributions are made to the plan by both the SFMTA and its participating employees. Employee contributions are mandatory and employee contribution rates for Fiscal Year 2019-20 varied from 1.5% to 7.5% as a percentage of Pensionable Salary. For Fiscal Years 2018-19 and 2019-20 the actuarially determined rate as a percentage of Pensionable Salary was 7.5%. The SFMTA’s required contribution was approximately \$78.6 million in Fiscal Year 2017-18, \$83.6 million in Fiscal Year 2018-19, and \$98 million in Fiscal Year 2019-20. The SFMTA’s budgeted contributions in Fiscal Year 2020-21 and Fiscal Year 2021-22 are \$103.3 million and \$108.3 million, respectively, based on an actuarially determined rate as a percentage of Pensionable Salary of 22.9% and 21.4%, respectively. For more information about the plan, including certain unfunded liabilities, see Appendix B – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS – San Francisco Employees’ Retirement System.”

***Health Care Benefits.*** Health care benefits for the employees of the SFMTA, retired employees and their surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Services System (the “**Health Service System**”). See Appendix B – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS – Medical Benefits.” The SFMTA’s annual contribution, which amounted to \$120.8 million in Fiscal Year 2018-19 and \$125.7 million in Fiscal Year 2019-20, is determined by a Charter provision based on similar contributions made by the ten most populous counties in the State.

Included in these amounts are \$37.7 million and \$39.3 million for Fiscal Year 2018-19 and Fiscal Year 2019-20 to provide post-retirement benefits for retired employees on a pay-as-you-go basis. SFMTA pays into the Health Service System exclusively for SFMTA employees.

***Other Post-Employment Benefits.*** As prescribed under GASB 75, effective for the year ended June 30, 2018, net OPEB liability, deferred outflows/inflows of resources related to OPEB and OPEB expense are actuarially determined on a City-wide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees’ past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value. The SFMTA’s proportionate share percentage of the Plan is determined based on its percentage of citywide pay-as-you-go contributions for the prior year ended June 30.



For Fiscal Year ended June 30, 2016 through June 30, 2017, the City determined a City-wide Annual Required Contribution (“**ARC**”), interest on net Other Post-Employment Benefits (“**OPEB**”) obligation, ARC adjustment and OPEB cost based on an actuarial valuation performed in accordance with GASB 45, by the City’s actuaries. The City’s allocation of OPEB costs to the SFMTA for the years ended June 30, 2016 through June 30, 2017 is based on a percentage of City-wide Pensionable Salary.

The following table shows the components of the City’s annual OPEB allocations for the SFMTA for the Fiscal Years ended June 30, 2016 through June 30, 2017 based on GASB 45, and for Fiscal Years ended June 30, 2018 through June 30, 2020 based on GASB 75, the amounts contributed to the plan and changes in the net OPEB obligations. See also Appendix B – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS.”

**TABLE 17**  
**SFMTA OPEB ALLOCATIONS AND CONTRIBUTIONS**  
**(IN THOUSANDS)**  
**(FISCAL YEARS ENDING JUNE 30)**

	<b>2016<sup>(1)</sup></b>	<b>2017<sup>(2)</sup></b>	<b>2018<sup>(3)</sup></b>	<b>2019<sup>(4)</sup></b>	<b>2020<sup>(5)</sup></b>
Annual Required Contribution	\$ 42,506	\$ 50,238	--	--	--
Interest on net OPEB Obligation	13,496	13,652	--	--	--
Adjustment to ARC	(10,973)	(5,521)	--	--	--
Annual Net OPEB Cost	\$ 45,029	\$ 58,369	\$ 62,784	\$ 57,885	\$ 57,881
Contribution Made	(29,334)	(32,044)	(36,034)	(38,717)	(41,736)
Changes in Contributions subsequent to measurement date	--	--	36,034	19,549	30,276
Changes in Net difference between projected and actual earnings on plan investments	--	--	(1,060)	(58,081)	8,501
Increase in net OPEB Obligation	\$ 15,695	\$ 26,325	\$ 61,724	\$ (19,364)	\$ 54,992
Net OPEB Obligation at beginning of Fiscal Year	220,297	235,992	262,317	657,062	637,698
Cumulative effect of change in accounting principle	--	--	333,021	--	--
Net OPEB Obligation at end of Fiscal Year	\$235,992	\$262,317	\$657,062	\$637,698	\$692,620

(1) In Fiscal Year 2015-16, the City had 31,342 funded positions and the SFMTA had 5,308 funded positions for both operations and capital project support. The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

(2) In Fiscal Year 2016-17, the City had 32,749 funded positions and the SFMTA had 5,660 funded positions for operations and capital project support. The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

(3) In Fiscal Year 2017-18, the City had 33,045 funded positions and the SFMTA had 5,692 funded positions for operations and capital project support. The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

(4) In Fiscal Year 2018-19, the City had 33,519 funded positions and the SFMTA had 5,842 funded positions for operations and capital project support. The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

(5) In Fiscal Year ending 2019-20, the City had 33,782 funded positions and the SFMTA had 5,981 funded positions for operations and capital project support. The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

Source: SFMTA and City Comprehensive Annual Financial Report Year ended June 30, 2019.

## Capital Program

**Capital Planning Process.** As part of its capital planning process, the SFMTA develops several different planning documents that cover different time periods and use different assumptions regarding funding. Each such document is updated and adopted by the Board on a biannual basis. The SFMTA's five-year capital improvement plan ("CIP") presents prioritized capital needs that are constrained by projected capital funds. The SFMTA also develops 10-year and 20-year capital plans that represent the prioritized list of "unconstrained needs" (i.e., that represents projected capital needs over the time period without regard to how much capital funding or other resources might be available to meet those needs). Finally, the SFMTA develops a two-year capital budget, which is constrained by "known and available funding at the time." The CIP represents expected investment in the system, which includes amounts above what is reflected in appropriated budgets. The two-year capital budget determines the SFMTA's expenditure appropriation authority.

A two-year capital budget consistent with the CIP is approved by the Board every even-numbered year. The two-year capital budget authorizes planned expenditures for projects to rehabilitate, replace, enhance or expand SFMTA capital assets during the next two Fiscal Years, and covers all the SFMTA modes, including public transit, paratransit/taxis, streets, bicycles and pedestrian projects, as well as all phases of capital project development, including planning, design, construction and procurement efforts for fleet, facilities, infrastructure and equipment. The objectives of the SFMTA's capital planning process are to develop a detailed program of projects for the two-year capital budget that is realistic and achievable, to fund project phases completely so that projects remain within scope and on schedule, and to prevent funding accessibility from being a barrier to project delivery. See "– Funding of Capital Improvements."

**Five-Year CIP.** The CIP includes those capital projects that can reasonably be assumed to be funded and worked on in the next five years and identifies the funding that the SFMTA expects to receive within the five-year timeframe. While not a guarantee of funding, the CIP conveys specific commitments from various funding agencies to support the SFMTA's highest priority capital improvements. The Original Five-Year CIP, covering the period from Fiscal Year 2020-21 to Fiscal Year 2024-25, was adopted by the Board on April 21, 2020. The Original Five-Year CIP totaled \$2.54 billion for 188 projects within 10 capital program areas, including communication and information technology, facility, fleet, parking, security, signals, streets, taxi, transit fixed guideway, and transit optimization and expansion. In December 2020, due to financial impacts related to the COVID-19 pandemic, the SFMTA revised its Original Five-Year CIP. The Revised Five-Year CIP totals \$2.33 billion, an 8% decrease from the Original Five-Year CIP. The current revenue projection for the Revised Five-Year CIP includes current and anticipated competitive grants, federal formula funds, local sales taxes and debt. The funding estimates represent the SFMTA's best current assessment of available capital resources. See also "IMPACT OF COVID-19 PANDEMIC."

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**TABLE 18**  
**ESTIMATED SFMTA FIVE-YEAR CAPITAL FUNDING BY FUNDING SOURCE**  
**(FOR THE FISCAL YEARS 2020-21 THROUGH 2024-25)**  
**(IN THOUSANDS)**

<u>Source</u>	<u>Projected Funding Amount</u>
<b>Federal Funding Sources</b>	
FTA Section 5307, Urbanized Area Formula Program	\$ 336
FTA Section 5337, State of Good Repair	23,497
FTA Transit Capital Priorities	791,331
Other Federal Funds	14,150
<b>State Funding Sources</b>	
Cap and Trade Proceeds	84,636
SB1 State of Good Repair	65,379
Active Transportation Program	23,162
Other State Grant Funds	30,185
<b>Local Funding Sources</b>	
Proposition K Sales Tax Proceeds	219,267
AB 664-Bridge Tolls	30,645
Regional Measure 3	156,400
Other MTC Funding	41,236
Developer Impact Fees/Contributions	325,820
Population Based General Fund Baseline (Proposition B)	191,597
Traffic Congestion Mitigation Tax	38,601
Transfer from Operating Revenues	35,177
Other Local Capital Funds	11,776
<b>Debt Financing Proceeds<sup>(1)</sup></b>	
San Francisco General Obligation Bond <sup>(2)</sup>	249,938
<b>Total:</b>	<u>\$2,333,133</u>

<sup>(1)</sup> Does not include proceeds of the Series 2021C Bonds.

<sup>(2)</sup> In November 2014, San Francisco voters approved Proposition A authorizing the City to issue up to \$500 million in general obligation bonds (of which, \$377.215 million have been issued) the proceeds of which may be applied to finance transportation-related projects. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Obligation Bonds.”

Source: SFMTA

To ensure that projects expected to be funded through the CIP and two-year capital budget proceed, the SFMTA has implemented capital plan and program policies that include cost controls designed to facilitate the completion of projects on schedule and on budget. All projects over the CIP period are funded to phase and only if 90% of the funding for the proposed scope of work for a given phase is identified. The SFMTA is also building a capital fund reserve through the CIP process in order to mitigate any unanticipated cost increases during the course of project delivery. In addition, a Transportation Capital Committee, comprised of members from the SFMTA’s different divisions, provides project oversight and controls on project scope, schedules and budgets.

***Fiscal Years 2020-21 and 2021-22 Capital Budget; 2-Year Projected Capital Improvement Investments.***  
The Board approved a two-year capital budget for Fiscal Years 2020-21 and 2021-22 on April 21, 2020, in the amounts of \$559.8 million and \$553.1 million, respectively. The SFMTA has also revised the Original Two-Year Capital Budget, with net changes resulting to totals similar to the Original Two-Year Capital Budget of \$559.7 million and \$532.2 million for Fiscal Years 2020-21 and 2021-22, respectively. Based on the Revised Five-Year CIP, the Two-Year Capital Budget, and expenditures authorized in prior two-year capital budgets but not yet completed, the SFMTA projects total investment in capital projects for Fiscal Years 2020-21 and 2021-22, classified as either State of Good Repair projects or Enhancement/Expansion projects, as follows:

**TABLE 19**  
**PROJECTED TWO-YEAR CAPITAL IMPROVEMENT INVESTMENTS**  
**FISCAL YEAR 2020-21 TO FISCAL YEAR 2021-22**  
**(IN MILLIONS)**  
**(FISCAL YEARS ENDING JUNE 30)**

	<u>2021</u>	<u>2022</u>
State of Good Repair Projects	\$233.6	\$265.8
Enhancement/Expansion Projects	326.2	287.3
Total	<u>\$559.8</u>	<u>\$553.1</u>

Source: SFMTA

**State of Good Repair Analysis.** In accordance with Federal Transit Administration guidance, a “State of Good Repair” analysis evaluates the level of investment required to maintain an asset or system in a state of good repair. FTA defines “State of Good Repair” as the condition in which a capital asset is able to operate at a full level of performance. As part of a regional effort, the SFMTA completed the first phase of an analysis of its State of Good Repair needs in August 2010 and produced its 2010 State of Good Repair report (the “**2010 SGR Report**”). The 2010 SGR Report was the SFMTA’s first comprehensive inventory of its capital assets, and included revenue and non-revenue vehicles, infrastructure such as track, overhead electrical wires and signals, communications and fare collection systems, and operating facilities (e.g., maintenance yards) and passenger facilities (e.g., rail stations). From this inventory, the SFMTA has analyzed asset lifecycles and costs, and has produced a preliminary assessment of its state of good repair needs.

The 2010 SGR Report was subsequently updated, most recently in June 2020 (the “**2019 SGR Report**”). The 2019 SGR Report is the seventh comprehensive State of Good Repair report. The SFMTA’s current asset replacement value is approximately \$14.98 billion. The table below summarizes the breakdown of the SFMTA’s current asset replacement costs by asset category, as updated.

**TABLE 20**  
**\$14.98 BILLION TOTAL CAPITAL ASSET REPLACEMENT VALUE**  
**BY ASSET CATEGORY**

Stations	24%
Overhead Wires	19
Facilities	14
Parking and Traffic	11
Track	8
Light Rail Vehicles	7
Train Control and Communications	6
Other Systems and Vehicles	4
Motor Coach Vehicles	4
Trolley Coach Vehicles	2

Source: SFMTA

The SFMTA currently evaluates whether an asset is in a State of Good Repair using the “TERM Lite” tool developed by the Federal Transit Administration. The TERM Lite tool produces a “condition score” for all assets in the Capital Asset Inventory on a scale of one (poor) to five (excellent). The cumulative, value-weighted average of all asset condition scores in the Capital Asset Inventory determines the SFMTA’s overall condition score. The FTA defines a transportation system in which assets receive an overall condition score of 2.5 or better as being maintained in a State of Good Repair. According to the SFMTA’s 2019 SGR Report, the SFMTA’s TERM Lite condition scores for Fiscal Year 2018-19 assets averaged a score of 3.18. This score represents a decline of 0.01 from the reported value of 3.19 in the 2018 State of Good Repair Report. The model calculated these scores based only on the age of the assets reported, excluding other factors such as specific operating conditions and level of use that impact the assets’

condition. In the future, the SFMTA plans to conduct a condition assessment of all its assets to produce a TERM Lite score that more accurately reflects the true conditions of its assets.

The State of Good Repair analysis indicated a backlog of asset replacement of approximately \$3.24 billion as of June 2019 based on accounting asset life. Eliminating the backlog over 20 years was calculated to cost approximately \$632 million annually. Maintaining the backlog at the level existing as of June 2019 would require annual capital expenditures of approximately \$472 million per year, according to the 2019 SGR Report. The SFMTA has committed to investing an average of \$250 million annually on transit State of Good Repair. This commitment was made to the Federal Transit Administration in 2010 as part of the SFMTA FFGA for the Central Subway Project.

In Fiscal Year 2018-19, the SFMTA spent \$394 million on State of Good Repair investments. Since Fiscal Year 2009-10, the SFMTA has expended an average of \$235 million annually on transit State of Good Repair. Table 21 provides the estimated expenditures required from Fiscal Years 2018-19 to 2038-39 to maintain the SFMTA's ideal State of Good Repair.

**TABLE 21**  
**20 YEAR ESTIMATE OF CAPITAL EXPENDITURES NECESSARY**  
**TO MAINTAIN AN IDEAL STATE OF GOOD REPAIR**  
**BY ASSET CATEGORY**  
**(IN MILLIONS)**

<u>Asset</u>	<u>Amount Needed</u>	<u>Percentage</u>
Parking and Traffic	\$2,290	18%
Stations	1,498	12
Facilities	1,584	12
Overhead Lines	1,520	12
Motor Coach Vehicles	1,315	10
Light Rail Vehicles	1,149	9
Train Control & Communications	1,049	8
Tracks	1,049	8
Other Systems & Vehicles	834	6
Trolley Coach Vehicles	604	5

Source: SFMTA, 2019 State of Good Repair Report (June 2020)

The SFMTA currently generates asset condition scores based solely on asset age. This approach shows the condition score of an asset deteriorating as it reaches the end of its scheduled useful life, and does not reflect specific operating conditions, level of use or other factors that impact the performance and operating life of an asset. A key component of the SFMTA's 10-Year Asset Management Strategy is to incorporate additional factors into condition scoring, such as an inspected operating condition. Accordingly, the SFMTA will begin to incorporate use-based condition data to better model the condition of its assets to support more data-driven investment and project development decisions. Use-based condition data has been or will be provided through condition assessments of ultrasonic rail testing on the rail network, buildings and grounds and tragic signals.

To the extent that the SFMTA is unable to effect asset replacement in a manner consistent with the strategic approaches described above, it is likely that more of the SFMTA's asset base will age beyond its design life. As with all transit systems, this could impair the SFMTA's ability to operate and maintain some portion of its vehicle fleets, infrastructure and facilities, possibly resulting in limitations on the SFMTA's ability to deliver service, an increase in the SFMTA's operating and maintenance expenses, and/or a reduction in the SFMTA's operating revenues below the levels that otherwise would have been realized. See "CERTAIN RISK FACTORS – Physical Condition of the SFMTA Assets."

### ***Current Projects***

Central Subway Project. For recent developments relating to the Central Subway Project since the date of this Official Statement, see “RECENT DEVELOPMENTS – Central Subway Project.”

The Central Subway project (the “**Central Subway Project**”) is an extension and second phase of the Third Street light rail transit (“**LRT**”) line from its current terminus at Fourth and King Streets. From a portal south of Market Street, the alignment will descend below grade into a twin bore subway northward under San Francisco’s downtown beneath Fourth Street and Stockton Street into Chinatown near the theater, hotel and central business district. The Central Subway includes one surface station and three underground stations (collectively, the “**Central Subway**”). The Central Subway Project funding plan includes the acquisition of four light rail vehicles as part of a larger SFMTA light rail vehicle procurement program to augment the existing light rail fleet. When completed, the combined Third Street LRT and Central Subway will provide a continuous, seven-mile route connecting the south-eastern portion of San Francisco with Chinatown in the north. The Central Subway twin bore tunnels have been constructed using two tunnel boring machines, a technology used for large sewer systems, water transport and transit subway infrastructure.

In 2011, the SFMTA awarded a contract for the twin bore tunneling (the “**Tunneling Contract**”) to Barnard Impregilo Healy, a Joint Venture (“**BIH**”). Construction of the twin bore tunneling was substantially completed in 2015. In 2013, the SFMTA awarded a contract for the construction of the Chinatown Station, the Union Square/Market Street Station with concourse connection to the existing Powell Street Muni/BART Station, the Yerba Buena/Moscone Station, the 4th and Brannan Station, tracks, switches, control systems and related items for the Central Subway Project (the “**Station Contract**”) to Tutor Perini Corporation (“**Tutor Perini**”). Construction of the stations and related items under the Station Contract is approximately 98% completed. Remaining work under the Station Contract includes Chinatown, Union Square/Market Street and Yerba Buena/Moscone station finishes, AC and DC substations, elevators, lighting, HVAC fire alarm, suppression and protection, settlement monitoring, building protection, public announcement equipment, CCTV, signage, installation of fare collection equipment and station start-up and commissioning. The projected schedule for commencement of revenue service is spring 2022, approximately 30 months behind the original projected date.

The original budgeted cost of the Central Subway Project was \$1.578 billion and the current budgeted cost of the Central Subway Project is \$1.659 billion (in year of expenditure dollars). All Central Subway Project funding sources for budgeted costs are committed, as set forth in Table 22 and as further described below.

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**TABLE 22**  
**CENTRAL SUBWAY PROJECT: COMMITTED PRINCIPAL FUNDING SOURCES**  
**(IN THOUSANDS)**

<b>Funding Source</b>	<b>Original Budget</b>	<b>Funding Amount through October 2020</b>
FTA Section 5309 New Starts Program	\$942,200	\$942,214
Federal Congestion Mitigation and Air Quality Program	41,025	41,025
FTA One Bay Area Grant	--	15,980
State Regional Transportation Improvement Program	--	12,498
State Proposition 1B, PTMISEA <sup>(1)</sup>	307,792	307,898
State Proposition 1A High-Speed Passenger Train Bond	61,308	61,308
State TCRP Grant <sup>(2)</sup>	14,000	9,000
State LCTOP <sup>(3)</sup>	--	4,000
Local SFCTA Proposition K	137,727	143,692
Local SFMTA Operating	74,248	97,277
Local SFMTA Proposition B	--	24,102
<b>Total</b>	<b>\$1,578,300</b>	<b>\$1,658,993</b>

<sup>(1)</sup> Public Transportation Modernization, Improvement and Service Enhancement Account.

<sup>(2)</sup> Traffic Congestion Relief Program.

<sup>(3)</sup> Low Carbon Transit Operations Program.

Source: SFMTA

***Federal Funding.*** The largest committed funding source for the Central Subway Project is the Federal Transit Administration’s Section 5309 New Starts Program (the “**New Starts Program**”). The New Starts Program is the largest federal program dedicated to public transit infrastructure investment based on matching funds from local project sponsors. Projects that qualify for funding follow the New Starts assessment process that results in rating New Starts and Small Starts applicants: The ratings range from High, Medium-High, Medium, Medium-Low, to Low. Only projects rated Medium or higher may advance through the New Starts and Small Starts project development process. Projects that continue to be rated Medium or higher annually during their development will be eligible for consideration for multi-year funding recommendations embodied in a Full Funding Grant Agreement (“**FFGA**”) in the President’s budget. FFGAs are preceded by an extensive series of reviews and audits of the proposed project scope, cost estimate and budget to confirm that the estimates and plans are reliable and based on industry standards, as well as to verify local funding commitments. From the time the Central Subway Project completed Preliminary Engineering, the Central Subway Project has received a “Medium-High” project rating from the Federal Transit Administration, a “Medium-High” rating for project justification, and a “Medium” rating for “local financial commitment.”

With approval of the Central Subway Final Supplemental Environmental Impact Statement in September 2008, the Federal Transit Administration issued the Record of Decision in November 2008, and approved commencement of final design in January 2010. The Central Subway Project is now fully in the construction phase. An FFGA between the SFMTA and the Federal Transit Administration, executed in October 2012 (the “**SFMTA FFGA**”), established a multi-year commitment of \$942.2 million in Federal Transit Administration New Starts Program funds, all of which have been received and expended by the SFMTA on the Central Subway Project.

The SFMTA FFGA commits to a maximum level of New Starts financial assistance, establishes the terms and conditions of federal financial participation in the Central Subway Project and will help the SFMTA and the Federal Transit Administration manage the Central Subway Project in accordance with applicable federal law. The Federal Transit Administration uses a Project Management Oversight Program to obtain independent feedback on Central Subway Project progress and the status of the scope, budget, and schedule, as well as to provide guidance on management, construction, and quality assurance practices. The SFMTA FFGA also defines the start of revenue service date for the Central Subway Project as on or before spring 2022. See “– Central Subway Project Status” and “– Certain Central Subway Project Risks and Risk Management.”

The SFMTA FFGA has provided the SFMTA with predictable federal financial support for the Central Subway Project. However, the SFMTA FFGA places limitations on the amount and timing of its support which have not taken into account any cost increases relating to the Central Subway Project. See “– Additional Project Costs.” As is the case with other FTA grants, the SFMTA FFGA requires that SFMTA follow the terms of the Federal Transit Administration Master Agreement containing the standard terms and conditions governing the administration of projects that the Federal Transit Administration has financed with federal assistance. The SFMTA FFGA also outlines Central Subway Project cost eligibility. In the event that it is determined by the Federal Transit Administration that SFMTA FFGA requirements have not been met or that Central Subway Project costs incurred are ineligible, the SFMTA would be responsible for paying or reimbursing the Federal Transit Administration for such costs.

Three smaller, targeted, federal funds sources are committed to the Central Subway Project. The first, the Congestion Mitigation and Air Quality Improvement Program, committed \$41 million to the Central Subway Project, of which 100% has been received by the SFMTA and expended on the Central Subway Project.

The second source is from the Countywide Regional Transportation Improvement Program (“RTIP”). RTIP grants are administered by the State from various State and federal funding sources as part of its State Transportation Improvement Program. In 2014, the San Francisco County Transportation Authority originally awarded \$88 million in RTIP grant funds to the Central Subway Project, of which \$12.5 million has been received by the SFMTA and expended on the Central Subway Project. Because of timing delays in receiving the remaining RTIP grants, the SFMTA worked with the MTC and the San Francisco County Transportation Authority to fund the remaining \$75.5 million through other sources of funding, including OBAG funds, LCTOP funds, Proposition B funds and SFMTA operating funds, each as further described below.

The third source is from the One Bay Area Grant (“OBAG”). OBAG funds are administered by the MTC and direct federal funding to projects and programs that integrate regional transportation programs with the State’s climate law and Plan Bay Area, the Regional Transportation Plan/Sustainable Communities Strategy. In November 2018, the San Francisco County Transportation Authority approved the allocation of \$16.0 million in OBAG funds to the Central Subway Project, all of which has been received and spent.

See also “– Remaining Central Subway Project Risks and Risk Management” and “CERTAIN RISK FACTORS – Reliance Upon Grants and City General Fund Transfers” and “– U.S. Government Funding.”

*State, Regional and Local Funding.* The State has formally committed to provide approximately \$307.9 million of Public Transportation, Modernization, Improvement, and Service Enhancement Account (“PTMISEA”) funds from proceeds of the sale of State Proposition 1B (voter-approved) infrastructure bonds.

PTMISEA funds are appropriated by the California State Legislature to the State Controller’s Office for allocation to project sponsors, such as the SFMTA, pursuant to State statute. As a project sponsor, the SFMTA submits allocation requests to Caltrans. Caltrans ensures the requests meet the required criteria. The approved allocation request also serves as the agreement verifying the SFMTA’s commitment to the project’s scope of work, schedule and budget. The SFMTA is required to submit semi-annual financial and outcome progress reports on all projects. Any change in scope of work, schedule, or budget requires the submittal of an amendment plan that identifies the original commitment and the revised information, including an explanation of the change. The SFMTA is also required to submit an annual TDA Guidelines audit that has been expanded to include PTMISEA activities. These reports provide program and project status based on the financial activities of the SFMTA. The annual TDA Guidelines audit of the SFMTA includes the PTMISEA funds and includes verification of receipt and appropriate expenditure of bond funds.

To date, the SFMTA has received Caltrans’ full allocation of approximately \$307.9 million in PTMISEA funds, all of which have been expended on the Central Subway Project. As there are cost savings in other projects funded by the PTMISEA program, SFMTA anticipates using these cost savings to further fund the project as needed.



Traffic Congestion Relief Program (“TCRP”) grants provide funding for transportation projects that relieve congestion, connect transportation systems and provide for better goods movement in the State. Working with regional agencies, including MTC, the State developed a list of projects for funding with TCRP. The SFMTA has received and expended all \$9 million from the TCRP grant on the Central Subway Project.

In 2008, State voters approved funding for the California High-Speed Rail project, including the issuance of bonds (the “**Proposition 1A Bonds**”) to finance local rail transit projects that would connect to the new high-speed rail system. In 2012, the State approved issuance of up to \$4.5 billion in Proposition 1A Bonds to finance a portion of the High-Speed Rail Project in the Central Valley along with certain transit connection projects. On September 27, 2012, the California Transportation Commission allocated to the SFMTA all \$61.308 million of the Proposition 1A High Speed Rail Connectivity funds that had been programmed to the City for connecting transit to the State system. All of these funds were directed to the Central Subway Project Tunneling Contract and Station Contract, and have been received and spent by the SFMTA.

The County Transportation Authority awarded \$143.7 million in Proposition K local sales tax revenues to the SFMTA for the Central Subway Project and all of these funds have been received and spent by the SFMTA.

In 2006, California passed climate law AB 32, establishing the goal to reduce greenhouse gas emissions to 1990 levels by 2020. To reach this goal, the State initiated a cap-and-trade program to generate revenue by selling carbon credits. This revenue supports investments in renewable energy, low-carbon transportation, and sustainable community development. Cap-and-trade revenue is managed through the Greenhouse Gas Reduction Fund (“GGRF”) and is administered by Caltrans. Funding available through the GGRF includes the formula-based Low Carbon Transit Operations Program (“LCTOP”). The SFMTA has received and expended \$4.0 million in LCTOP funds.

Proposition B was approved by San Francisco voters in 2014 and required the City to increase General Fund contributions to the SFMTA by a percentage equal to the City’s annual population increase, accounting for both daytime and nighttime populations. Proposition B also requires 75% of the population-based increase go to projects that improve Muni’s reliability, frequency of service, as well as pay for Muni repairs; the remainder goes to capital street safety improvements. The SFMTA manages the allocation of Proposition B directly and has allocated, received and expended \$24.1 million to the Central Subway Project.

SFMTA operating funds represent operating fund balance allocated to the capital budget. The SFMTA has allocated and expended approximately \$97.3 million to the Central Subway Project.

*Additional Project Costs.* Based on current estimates and predictions, the SFMTA anticipates that the total cost of the Central Subway Project will be approximately 15% above the original budgeted cost of \$1.578 billion. The most significant remaining item is negotiations with Tutor Perini, the contractor under the Station Contract, to resolve a variety of contractor claims for, among other things, change orders, delays and associated project impacts. Given the ongoing negotiations, the SFMTA cannot provide more than an approximation of the final Central Subway Project budget. The SFMTA can provide no assurance that total cost of the project will not be higher than currently estimated.

From November 2013 through September 2019, the SFMTA issued 671 change orders to Tutor Perini, representing the cost of differing site conditions and design changes necessary to complete the project. Following negotiations, the SFMTA and Tutor Perini agreed that the total cost of all 671 change orders was approximately \$48.8 million, all of which has been paid to Tutor Perini. The SFMTA is currently negotiating a collection of approximately 350 change orders issued from October 2019 through October 2020. In addition, the SFMTA expects to have a final set of change orders issued between November 2020 through final projection completion.

To the extent that costs of the Central Subway Project ultimately exceed \$1.659 billion, the SFMTA will require additional funds to complete the project. The SFMTA is working to identify additional funding sources in anticipation of the total cost of the Central Subway Project being approximately 15% above the original budgeted cost. Potential sources include non-federal funding programmed to other SFMTA projects, SFMTA

operating funds, additional Bonds, new sales tax revenues and proceeds of future general obligation bonds, if any, issued by the City for such purpose. Such events could have a material adverse effect on the SFMTA's finances. See "CERTAIN RISK FACTORS."

*Remaining Central Subway Project Risks and Risk Management.* The Central Subway Project is approximately 98% complete. While the current schedule for commencement of revenue service on the Central Subway is spring 2022 and the current budgeted cost of the Central Subway Project is approximately \$1.659 billion in year of expenditure dollars, there can be no assurance that the schedule for commencement of revenue service will not be longer, or the cost of the Central Subway Project will not be higher. As is the case for every large infrastructure project, there are circumstances that could cause delay or cost increases for the Central Subway Project. Given the magnitude and the complexity of the Central Subway Project, such risks include, but are not limited to, project or funding delays, multiple project scheduling dependencies, litigation, unanticipated natural hazards, hazardous waste, soil, groundwater or other project site conditions or events, including groundwater intrusion, occurring in connection with construction, accidents or seismic events during construction, unanticipated environmental or archaeological issues and adverse conditions in the credit and capital markets that increase the SFMTA's borrowing costs. Certain other risks include the following: liability or delays associated with construction impacts on stakeholders and other third-parties, public concerns resulting in unexpected restrictions on or changes to project specifications, construction plans and schedules, potential increases in the costs of light rail vehicles, and potential service issues in connection with integration of the Central Subway line into Muni's existing operations. See "CERTAIN RISK FACTORS."

To further manage risks from disputes with its contractors, the SFMTA has also created a Configuration Management Board ("CMB") to focus on certain risks and mitigations from challenges and opportunities arising during construction of the Central Subway Project. The CMB is a project-level, decision-making body that reviews and approves, or recommends approval to the SFMTA's upper management of, all change requests to the Central Subway Project's baseline documents prior to implementation of such changes. The SFMTA has found this process to be an effective means to assist in managing costs associated with change orders and mitigating any potential disputes. The CMB includes Central Subway Project staff and a representative from the County Transportation Authority's Project Management Office.

The SFMTA has pursued a variety of both operational and contractual means to mitigate and manage identified risks. Risks related to excavation and station construction include, without limitation: subsidence, underground obstructions or previously unknown environmental or archaeological site conditions, adverse impacts on existing underground utility services, changes to construction specifications or plans following commencement of construction, or evolving restrictions on construction intensity as a result of noise, vibration, local traffic control or other requirements. See "CERTAIN RISK FACTORS – Construction Risk." With respect to subsidence and liability generally associated with construction impacts on stakeholders and other third-parties, Tutor Perini has obtained multiple insurance policies with a total aggregate claims limit of \$50 million through Alliant Insurance Services to cover certain loss-claims relating to the activities undertaken pursuant to the Station Contract, and BIH has obtained multiple insurance policies with a total aggregate claims limit of \$200 million through Marsh Risk & Insurance Services to cover loss-claims relating to activities undertaken pursuant to the Tunneling Contract. The SFMTA continues to address public concerns about construction of the Central Subway through requirements that contractors' activities preserve access to residences and businesses, assist with vehicle and pedestrian traffic, control noise and vibration, and clean up any debris or other materials left following construction. The SFMTA also maintains comprehensive public outreach programs that alert local residents and merchants to planned and ongoing construction activities, which has resulted in successful resolutions of issues relating to construction impacts, including the successful completion of the relocation of the tunnel boring machine extraction site to the Pagoda Theater.

Although the SFMTA implements a formal and systematic risk management and mitigation in connection with identified risks, and has put in place processes to address risks arising during or first identified during the course of construction, including through the activities of the Project Risk Assessment Committee and the CMB, there can be no assurance that the SFMTA will be able to fully mitigate such risks nor that the impact of any such risks, if realized, on the Central Subway Project would not result in the time to completion being later, or costs of completion higher, than the current schedule and cost estimates for the project, including by amounts that exceed current estimates of available funding. See "– Additional Project Costs" and "CERTAIN RISK FACTORS."

**Van Ness Improvement Project.** The Van Ness Improvement Project (the “**Van Ness Project**”) covers approximately two miles, from Mission St. and South Van Ness Avenue to Lombard St. and Van Ness Avenue. The project includes safety enhancements, utility replacements and transportation upgrades. The improvement brings Muni’s Rapid Network to the Van Ness Avenue corridor, prioritizing frequency and reliability for customers. The planned improvements are expected to reduce travel times for Golden Gate Transit and certain other routes by up to approximately 32%. Some features of Van Ness Project improvements include dedicated transit lanes that are physically separated from the other traffic lanes for use by Muni and Golden Gate Transit buses only; enhanced traffic signals optimized for north-south travel with transit signal priority, which provide buses with green lights as they approach intersections; low-floor vehicles and all-door boarding, which will make it more efficient for passengers to load and unload at each stop; and safety enhancements for pedestrians, including sidewalk extensions, median refuges, high visibility crosswalks and audible countdown signals; and fully furnished boarding platforms that include shelters, seating and NextMuni prediction displays located at key transfer points. The Van Ness Project will also feature nine northbound and nine southbound boarding islands along the red, center-running transit lanes. These locations for station platforms are key transfer points in Muni’s Rapid Network.

**Funding.** Funding for the Van Ness Project comes from a variety of sources including, but not limited to, a \$99.7 million FTA grant funding, \$51.2 million SFMTA revenue bonds, \$54.9 million contribution from the SFPUC, \$35.6 million San Francisco Prop K funding, \$26.2 million developer contributions, \$30.9 million regional and statewide sources, and \$10.2 million of other local funding such as San Francisco General Obligation bond and the General Fund subsidy.

**Additional Project Costs.** Based on current estimates and predictions, the SFMTA anticipates that the total cost of the Van Ness Project will be approximately 20% above the current project cost of \$316 million. Negotiations with the contractor, Walsh Construction, to resolve a variety of claims are ongoing. These include change orders, increased costs arising from project delays and associated project impacts. Given the ongoing negotiations with the contractor, the SFMTA cannot provide an assurance regarding the final Van Ness Project budget. The SFMTA can provide no assurance that total cost of the project will not be higher than currently estimated.

From when the preconstruction services were completed and notice to proceed for construction was issued in late October 2016 through December 2020, the SFMTA issued 11 contract modifications to Walsh Construction, for the cost of differing site conditions and design changes necessary to complete the project. The total cost of these contract modifications was approximately \$24.1 million, and has been paid to the contractor. The SFMTA is negotiating a collection of change order requests and claims issued in November 2020. In addition, the SFMTA expects to have a final set of change order requests issued between November 2020 through final projection completion.

To the extent that costs of the Van Ness Project exceed \$316 million, the SFMTA will require additional funds to complete the project. The SFMTA is working to identify additional funding sources in anticipation of the total cost of the Van Ness Project being approximately 20% above the current project cost. Potential sources include non-federal funding programmed to other SFMTA projects, SFMTA operating funds, bond proceeds, new sales tax revenues and proceeds of future general obligation bonds, if any, issued by the City for such purpose. Any cost overruns for the Van Ness Project could have a material adverse effect on the SFMTA’s finances. See “CERTAIN RISK FACTORS.”

**Remaining Van Ness Project Risks and Risk Management.** The Van Ness Project is approximately 63% complete with the most complex utility work 100% complete. While the current schedule for commencement of revenue service of the Van Ness Project is spring 2022 and the current budgeted cost of the Van Ness Project is approximately \$316 million in year-of-expenditure dollars, there can be no assurance the cost of the Van Ness Project will not be higher. Given the magnitude and the complexity of the Van Ness Project, there are circumstances that could cause cost increases, including, but not limited to, project and/or funding delays; project scheduling dependencies; litigation; unanticipated natural hazards; hazardous waste, soil, groundwater or other project site conditions or events, including, unanticipated environmental or archaeological issues and adverse conditions in the credit and capital markets; liability or delays associated with construction impacts on stakeholders and other third-parties; public concerns resulting in unexpected restrictions on or changes to project specifications; construction plans and schedules; potential service issues in connection with integration of the Van Ness bus rapid transit lines into Muni’s existing operations. See “CERTAIN RISK FACTORS.”

To further manage risks from disputes with its contractors, the SFMTA has created a Construction Manager position that reports directly to the directors of the SFMTA, SFPUC and Department of Public Works. The Construction Manager focuses on certain risks and mitigations from challenges and opportunities arising during construction of the Van Ness Project. The Construction Manager can take concerns, risks and opportunities directly to upper management and have SFMTA resources redirected as appropriate. The SFMTA has also engaged a Risk Manager that performs a quarterly review and update of the project's Risk Mitigation Report. This process is intended to provide guidance to the team on upcoming risks, as well as current risks, and those matters that have been resolved. Although the SFMTA implements a formal and systematic risk management and mitigation in connection with identified risks and has put in place processes to address risks arising during or first identified during the course of construction, there can be no assurance that the SFMTA will be able to fully mitigate such risks nor that the impact of any such risks, if realized, on the Van Ness Project would not result in the time to completion being later, or costs of completion higher, than the current schedule and cost estimates for the project, including by amounts that exceed current estimates of available funding. See “– Additional Project Costs” and “CERTAIN RISK FACTORS.”

Mission Bay Transit Loop Project. Prior to opening service on the Central Subway line, the SFMTA has undertaken the Mission Bay Transit Loop Project (the “MBL”) to construct facilities that would allow up to half of the light rail vehicles traveling south on the Central Subway/Third Street LRT lines to turn around during peak hours near the intersection of Third Street and Eighteenth Street. By allowing up to half of the trains to return toward the City's downtown prior to arriving at the terminus of the Third Street LRT line at the Sunnydale Station, the MBL would facilitate increased frequency of service on the Central Subway line in the Chinatown, Mission Bay and South of Market Neighborhoods during peak periods. SFMTA also anticipates providing additional services and financing other capital facilities, such as public transit services, special event shuttles, parking and traffic engineering and control services, local access programs, Muni infrastructure improvements, bicycle and pedestrian access improvements, and studying the feasibility of a ferry landing and service for Mission Bay South and surrounding areas. The Federal Transit Administration delivered its Finding of No Significant Impact with respect to the MBL's Environmental Assessment on July 30, 2013. The SFMTA has obtained and received funding for the MBL pursuant to a Federal Transit Administration Tiger Grant. The SFMTA took beneficial occupancy of the MBL rail in October 2019. The MBL rail began operation in October 2020.

Muni Forward. Developed through the extensive Transit Effectiveness Project planning effort which included several years of data collection, intensive assessment, and public outreach efforts, the Rapid Network Improvement projects will restructure transit service on Muni's high ridership lines to improve efficiency and connectivity. This program consists of targeted engineering improvements designed to minimize transit service delays at key intersections and along the Rapid Network, the busiest transit corridors in the city. Street design engineering tools that reduce travel time, ensure safer transit operations, and improve accessibility on the busiest transit routes include lane modifications, traffic signal and stop sign changes, transit stop changes, parking and turn restrictions, and pedestrian improvements. Approximately \$185 million has been secured through the San Francisco Transportation and Road Improvement General Obligation bond to implement approximately 20 projects, including the third issuance in September 2020 of approximately \$79 million of such bonds. These general obligation bonds are secured by ad valorem property taxes imposed by the City and would not be secured by Pledged Revenues.

Light Rail Vehicle Acquisition. In 2014, the Board approved a contract with Siemens to acquire up to 264 new LRVs over a 15 year period to replace and expand Muni's existing fleet of Breda LRVs. Of such amount, the Board has authorized the SFMTA to purchase 219 LRVs; the SFMTA has taken delivery of 68 LRVs and anticipates taking delivery of 151 additional LRVs in early 2021. The remaining 45 LRVs are subject to a purchase option under the Siemens contract, which the SFMTA has not yet exercised.

The Board and the Board of Supervisors have approved a total contract price of not to exceed approximately \$1.193 billion for the acquisition of the Siemens LRVs. Total project costs, including project support, taxes and contingency are estimated to be \$1.42 billion. The SFMTA has identified funding for approximately \$1.127 billion of such project amount, including approximately \$613.8 million in funding from MTC, \$191.9 million of Proposition K local sales tax funds, \$113.1 million in revenues from the State's cap-and-trade emissions program, \$145.1 million in bond proceeds, \$8 million of operating funds, \$16.8 million of Central Subway Project funds, and \$38.2 million in other local funds. The SFMTA projects that such amounts will be sufficient to purchase the 219 LRVs described above. In some cases the funds identified have been prioritized by the grantors to facilitate SFMTA's acquisition of the LRVs, though the SFMTA has not yet secured such amounts. If the SFMTA does not receive any

portion of such amounts, the SFMTA will attempt to identify alternative funding sources, potentially including the issuance of additional Bonds or the deferral of other capital projects to make available sufficient funding for the light rail vehicle purchases, or it will delay the purchases of, or purchase fewer, LRVs under the contract with Siemens. If the SFMTA exercises its option to purchase the remaining 45 LRVs under the Siemens contract, it will need to identify approximately \$150 million in additional funding.

**Rail Replacement Program.** The Rail Replacement Program is an on-going program of phased replacement of sections of rail on the light rail or cable car systems which will enhance system reliability and productivity and help reduce operational problems. The program allows for a systematic replacement cycle of, on average, approximately 35 years for most segments of the Muni rail system. Sections of rail to be replaced are prioritized based on their potential for failure and derailments, the amount of noise and vibration experienced at surrounding structures, and their relationship with complementary projects of other city departments. Rail replacement projects are organized in two ways: (1) a corridor wide replacement; or (2) the selected replacement of particularly vulnerable sections of track, including curved rail and other special work such as track switches, which tend to wear out much faster than straight track. Corridor wide projects replace 1-2 miles of straight track and any special work in that area and are normally coordinated with the work of other City departments and utilities to upgrade the entire infrastructure along the corridor.

***Funding of Capital Improvements.*** The SFMTA's capital program is financed from a variety of funding sources, including Bonds and capital grant funds from federal, State and local sources. During the 20-year period from Fiscal Year 2018-19 to Fiscal Year 2039-40, the SFMTA projects capital needs of approximately \$30.8 billion.

***Grant Recovery and Relinquishment.*** Grants the SFMTA receives generally provide for monitoring of compliance with various restrictions and termination or suspension of payments or recovery of disbursed funds in the event of a serious violation of grant terms or misapplication of grant funds. The compliance conditions which the Federal Transit Administration, the California Department of Transportation, MTC, the County Transportation Authority and other agencies apply to recipients of grants are uniform for all recipients. With respect to the recovery of such grant funds, the SFMTA is not subject to any unique rules, requirements or auditing procedures as compared with other recipients. For example, in connection with Federal Transit Administration grants, recipients, including the SFMTA, agree to comply with all applicable federal statutes and regulations in carrying out any project supported by such grants, along with the terms and conditions of the Federal Transit Administration grant agreements which include restrictions relating to, among other issues, lobbying, procurement compliance, acquisition of rolling stock and bus testing, drug and alcohol use and the payment of interest and other financing costs. As another example, State law requires, subject to certain possible exceptions and exemptions, that the SFMTA maintain a ratio of local revenues to transit operating costs of at least 31.2%, including farebox revenues, in order to preserve its eligibility for STA and LTF funding, which requirement has been waived during the COVID-19 pandemic. See “– Current Projects – Central Subway Project,” “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Federal, State Regional and Local Grants” and “CERTAIN RISK FACTORS – Reliance Upon Grants and City General Fund Transfers.”

The County Transportation Authority grants sales tax funds to support certain programs which include an identified number of projects authorized by the voters in the County. The SFMTA has occasionally released grant funds back to the County Transportation Authority when the SFMTA has completed, under budget, a project funded by County Transportation Authority grants. The applicable project savings are then returned to the County Transportation Authority to provide additional funding for other projects within the same grouping. The availability of the SFMTA project savings to the SFMTA is determined by the number of eligible sponsors within each respective grouping. In many cases, however, the SFMTA is the only eligible project sponsor within such grouping.

### **Commercial Paper Program**

In 2013, the Board approved the SFMTA's commercial paper notes program and authorized the issuance of commercial paper notes in an aggregate principal amount of up to \$100 million. The commercial paper notes were secured by a letter of credit, which the SFMTA terminated in August 2020. No commercial paper notes were outstanding at the time the SFMTA terminated the letter of credit.

The SFMTA does not have any plans to issue commercial paper notes. If the SFMTA were to issue commercial paper notes, such notes would be secured by a pledge of Pledged Revenues that is junior and subordinate to the pledge securing the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

### Outstanding Debt

The SFMTA’s outstanding long-term debt obligations consist of the Series 2017 Bonds and the Series 2021AB Bonds. Proceeds of the Series 2021AB Bonds, which were issued on February 23, 2021, refunded all of the then-outstanding Series 2012 Bonds, Series 2013 Bonds and Series 2014 Bonds. See also “DEBT SERVICE SCHEDULE” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Obligations Secured by Pledged Revenues.”

### Lease/Leaseback Transactions

In April 2002 and September 2003, following approval by the Federal Transit Administration and the Board of Supervisors, the SFMTA entered into a leveraged lease-leaseback transaction in two tranches covering 139 Breda light rail vehicles. All of the lease-leaseback transactions have been terminated.

### Risk Management and Insurance

The SFMTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The SFMTA’s risk management program includes both self-insured and insured coverage. With certain exceptions, the City and the SFMTA’s general policy is to first evaluate self-insurance for the risk of loss to which it is exposed. Based on this analysis, the SFMTA has determined that in certain areas of risk, mitigating risk through a wholly or partially self-insured program is more economical as it manages risks internally, and administers, adjusts, settles, defends and pays claims from annually-budgeted resources. When it is economically more advantageous, or when required by financial covenants, the SFMTA obtains commercial insurance for the risks of specific loss, not including earthquake.

The SFMTA self-insures for general liability. Through coordination with the Controller and City Attorney’s Office, the SFMTA’s 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 million. The reserve was \$29.4 million at the end of Fiscal Year 2019-20. Additionally, the SFMTA participates in the City master property program for fixed asset protection, including scheduled Breda light rail vehicles. The SFMTA also currently maintains commercial insurance on the SFMTA-controlled parking garages.

The following is a summary of the SFMTA’s coverage approach to risk:

**TABLE 23**  
**RISK MANAGEMENT AND INSURANCE**

Primary Risk	Coverage Approach
General/Transit Liability	Self-insure
Property (including Breda light rail vehicles and parking garages)	Self-insure and Purchase insurance
Workers’ Compensation	Self-insure
Employee (Transit Operators)	Purchase insurance
Directors and Officers	Purchase insurance

Source: SFMTA

The SFMTA does not maintain insurance policies covering earthquake, flood, environmental pollution or other, similar risks.

The SFMTA does require contractors to maintain insurance for all construction activities. Requirements with respect to policy limits, covered losses and other terms of the insurance vary depending upon the type of activity undertaken and are usually determined in collaboration with the City's Risk Manager.

### **Investment of SFMTA Funds**

Pursuant to the Charter, the SFMTA maintains its deposits and investments and a portion of its restricted asset deposits as part of the City's pool of investments and deposits. 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 law, including, among others, California Government Code Sections 27000, 53601, and 53635. 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 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. The current City and County of San Francisco Office of the Treasurer Investment Policy is attached hereto as Appendix C. The City's Comprehensive Annual Financial Report categorizes the level of common deposits and investment risks associated with the City's pooled deposits and investments. As of June 30, 2020, the City Treasurer held \$848.3 million of SFMTA's current assets, of which \$731.3 million was unrestricted.

### **CERTAIN RISK FACTORS**

*The following section discusses certain risk factors that should be considered by potential investors, along with all other information presented in this Official Statement, in evaluating the risks associated with an investment in the Series 2021C Bonds. The following discussion is not meant to be a comprehensive nor a definitive list of the risks associated with an investment in the Series 2021C Bonds. Any one or more of the risk factors discussed below, among others, could adversely affect the ability of the SFMTA to pay principal of, premium, if any, or interest on the Series 2021C Bonds or lead to a decrease in the market value and/or in the liquidity of the Series 2021C Bonds. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. There can be no assurance that other risk factors not discussed herein will not become material in the future, and the SFMTA has not undertaken to update investors about the emergence of other risk factors in the future.*

### **Series 2021C Bonds Limited Obligations**

The Series 2021C Bonds are special, limited obligations of the SFMTA secured by and payable solely from Pledged Revenues of the SFMTA and from moneys held in certain funds and accounts established pursuant to the Indenture. The SFMTA is not obligated to pay the principal of, premium, if any, or interest on the Series 2021C Bonds from any source of funds other than Pledged Revenues and amounts on deposit in certain funds and accounts held under the Indenture and subject to the terms thereof. The General Fund of the City is not liable for the payment of the principal of, premium, if any, or interest on the Series 2021C Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of, premium, if any, or interest on the Series 2021C Bonds. The Series 2021C Bonds are not secured by a legal or equitable pledge of, or charge, lien, or encumbrance upon, any of the property of the City or of the SFMTA or any of its income or receipts, except Pledged Revenues and amounts on deposit in certain funds and accounts held under the Indenture and subject to the terms thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." The SFMTA has no taxing power. In case of default by the SFMTA in the payment of principal of, premium, if any, and interest on the Bonds, the remedies of the Bondholders may be limited.

## **Limitation on Remedies**

The Indenture provides only limited remedies to Bondholders in the event of a default by the SFMTA. The enforceability of the rights and remedies of the owners of the Bonds and the Trustee under the Indenture in the event of a default by the SFMTA may be subject to the following: limitations on legal remedies available against public agencies in the State; the federal bankruptcy code and other bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; and the delay and uncertainty inherent in legal proceedings. The enforceability opinion of Co-Bond Counsel will be made subject to such limitations on remedies. See Appendix G – "PROPOSED FORM OF LEGAL OPINIONS OF CO-BOND COUNSEL" herein.

## **Reliance Upon Grants and City General Fund Transfers**

***Operating Grants and City General Fund Transfers.*** The SFMTA relies on operating grants and transfers from the City's General Fund to cover operating expenses and other amounts payable from the Municipal Transportation Fund. The City General Fund transfers to the SFMTA are made in accordance with certain provisions on the City Charter. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers" and "– Federal, State Regional and Local Grants." There can be no assurances that such Charter provisions will not be amended in the future, and such amendments could reduce operating grants and transfers from the City's General Fund. See "– Change in Law; Local Initiatives."

***Grants to Address Capital Needs.*** The SFMTA relies primarily on federal, State and regional grants to address capital needs. The budgets for most major capital projects include reimbursement-based grant funding that is disbursed to the SFMTA based on satisfaction of certain conditions. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Federal, State Regional and Local Grants," "– Capital Program – Current Projects – Central Subway Project" and "– Capital Program – Funding of Capital Improvements."

***Certain Impacts of Failure to Receive and Apply, or Delay in Receipt and Application of, Grant Funding.*** The continuation of federal, State, regional and local grant programs to fund both operational and capital needs, including any additional federal relief funds due to the COVID-19 pandemic, and the timely disbursement of such funding, is not assured. See also "IMPACT OF COVID-19 PANDEMIC." Such grants are generally subject to the availability and appropriation of funds as well as to satisfaction of various conditions specified in connection with the grant. For example, appropriation and disbursement of certain federal grant funds the SFMTA receives generally requires the federal government to enact an appropriations bill or a continuing appropriations act. In addition, should grant conditions fail to be satisfied, granting agencies may not disburse, may cease disbursing or may delay disbursement of such funds to the SFMTA, and, in some circumstances, the SFMTA could be obligated to reimburse all or a portion of previously disbursed grant funds to the grantor agency. Should the SFMTA for any reason be unable to obtain and apply funds from such grant programs on a timely basis or become obligated to reimburse any portion of such funds, including as a result of any failure to satisfy specified conditions of such grants, it could adversely affect the SFMTA's operations or its Capital Program or both, and could have a material adverse impact on the SFMTA's financial condition.

## **Physical Condition of the SFMTA Assets**

The physical condition of the SFMTA's current assets varies broadly. Although most of the SFMTA's capital assets are within their design life, the SFMTA, like most other large transit agencies, has a backlog of deferred investment and a number of facilities that require renovation or seismic improvement. For example, two of the SFMTA's key subway tunnels were constructed in the early twentieth century and five garages with a combined 7,196 spaces are over fifty years old. Certain overhead power lines, which require periodic rehabilitation and replacement, have been in place since, or were last rehabilitated as early as, 1973, although the SFMTA's ongoing transit fixed guideway program includes a number of capital projects to systematically rehabilitate or replace these assets.

See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Transit – Transit Operations", "– Parking and Traffic Functions – Parking Garages" and "– Capital Program – State of Good Repair Analysis." Assets kept in operation beyond their design life are less reliable, resulting in increased maintenance and operations expenses and limitations on the SFMTA's ability to deliver service. Such assets are also more vulnerable



to casualty loss. See “– Seismic Risks” and “– Casualty Losses.” Although the SFMTA is working to address these issues, if the SFMTA is unable to continue to obtain significant funding to address capital needs, more of the SFMTA’s asset base will age beyond its design life and the SFMTA’s ability to generate operating revenues may be adversely affected.

### **Construction Risk**

The SFMTA is undertaking a number of construction projects, the most significant of which are the Central Subway Project and the Van Ness Project. Both projects are major undertakings involving complex engineering and coordination of underground and surface activities. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program – Current Projects – Central Subject Project,” “– Remaining Central Subway Project Risks and Risk Management,” “– Van Ness Improvement Project” and “– Remaining Van Ness Project Risks and Risk Management.” Construction of SFMTA facilities is also subject to ordinary construction risks and delays applicable to projects of their kind, such as (i) inclement weather affecting contractor performance and timeliness of completion, which could adversely affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (ii) contractor claims or nonperformance; (iii) failure of contractors to execute within contract price; (iv) force majeure or work stoppages or slowdowns; (v) failure of contractors to meet schedule terms; or (vi) unanticipated project site conditions, including the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards, and other natural hazards or seismic events encountered during construction. Increased construction costs or delays could have a material adverse impact on the SFMTA’s financial condition in general and the implementation of its capital programs in particular.

### **Increased Operation and Maintenance Expenses**

In addition to paying debt service on the Series 2021C Bonds, the SFMTA uses amounts in the Municipal Transportation Fund for the payment of the operation and maintenance expenses of the SFMTA. There can be no assurance that the operation and maintenance expenses of the SFMTA, such as wages and salaries, pension and other benefits, or diesel fuel and electricity costs, will not increase substantially. The SFMTA has a limited ability to increase its rates and charges, and in all cases such increases are subject to prevailing market conditions which could reduce the market demand for the SFMTA’s services. The SFMTA may, however, also address substantial increases in costs through service reductions. See “SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Operating and Maintenance Expenses” herein.

### **Labor Actions**

The Charter prohibits SFMTA and other City employees from striking. Nonetheless a work stoppage or other labor action may limit the SFMTA’s ability to operate Muni or the parking garages, and have a material adverse impact on Pledged Revenues. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Labor Relations – Employee Relations.”

### **Statutory and Regulatory Compliance**

The SFMTA is subject to a variety of State and federal statutory and regulatory requirements. The SFMTA’s failure to comply with applicable laws and regulations could result in significant fines and penalties and, changes in the scope and standards for the activities undertaken by the SFMTA may also lead to administrative orders issued by federal or State regulators. Changes in statutory or regulatory requirements or the issuance of new administrative orders could materially adversely impact the SFMTA’s operation of the Transportation System and compliance with such charges or orders could impose substantial additional costs or operations or require material capital expenditures.

### **Safety and Security**

The safety of the facilities of the SFMTA is maintained via a combination of regular inspections by SFMTA employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the SFMTA are controlled access facilities with fencing, gates, closed circuit television systems and

security officers at certain points. Smaller facilities operated and maintained by the SFMTA are locked with padlocks or internal locking mechanisms, and most are monitored via access/intrusion alarms. Security improvements are evaluated on an ongoing basis. Electronic operations and controls have been evaluated and exposure reduced through a series of technology systems enhancements and integration.

Military conflicts and terrorist activities may materially adversely impact the operations of the SFMTA's systems or the finances of the SFMTA. Mass transit facilities and vehicles have in the past been the target of terrorist attacks. The SFMTA continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that hostile or terrorist activities are directed against the assets of the SFMTA or that the costs of such security measures will not be greater than presently anticipated.

## **Cybersecurity**

**City Measures.** 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.

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 (the "**City Cyber Policy**") to support, maintain, and secure critical infrastructure and data systems. The objectives of the City 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, including the SFMTA, to implement the City Cyber Policy. The City Cyber Policy is reviewed periodically.

The City has also appointed a City Chief Information Security Officer (the "**CCISO**"), who is directly responsible for understanding the business and related cybersecurity needs of the City's 54 departments, including the SFMTA. 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.

**SFMTA Measures.** The SFMTA has a separate and distinct Information Technology department from the City, including its own dedicated Cybersecurity Manager. As such, the SFMTA has a cybersecurity program that is specifically tailored to its needs based on the SFMTA's business and risk profile. The program includes state-of-the-art tools and procedure to prevent attacks against the SFMTA that would result in loss of data or availability to SFMTA systems. The SFMTA works closely with peer City departments, including the City's Department of Technology to ensure safe and secure transport between all entities.

In November 2016, the SFMTA was a victim of a ransomware attack that disrupted some of its internal computer systems. The SFMTA network was not breached from the outside and hackers did not gain entry through the SFMTA's firewalls. Transit service was unaffected and there were no impacts to the safe operation of buses and Muni Metro. The SFMTA took the precaution of turning off the ticket machines and faregates in the Muni Metro subway stations for approximately 24 hours to minimize any potential risk to Muni customers, which resulted in a revenue loss of approximately \$50,000. Neither customer privacy nor transaction information were compromised. All systems were restored and the SFMTA paid no ransom for the attack. Following the incident, the SFMTA formalized its cybersecurity program and implemented new tools for vulnerability management and malware protection.

## Casualty Losses

The SFMTA's facilities and its ability to generate Pledged Revenues from its properties are also at risk from events of force majeure, such as extreme weather events and other natural occurrences, fires and explosions, spills of hazardous substances, strikes and lockouts, sabotage, wars, blockades and riots and from torts, including theft, damage and destruction of assets, business interruption and omission, injuries to employees and others. While the SFMTA has attempted to address the risk of a loss from many of these sorts of occurrences through its risk management program, which includes both self-insured and insured coverages, the program does not provide for every conceivable risk of loss. Damage attributable to seismic events and environmental pollution, for example, are excluded. In situations where the SFMTA has not purchased commercial coverage, the SFMTA has a 'self-retention' program that is administered and retains budgeted resources internally to provide coverage for loss liabilities. See also "SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Risk Management and Insurance." The SFMTA is not required to either insure against or self-insure against every potential risk of loss and there is a risk that damage or destruction of its property and equipment could occur for which no insurance or self-insurance funds will be available. There can be no assurance that insurance providers will pay claims under any policies promptly or at all, should a claim be made under such policies in connection with property loss or damage. It is possible that an insurance provider will refuse to pay a claim, especially if it is substantial, and force the SFMTA to pursue legal remedies to collect on or settle the insurance claim. Further, there can be no assurances that any insurance proceeds will be sufficient to rebuild or replace any damaged property.

Notwithstanding that the SFMTA may seek recovery under its insurance policies in the event of the occurrence of an insured loss, there exists the possibility that an insurer may deny coverage and refuse to pay a claim and there is an attendant risk of litigation and delay in receipt of any loss claim payment. In the event of damage to the SFMTA's facilities, the collection of fees and charges for the use of the Transportation System and other amounts comprising the Pledged Revenues could be materially impaired for an undetermined period.

## Seismic Risks

San Francisco and the Transportation System are located in a seismically active region. Active earthquake faults underlie both San Francisco and the surrounding Bay Area, including the San Andreas Fault, which passes within about three miles to the southeast of the border of the SFMTA's service area, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away, as well as a number of other significant faults in the region. Significant seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of San Francisco, 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 San Francisco were permanently closed and eventually removed. See "– Casualty Losses." In 2014, the San Francisco Bay Area experienced a 6.0 earthquake near Napa along the West Napa Fault. San Francisco did not suffer any material damage as a result of that earthquake.

Because science relating to prediction of seismic events is inexact, the SFMTA is unable to predict the likelihood of a significant earthquake or the effects of any such earthquake on the Transportation System or Pledged Revenues. In a variety of reports, however, the U.S. Geological Survey ("U.S.G.S.") has noted the potential for significant seismic events in the San Francisco Bay Area. As one example, a 2015 report by the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S.G.S., the California Geological Society, and the Southern California Earthquake Center) estimated that there is a 72% chance that one or more earthquakes of magnitude 6.7 or larger would occur in the Bay Area before the year 2045. An earthquake of such magnitude or larger would likely be very destructive. In addition to the potential damage to SFMTA-owned buildings, facilities, fixtures, rail lines and equipment (on which the SFMTA does not generally carry earthquake insurance), 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, with uncertain but potentially significant corresponding material adverse impacts on the operations and revenues of the SFMTA, by harming the City's status as a tourist destination and regional hub of commercial, retail and entertainment activity. In the event of a significant seismic event, the SFMTA would attempt to repair damage to SFMTA facilities as quickly as possible, but the time required to return the facilities to service would depend on the nature and extent of the damage.

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

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

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

Sea levels 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 Office of Resilience and Capital Planning, joined the Port, the Public Utilities Commission and other public agencies in moving several initiatives forward. This included a Citywide Sea Level Rise Vulnerability and Consequences Assessment to identify and evaluate sea level rise impacts across the City and in various neighborhoods that was released in February 2020.

In April 2017, the Working Group of the California Ocean Protection Council Science Advisory Team (in collaboration with several state agencies, including the California Natural 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 incorporated the projections from the 2018 report into its Guidance for Incorporating Sea Level Rise Guidance into ongoing Capital Planning. The Guidance requires that City projects over \$5 million consider mitigation and/or adaptation measures.

In March 2020, a consortium of State and local agencies, led by the Bay Area Conservation and Development Commission, released a detailed study entitled, “Adapting to Rising Tides Bay Area: Regional Sea Level Rise Vulnerability and Adaptation Study,” on how sea level rise could alter the Bay Area. The study states that a 48-inch increase in the bay’s water level in coming decades could cause more than 100,000 Bay Area jobs to be relocated,

nearly 30,000 lower-income residents to be displaced, and 68,000 acres of ecologically valuable shoreline habitat to be lost. The study further argues that without a far-sighted, nine-county response, the region's economic and transportation systems could be undermined along with the environment. Runways at SFO could largely be under water.

The City has already incorporated site specific 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. In November 2018, voters of the City approved Proposition A, authorizing the issuance of up to \$425 million in general obligation bonds for repair and improvement projects on the Seawall. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – Authorized but Unissued City GO Bonds."

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 Series 2021C 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 vacated the dismissal and remanded the case to the District Court. 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.

### ***Impact on SFMTA.***

Sea level rise is the primary climate change risk currently projected to impact the SFMTA. Approximately four-square miles of San Francisco (not including Treasure Island or San Francisco International Airport) are located within the City's Sea Level Rise ("SLR") Vulnerability Zone. The SLR Vulnerability Zone is 108 inches above today's high tide (mean higher high water, or MHHW). This includes 66 inches of SLR plus 42 inches of tidal and storm surge, an upper-range scenario for end of century.

Muni Metro operates below ground in the subway along Market Street, sharing four of the nine subway stations with BART. BART is generally operated at the lowest level underground, with Muni Metro located between BART and the surface streets. LRV service also operates along the Embarcadero and King Street at surface grades, with long portions of track and stations located in the SLR Vulnerability Zone. Muni Metro LRVs enter the Market

Street tunnel along the Embarcadero between Howard and Folsom Streets. The Embarcadero Muni portal is vulnerable to sea level rise at 48 inches. If the Embarcadero Muni portal were flooded, water could enter the Embarcadero Station and the BART/Muni tunnel, causing significant service disruptions for San Francisco and region.

Muni Metro is currently under expansion through the Central Subway Project. The Central Subway portal is on Fourth Street between Harrison and Bryant Streets in the SLR Vulnerability Zone. The lowest point within the Central Subway is under Market Street, below the existing Market Street subway.

Light rail tracks above and below ground are sensitive to inundation. Although LRVs can continue to operate during minimal flooding, rail service would be suspended if inundation exceeds a minimum safe depth. Exposure to saltwater would accelerate corrosion risks and damage sensitive electrical equipment of tracks along the shoreline. LRVs can be moved out of potentially inundated areas prior to a storm event with enough notice, but finding adequate and safe storage for the fleet is a challenge. The rail system would require inspection by regulators before placing the system back in service.

Underground subway stations are sensitive to projected flooding and inundation, as numerous flood pathways are available for floodwater to enter the stations (portals, utility access holes, conduits, vents, grates, stairs, etc.). Portions of the light rail system may continue to operate if inundation impacts are localized. However, impacts to the subway portions and the electrical systems could cause systemwide disruptions and impacts to stations that are outside of inundated areas. Seventeen buses can provide limited alternative service during disruptions and maintenance. Buses are placed into service to provide alternate transportation during construction and/or long-term repairs to portions of the system. However, short-term replacements would require pulling buses from other routes, impacting residents on those revenue lines.

The City's public ground transportation system relies on a variety of operations and maintenance facilities where vehicles and equipment are stored, serviced, assembled, repaired, tested, painted and fueled. These facilities are required for continued safe and reliable operation of the public transit system. The facilities within the SLR Vulnerability Zone were evaluated individually. The SFMTA determined that the Islais Creek and Marin Yard Motor Coach facilities are in low-lying areas within the SLR Vulnerability Zone and vulnerable to both temporary and permanent flooding as sea levels rise. In response, the SFMTA initiated the Islais Creek Adaptation Strategy, a two-year community planning process in the Islais Creek area that will develop actionable strategies that address sea level rise and coastal flood risk through a robust public engagement process. Building on the Resilient by Design proposal and other city and regional efforts, the strategy will develop a long-range vision for the Islais Creek shoreline, asset-specific solutions for public infrastructure, and a prioritized funding and implementation strategy that increases the resilience of the community and provides improved transportation networks and new open space. The SFMTA's work at Islais is being coordinated with the San Francisco Public Utilities Commission, Planning Department and Port, and the area is also being examined by the Army Corps of Engineers Flood Study which is an element of the Port's Waterfront Resilience Program.

Sidewalks are generally not sensitive to flooding and can resume their function once floodwaters recede; however, during flood events, accessibility and safety are issues. Traffic signals and roadway and pedestrian have electrical equipment at grade that is sensitive to flooding. Sidewalks have minimal adaptive capacity for flooding because they cannot be easily raised and need to consider ADA accessibility and maximum slope restrictions when meeting the roadway.

San Francisco has 447 miles of streets on the bike network, of which 121 miles are counted as part of the "High-Quality Bike Network." Bicycle lanes and bikeways can experience flooding without significant damage.

The following are projects in design development or in construction that will be impacted by SLR and flooding: Market Street canopies are being developed for all four Market Street stations, including the Embarcadero and its 24 entrances. To date, two have been constructed and are open to the public at the Powell and Civic Center stations. Better Market Street proposes to improve the transportation, streetscape, and safety of a 2.2-mile segment of Market Street between Octavia Boulevard and the Embarcadero. The Better Market Street project finished its California Environmental Quality Act and National Environmental Policy Act environmental review and received project approvals in October 2019 and is now preparing to start the first phase of construction, between 5th and 8th streets, in early 2021.

## **Pandemics; COVID-19 Pandemic**

A pandemic, epidemic or outbreak of an infectious disease can have significant adverse health and financial impacts on global and local economies. The current ongoing COVID-19 pandemic has significantly impacted the nation, state and the City and resulted in a prolonged City stay-at-home orders that has materially adversely impacted the SFMTA's operations and finances. See "IMPACT OF COVID-19 PANDEMIC."

## **Long-Term Financial Condition of the City**

A significant portion of the SFMTA's revenues is derived from the City, including General Fund Transfer No. 1. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers." Accordingly, a decline in the financial condition of the City may have an adverse impact on the financial condition of the SFMTA. For more information regarding the financial condition of the City, see "APPENDIX B – CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES."

## **State Law Limitations on Appropriations**

Article XIII B of the State Constitution limits the amount that local governments can appropriate annually. The ability of the SFMTA to pay principal of, premium, if any, and interest on the Series 2021C Bonds may be affected if the City should exceed its appropriations limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Article XIII B of the California Constitution."

## **Constitutional and Statutory Restrictions**

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996; and Proposition 26, a State ballot initiative known as "Supermajority Vote to Pass New Taxes and Fees Act," was approved by the voters on November 2, 2010.

Among other results, Proposition 218 added Article XIII C to the California Constitution. Article XIII C extends the people's initiative power to reduce or repeal previously authorized local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIII C to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. The courts have not fully interpreted the provisions of, and the SFMTA is unable to predict how courts will in the future interpret, Article XIII C. It is not clear, for example, whether a purported reduction or repeal by initiative of SFMTA's fares and charges would be valid in a situation in which such fares and charges are pledged to the repayment of bonded indebtedness. Any reduction of SFMTA's fees and charges through the initiative process could have a material adverse impact on Pledged Revenues. Proposition 26 amended Article XIII C to add additional restrictions on local agencies' ability to impose new, or increase existing, fees and charges.

To the extent that the SFMTA's transit fare revenues do not result in the SFMTA receiving total revenues in excess of the total costs for providing transit service, Proposition 218 and Proposition 26 do not limit the SFMTA's ability to increase transit-related fares.

## **Change in Law; Local Initiatives**

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on certain categories of legislation adopted by the State Legislature, through the powers of initiative and referendum, respectively. Under the Charter, the voters of the City have similar powers, and can restrict or revise the powers of the SFMTA through the approval of a Charter amendment, or can exercise the power of the SFMTA through the adoption of an initiative ordinance.

The SFMTA is also subject to various laws, rules and regulations adopted by local, State and federal governments and their departments and agencies. The SFMTA is unable to predict the adoption or amendment of any such laws, notes or regulations, or their effect on the operations or financial condition of the SFMTA.

As described in “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Organization and Purpose,” the SFMTA has been the subject of various charter amendments since 1999. These initiatives have had a variety of impacts on the jurisdiction, funding management and operations of the SFMTA. For example, both Proposition E, adopted in 1999, and Proposition A, adopted in 2007, made significant changes in the funding available to support the activities of the SFMTA and the SFMTA’s authority to control transit and other charges that generate revenue for the SFMTA. In addition, Charter amendments that make citywide changes affecting, for example, employee benefits, as well as ordinances of general application may affect the budget and operations of the SFMTA.

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature or the City’s Board of Supervisors will not enact legislation, that amends the laws of the State Constitution or the Charter, respectively, in a manner that could result in a reduction of amounts constituting Pledged Revenues or a reduction to the City’s General Fund revenues, or an increase in Operation and Maintenance and other expenses of the SFMTA, or otherwise adversely impact the ability of the Board to effectively manage the SFMTA, potentially hindering the SFMTA’s ability to pay principal of, premium, if any, and interest on the Series 2021C Bonds. See Appendix B – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Articles XIII C and XIII D of the California Constitution.”

### **Impact of a Chapter 9 City Bankruptcy Filing**

The SFMTA, being an enterprise department of the City, cannot by itself file for bankruptcy protection, but would be included in bankruptcy proceedings if the City’s Board of Supervisors were to seek bankruptcy protection for the City under Chapter 9 of the United States Bankruptcy Code (the “**Bankruptcy Code**”). Moreover, third parties cannot bring involuntary bankruptcy proceedings against either the SFMTA or the City.

The City is authorized under California law to file for bankruptcy protection under the Bankruptcy Code, if circumstances warranted such a filing. As of the date hereof, there have been no public discussions by any City officials, including the Mayor, the Board of Supervisors or the City Attorney, with respect to any potential chapter 9 filing by the City. Should the City become a debtor in a bankruptcy proceeding, the owners of the Series 2021C Bonds would continue to have a lien on Pledged Revenues after the commencement of the bankruptcy case, provided the Pledged Revenues constitute “special revenues” within the meaning of the Bankruptcy Code. “Special revenues” are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide transportation services. While the SFMTA believes that Pledged Revenues may constitute “special revenues,” no assurance can be given that a bankruptcy court would not determine otherwise. If Pledged Revenues do not constitute “special revenues,” there could be delays or reductions in payments by the SFMTA with respect to the Series 2021C Bonds in connection with a bankruptcy proceeding. Further, even if a court were to determine that the Pledged Revenues were “special revenues,” operating expenses may be required to be paid before payments to Owners and such payments may otherwise be delayed, which could delay payments on the Series 2021C Bonds.

Accordingly, in addition to the limitations on remedies contained in the Indenture, the rights and remedies in the Indenture may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors’ rights. In addition to any specific determinations by a court in a City bankruptcy proceeding that may be adverse to the SFMTA or the Owners, the mere filing by the City for bankruptcy protection likely would have a material adverse effect on the marketability and the market price of the Series 2021C Bonds.



## **Loss of Tax Exemption/Risk of Tax Audit of Municipal Issuers**

As discussed under “TAX MATTERS”, interest with respect to the Series 2021C Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the execution and delivery of the Series 2021C Bonds as a result of future acts or omissions of the SFMTA in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the Series 2021C Bonds are not subject to prepayment or any increase in interest rate.

The SFMTA has not sought to obtain a private letter ruling from the U.S. Internal Revenue Service (the “IRS”) with respect to the exempt status of interest on the Series 2021C Bonds, and the opinion of Co-Bond Counsel is not binding on the IRS. There is no assurance that, if an IRS examination of the Series 2021C Bonds were undertaken, it would not adversely affect the secondary market value of the Series 2021C Bonds.

## **Change in Tax Law**

As discussed under “TAX MATTERS,” current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2021C Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

## **SFMTA Does Not Undertake to Maintain Credit Ratings**

Certain rating agencies have assigned ratings to the SFMTA’s Series 2021C Bonds. The ratings issued reflect only the views of such rating agencies. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. The SFMTA undertakes no responsibility to maintain its current credit ratings on the Series 2021C Bonds or to oppose any such downward revision, suspension or withdrawal. See “RATINGS” herein. There is no assurance current SFMTA ratings will continue for any given period or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings could be expected to have a material adverse effect on the market price of the Series 2021C Bonds.

## **Secondary Market**

There can be no guarantee that there will be a secondary market for the Series 2021C Bonds or, if a secondary market exists, that the Series 2021C Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse developments or economic prospects connected with a particular issue, secondary trading practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

## **Uncertainties of Projections, Forecasts and Assumptions**

Compliance with certain of the covenants contained in the Indenture is based upon assumptions and projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the SFMTA assumes no responsibility for the accuracy of such projections. See “FORWARD-LOOKING STATEMENTS” after the inside front cover of this Official Statement.

## **State of California Financial Condition**

The SFMTA receives a portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the SFMTA. The SFMTA cannot predict the extent of the budgetary problems the State may encounter in this or in any future fiscal years, nor is it clear what

measures could be taken by the State to balance its budget, as required by law. In addition, the SFMTA cannot predict the outcome of any elections impacting fiscal matters, the outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the SFMTA has no control.

### **U.S. Government Funding**

The SFMTA receives a portion of its funding from the federal government. The SFMTA's finances may be adversely impacted by fiscal matters at the federal level under a new presidential administration and Congress. Such matters include but are not limited to cuts to federal spending, potential withholding of federal grants or other funds flowing to "sanctuary jurisdictions" and suspension or termination of other federal grants for capital projects. The SFMTA cannot predict the outcome of future federal budget deliberations, and levels of federal funding available to the SFMTA are subject to uncertainty. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – BUDGETARY RISKS – Impact of Federal Government on Local Finances."

### **Other Risks**

The discussion in this section, "CERTAIN RISK FACTORS," is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Series 2021C Bonds. There may be other risks inherent in ownership of the Series 2021C Bonds in addition to those described in this section. Investors are advised to read the entire Official Statement in order to obtain information necessary to make an investment in the Series 2021C Bonds.

## **AUDITED FINANCIAL STATEMENTS**

Audited financial statements of the SFMTA for the Fiscal Years ended June 30, 2020 and June 30, 2019 are attached as Appendix A. See Appendix A – "SFMTA AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019." Such financial statements have been audited by KPMG LLP ("KPMG"), independent certified public accountants. The SFMTA prepares financial statements that are audited annually. Once finalized, the SFMTA's financial statements become public documents.

The SFMTA has not requested nor did the SFMTA obtain permission from KPMG to include its report on the audited financial statements in Appendix A to this Official Statement. KPMG has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG also has not performed any procedures relating to this Official Statement.

## **CONTINUING DISCLOSURE**

The SFMTA has covenanted for the benefit of the Owners of the Series 2021C Bonds to provide certain financial information and operating data relating to the SFMTA not later than March 31 after the end of the SFMTA's Fiscal Year (which currently ends on June 30), commencing with the report for Fiscal Year 2020-21 (the "**Annual Report**") and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the SFMTA with the MSRB through EMMA.

The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in Appendix E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE". These covenants have been made in order to assist the Underwriters of the Series 2021C Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

As of the date of this Official Statement, the City has independently undertaken several continuing disclosure obligations and files annual reports through EMMA that include its audited financial statements.

## TAX MATTERS

The proposed form of opinions of Co-Bond Counsel are contained in Appendix G to this Official Statement.

In the opinion of Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2021C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is not a specific preference item for purposes of the federal alternative minimum tax. In the further opinion of Co-Bond Counsel, interest on the Series 2021C Bonds is exempt from present State personal income taxes.

To the extent the issue price of any maturity of the Series 2021C Bonds is less than the amount to be paid at maturity of such Series 2021C Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2021C Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2021C Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2021C Bonds is the first price at which a substantial amount of such maturity of the Series 2021C Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2021C Bonds accrues daily over the term to maturity of such Series 2021C Bonds on the basis of a constant interest rate compounded semiannually (with straight line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2021C Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2021C Bonds. Beneficial Owners of the Series 2021C Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2021C Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2021C Bonds in the original offering to the public at the first price at which a substantial amount of such is sold to the public.

Series 2021C Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Series 2021C Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Series 2021C Bonds, like the Premium Series 2021C Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Series 2021C Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2021C Bonds. The SFMTA has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2021C Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2021C Bonds being included in federal gross income, possibly from the date of issuance of the Series 2021C Bonds. The opinion of Co-Bond Counsel assumes compliance with these covenants. Co-Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to the attention of Co-Bond Counsel after the date of issuance of the Series 2021C Bonds may adversely affect the value of, or the tax status of interest on, the Series 2021C Bonds. Accordingly, the opinion of Co-Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Co-Bond Counsel is of the opinion that interest on the Series 2021C Bonds is excluded from gross income for federal income tax purposes and is exempt from State personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2021C Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2021C Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or may otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2021C Bonds. Prospective purchasers of the Series 2021C Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel is expected to express no opinion.

The opinion of Co-Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the Series 2021C Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the SFMTA, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The SFMTA has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel's engagement with respect to the Series 2021C Bonds ends with the issuance of the Series 2021C Bonds, and, unless separately engaged, Co-Bond Counsel is not obligated to defend the SFMTA or the Beneficial Owners regarding the tax-exempt status of the Series 2021C Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the SFMTA and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the SFMTA legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2021C Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2021C Bonds, and may cause the SFMTA or the Beneficial Owners to incur significant expense.

Although Co-Bond Counsel is of the opinion that interest on the Series 2021C Bonds is excluded from gross income for federal income tax purposes and is exempt from State personal income taxes, the accrual or receipt of interest on the Series 2021C Bonds may otherwise affect a Bondholder's federal income tax liability. The nature and extent of these other consequences will depend upon the holder's particular tax status and the holder's other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences. Co-Bond Counsel express no opinion as to the "Green Bonds" designation of the Series 2021C Bonds or any consequence of such designation.

## RATINGS

Moody's Investors Service, Inc. ("**Moody's**") and S&P Global Ratings, a division of Standard & Poor's Financial Services LLC, have assigned their municipal bond ratings of "Aa2" and "AA-," respectively, to the Series 2021C Bonds. Moody's and S&P's rating outlooks with respect to the Series 2021C Bonds are "negative." The ratings and outlooks issued reflect only the views of such rating agencies and are not a recommendation to buy, sell or hold the Series 2021C Bonds. Any explanation of the significance of these ratings and outlooks should be obtained from the respective rating agencies. There is no assurance that such ratings or outlooks will be retained for any given period or that the same will not be revised downward or withdrawn entirely by such rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the marketability or the market price of the Series 2021C Bonds.

## UNDERWRITING

The Series 2021C Bonds are being purchased by RBC Capital Markets, LLC, Goldman Sachs & Co. LLC and Siebert Williams Shank & Co., LLC (collectively, the "**Underwriters**").

The Underwriters have agreed to purchase the Series 2021C Bonds at a purchase price of \$123,043,397.97 (comprised of the principal amount of the Series 2021C Bonds, plus original issue premium on the Series 2021C Bonds of \$19,006,780.75, less an underwriters' discount in the amount of \$248,382.78).

The purchase contract pursuant to which the Series 2021C Bonds are being sold provides that the Underwriters will purchase all of the Series 2021C Bonds if any Series 2021C Bonds are purchased, and the obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Series 2021C Bonds to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

The Underwriters provided the information contained in the following paragraph for inclusion in this Official Statement and the SFMTA does not take any responsibility for or make any representation as to its accuracy or completeness.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the SFMTA. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the SFMTA.

#### **ABSENCE OF LITIGATION**

The SFMTA is not aware of any litigation pending or threatened questioning the political existence of the City or the SFMTA or contesting the SFMTA's power to fix passenger rates and charges, or in any way questioning or affecting:

- (i) the proceedings under which the Series 2021C Bonds are to be issued,
- (ii) the validity of any provision of the Series 2021C Bonds or the Indenture,
- (iii) the pledge of Pledged Revenues by the SFMTA under the Indenture, or
- (iv) the titles to office of the present members of the Board of Supervisors and the Board.

Suits and claims against the City and the SFMTA, which may include personal injury, wrongful death and other suits and claims against which the City and the SFMTA may self-insure, arise in the ordinary course of business. There is no litigation pending, with service of process having been accomplished, against the City or the SFMTA which, if determined adversely to the City or the SFMTA, would in the opinion of the City Attorney materially impair the ability of the SFMTA to pay principal of, premium, if any, and interest on the Series 2021C Bonds as they become due.

#### **CERTAIN LEGAL MATTERS**

The validity of the Series 2021C Bonds and certain other legal matters are subject to the approving opinions of Schiff Hardin LLP, San Francisco, California, and the Law Office of Monica M. Baranovsky, Berkeley, California, Co-Bond Counsel. Complete copies of the proposed form of Co-Bond Counsel opinions are contained in Appendix G hereto, and will be made available at the time of the original delivery of the Series 2021C Bonds. Neither Co-Bond Counsel nor Disclosure Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the SFMTA by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel to the SFMTA. Certain legal matters will be passed upon for the Underwriters by Stradling Yocca Carlson & Rauth, a Professional Corporation.

Orrick, Herrington & Sutcliffe LLP has served as Disclosure Counsel to the SFMTA and in such capacity has advised the SFMTA with respect to applicable securities laws and participated with responsible SFMTA 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 SFMTA is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the issuance of the Series 2021C Bonds, Disclosure Counsel will deliver a letter to the SFMTA which advises the SFMTA, 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 this Official Statement as of its date and as of the date of issuance of the Series 2021C 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 Series 2021C Bonds, or other person or party other than the SFMTA, will be entitled to or may rely on such letter of Orrick, Herrington & Sutcliffe LLP having acted in the role of Disclosure Counsel to the SFMTA.

### **ROLE OF THE MUNICIPAL ADVISOR**

Backstrom McCarley Berry & Co., LLC, San Francisco, California is acting as municipal advisor to the SFMTA with respect to the Series 2021C Bonds (the “**Municipal Advisor**”). The Municipal Advisor has assisted the SFMTA in the preparation of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Series 2021C Bonds. The Municipal Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the SFMTA to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Municipal Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The Municipal Advisor will not purchase or make a market in any of the Series 2021C Bonds.

A portion of the compensation to be received by the Municipal Advisor from the SFMTA for services provided in connection with the planning, structuring, execution and delivery of the Series 2021C Bonds is contingent upon the sale and delivery of the Series 2021C Bonds.

### **MISCELLANEOUS**

References made herein to certain documents and reports are brief summaries thereof that do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

The appendices to this Official Statement are integral parts of this Official Statement. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the SFMTA and the purchasers or owners of any of the Series 2021C Bonds. The preparation and distribution of this Official Statement has been authorized by the SFMTA.

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### **APPROVAL AND EXECUTION**

The execution and delivery of this Official Statement has been authorized by the Board of Directors of the SFMTA.

SAN FRANCISCO MUNICIPAL TRANSPORTATION  
AGENCY

By:                     /s/ Jeffrey Tumlin                      
Director of Transportation

**APPENDIX A**

**SFMTA AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019**



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**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Financial Statements and  
Supplemental Schedules

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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KPMG LLP  
Suite 1400  
55 Second Street  
San Francisco, CA 94105

## **Independent Auditors' Report**

The Honorable Mayor and Board of Supervisors, and  
San Francisco Municipal Transportation Agency Board of Directors  
City and County of San Francisco, California:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the San Francisco Municipal Transportation Agency (SFMTA), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the SFMTA'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 U.S. generally accepted accounting principles; 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the City of San Francisco Japan Center Garage Corporation and the City of San Francisco Portsmouth Plaza Parking Corporation, which represent 0.23% and 0.22%, respectively, of total assets, and 0.05% and 0.07%, respectively, of net position as of June 30, 2020 and 2019, and 1.78% and 1.60%, respectively, of total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for SFMTA, is 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the City of San Francisco Portsmouth Plaza Parking Corporation, commissioned by the Department of Recreation and Parks, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of SFMTA, as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements of SFMTA are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the City that is attributable to the transactions of SFMTA. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2020 and 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4-16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 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.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the SFMTA's basic financial statements. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020 on our consideration of the SFMTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of



that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SFMTA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SFMTA's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California  
November 19, 2020

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

June 30, 2020 and 2019

We offer readers of the San Francisco Municipal Transportation Agency's (SFMTA) financial statements this narrative overview and analysis of the financial activities of the SFMTA for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with information contained in the financial statements.

The COVID-19 (novel coronavirus) pandemic has had a significant impact on SFMTA's services and finances due to decreased transit service and reduced parking and traffic volumes. On March 16, 2020, the City and County of San Francisco, California (the City), enacted a Shelter in Place directive after which transit ridership declined almost 80% as did driving and traffic. The SFMTA's revenues declined accordingly. To offset the financial hardship, the SFMTA received funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The City's transportation recovery plan is guided by public health orders. Bus ridership has begun to increase as of April 2020 and although ridership was still down compared to last year, by the end of June bus service averaged nearly twice as many daily boardings compared to mid-April. Rail service has not yet been reinstated and parking and traffic volumes remain low. The SFMTA's finances continue to be impacted adversely.

The CARES Act was signed into law in response to the nationwide Coronavirus pandemic, which provides supplemental appropriations for Emergency Transit Operations Assistance through the Federal Transit Administration (FTA) Section 5307 Urbanized Area and Section 5311 Rural Area formula programs distributed by the Metropolitan Transportation Commission (MTC). SFMTA received \$373.8 million in CARES funding distributed in two allocations. The first allocation was \$197.2 million appropriated in fiscal year 2020 and the second allocation was \$176.6 million appropriated in fiscal year 2021. No further allocations of CARES funding are expected. However, the SFMTA is hopeful to receive additional funding from any future federal pandemic relief legislation.

The results of revenues, expenses, and changes in net position for fiscal year 2020 are not comparable to prior years given the extraordinary events.

#### **Financial Highlights**

- The SFMTA's assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by \$4,264 million and \$4,049.3 million as of fiscal years ended June 30, 2020 and 2019, respectively.
- As a result of the CARES Act allocation, SFMTA received a total of \$197.2 million in fiscal year 2020, which was used for transit services. The amount represented the operating gap due to the impact of the COVID-19 pandemic.
- The SFMTA's total net position increased by \$214.7 million in 2020 and increased by \$527.6 million in 2019 over the prior fiscal year.
- Total net investment in capital assets was \$4,735.2 million and \$4,438.7 million at June 30, 2020 and 2019, respectively, an increase of 6.7% and 15.7% over the balance of \$4,438.7 million and \$3,836.9 million at June 30, 2019 and 2018, respectively.

#### **Overview of the Financial Statements**

This discussion and analysis section is intended to serve as an introduction to the SFMTA's financial statements. The SFMTA oversees transit (Muni), parking and traffic control operations, bike and pedestrian programs, and taxis in the City. The SFMTA applies Governmental Accounting Standards Board (GASB)

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

June 30, 2020 and 2019

Statements. The SFMTA is an integral part of the City and these financial statements are included in the City's Comprehensive Annual Financial Report. More information regarding the SFMTA's organization and the basis of presentation are contained in Notes 1 and 2(a) (found on pages 22 and 23).

The statements of net position (found on pages 17 and 18) present information on all the SFMTA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The net position is the residual of all other four elements presented in the statements of financial position. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the SFMTA. The information of the SFMTA's financial position is presented as of June 30, 2020 and 2019.

The statements of revenues, expenses, and changes in net position (found on page 19) present information showing how the SFMTA's net position changed during the fiscal years ended June 30, 2020 and 2019. 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. Revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

The statements of cash flows (found on pages 20 and 21) present information about the cash receipts and payments of the SFMTA during the fiscal years ended June 30, 2020 and 2019. These statements show the effects on the SFMTA's cash balances of cash flows from operating, noncapital financing, capital and related financing, and investing activities. When used with related disclosures and information in the other financial statements, the information in the statements of cash flows helps readers assess the SFMTA's ability to generate net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

There are no known facts, decisions, or conditions that are expected to have a significant effect on net position or results of revenues, expenses, and other changes in net position.

#### **Notes to Financial Statements**

The notes provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 22 through 70 of this report.

#### **Other Information**

The supplemental schedules found on pages 71 through 90 of this report are presented for the purpose of providing additional analysis and are not a required part of the financial statements.



# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

### Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the SFMTA, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,264 million at the close of the most recent fiscal year.

### Condensed Summary of Net Position

June 30, 2020, 2019, and 2018

(In thousands)

	2020	2019	2018
<b>Assets:</b>			
Total current assets	\$ 1,061,760	1,053,983	1,029,773
Total restricted assets	138,163	191,905	339,872
Capital assets, net	5,101,798	4,814,772	4,222,115
Total assets	\$ 6,301,721	6,060,660	5,591,760
Deferred outflows of resources	\$ 304,903	248,179	250,216
<b>Liabilities:</b>			
Total current liabilities	\$ 310,517	308,259	348,740
Total noncurrent liabilities	1,851,351	1,776,173	1,914,597
Total liabilities	\$ 2,161,868	2,084,432	2,263,337
Deferred inflows of resources	\$ 180,749	175,105	56,986
<b>Net position:</b>			
Net investment in capital assets	\$ 4,735,223	4,438,717	3,836,904
Restricted	133,197	182,232	311,179
Unrestricted	(604,413)	(571,647)	(626,430)
Total net position	\$ 4,264,007	4,049,302	3,521,653

### Fiscal Year 2020

During fiscal year 2020, the net position increased by \$214.7 million or 5.3% compared to the prior year. The SFMTA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,264 million and \$4,049.3 million as of June 30, 2020 and 2019, respectively.

Current assets increased by \$7.8 million or 0.7%. This increase was in deposits and investments of \$29.7 million, inventories of \$8.3 million, and prepaid assets of \$0.3 million, offset by decrease in receivables of \$30.5 million. The increase was mainly due to the CARES Act allocation received from FTA despite significant reduction in revenue collections.

The restricted assets decreased by \$53.7 million or 28%, attributable to decreases of \$50.5 million in capital project support from the City's general obligation bonds, \$10.5 million in capital funding from revenue bonds, \$0.6 million in revenue collections on behalf of other agencies, \$0.5 million in nonprofit garage capital

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

June 30, 2020 and 2019

improvement account, and \$0.3 million in funds held by trustee, offset by an increase of \$8.7 million in collections levied from Transit Sustainability Fees.

The capital assets increased by \$287 million or 6%, mainly from Central Subway Project construction in progress of \$184 million and for the procurement of new revenue vehicles of \$100 million. The remaining \$3 million was mainly from Muni Forward program and facility upgrades.

Total noncurrent liabilities increased by \$75.2 million or 4.2%. The increase was due to other postemployment benefits liability of \$54.9 million, net pension liability of \$11.3 million primarily due to the projected returns exceeding actual investment returns on pension plan assets, estimated claims of \$8.8 million, workers' compensation of \$4.7 million, and vacation and sick leave pay of \$3.5 million. The increase was offset by debt payable reduction of \$8 million.

The largest portion of the \$4,264 million SFMTA's net position as of June 30, 2020 reflects its \$4,735.2 million net investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these capital assets of \$7,148.6 million was offset by accumulated depreciation of \$2,046.8 million and related debt of \$366.6 million. More information on capital assets can be found in Note 4 to the financial statements. The SFMTA uses these assets to provide services.

The remainder of the SFMTA's net position is composed of restricted and unrestricted net assets. The restricted net assets include deposits, investments, and receivables, net of payables.

#### *Fiscal Year 2019*

During fiscal year 2019, the net position increased by \$527.6 million or 15% compared to the prior year. The SFMTA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,049.3 million and \$3,521.7 million as of June 30, 2019 and 2018, respectively.

Current assets increased by \$24.2 million or 2.4%. This increase was in deposits and investments of \$51.7 million and prepaid assets of \$0.4 million, offset by decreases in receivables of \$24.8 million and inventories of \$3.1 million. The increase was mainly due to higher General Fund support from the City.

The restricted assets decreased by \$148 million or 43.5%, attributable to decreases of \$84.7 million in capital project support from the City's general obligation bonds, \$69.6 million in capital funding from revenue bonds, and \$0.4 million in funds held by trustee, offset by an increase of \$6.5 million in collections levied from Transit Sustainability Fees and \$0.2 million in nonprofit garage capital account.

The capital assets increased by \$592.7 million or 14%, mainly from procurement of new revenue vehicles of \$373.6 million and for the Central Subway Project construction in progress of \$134.7 million. The remaining \$84.4 million was from radio replacement, system upgrade, facility improvement, street improvement, and various infrastructure work.

Total noncurrent liabilities decreased by \$138.4 million or 7.2%. The decrease was due to net pension liability of \$112.1 million primarily due to the actual investment returns on plan assets exceeding projected returns, other postemployment benefits liability of \$19.4 million, debt payable of \$9.5 million, and estimated claims of \$2.3 million. The decrease was offset by increases in workers' compensation of \$4.4 million and vacation and sick leave pay of \$0.5 million.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

The largest portion of the \$4,049.3 million SFMTA's net position as of June 30, 2019 reflects its \$4,438.7 million net investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these capital assets of \$6,765.2 million was offset by accumulated depreciation of \$1,950.4 million and related debt of \$376.1 million. More information on capital assets can be found in Note 4 to the financial statements. The SFMTA uses these assets to provide services.

The remainder of the SFMTA's net position is composed of restricted and unrestricted net assets. The restricted net assets include deposits, investments, and receivables, net of payables.

### Condensed Summary of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020, 2019, and 2018

(In thousands)

	2020	2019	2018
Revenues:			
Total operating revenues	\$ 390,673	506,613	515,549
Total nonoperating revenues, net	403,149	247,453	196,301
Total capital contributions	355,527	532,927	522,326
Total revenues	1,149,349	1,286,993	1,234,176
Net transfers	495,962	539,371	618,951
Total revenues and net transfers	1,645,311	1,826,364	1,853,127
Expenses:			
Total operating expenses	1,430,606	1,298,715	1,294,145
Change in net position	214,705	527,649	558,982
Net position at beginning of year:			
Beginning of year, as previously reported	4,049,302	3,521,653	3,295,692
Cumulative effect of accounting changes	—	—	(333,021)
Beginning of year as restated	4,049,302	3,521,653	2,962,671
Total net position – ending	\$ 4,264,007	4,049,302	3,521,653

### Fiscal Year 2020

Total revenue and net transfers for the year ended June 30, 2020 were \$1,645.3 million, a decrease of \$181.1 million or 9.9% compared to the prior fiscal year. This was due to decreases in operating revenues, capital contributions, and net transfers, offset by increases in nonoperating revenues primarily from the CARES Act allocation.

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

**June 30, 2020 and 2019**

Operating revenue decreased by \$115.9 million or 22.9% compared to prior year. This was due to decreases in passenger fares revenue by \$42.8 million or 21.9%, parking fees of \$31.4 million or 25.4%, and penalties of \$24.7 million or 25%, charges for services by \$6.3 million or 18.6%, permits revenue by \$4.7 million or 24.2%, advertising revenue by \$4.1 million or 16.1%, rental income by \$1.8 million or 21.2%, and taxi revenues by \$0.1 million or 10.8%. Decrease in passenger fares was mainly due to significant decline in ridership caused by severe impacts of the COVID-19 pandemic. Parking revenues were heavily impacted by the quarantine and shelter in place orders causing major decrease in collections as a result of decline in parking activities.

The nonoperating revenue includes operating support received from other sources, primarily federal and state operating grants, development fees, and interest income. Nonoperating revenue increased by \$155.7 million or 62.9%, mainly from federal grants, offset by decreases in state and other operating grants, interest and investment income, and loss on disposal of assets and increase in interest expense.

Capital contributions consist principally of funds received or receivable from federal, state, and local grant agencies that provide funding for many of the SFMTA's capital projects. There was a decrease in capital expenditures incurred and billable to the grantors in fiscal year 2020 compared to the prior year, mostly related to spending related to Trolley Vehicles, New Light Rail procurement, and other miscellaneous projects. This resulted in the decrease in capital contribution by \$177.4 million or 33.3% when compared to fiscal year 2019.

Net transfers decreased by \$43.4 million or 8% in fiscal year 2020 due to decrease of \$53.5 million in transfers from the City's General Fund for revenue baseline subsidy, in lieu of parking tax and population-based allocation. This decrease was offset by increase of \$6.9 million in transfer from Hetch Hetchy Water and Power for SFMTA's share on sale of Low Carbon Fuel Standard credits and \$3.2 million in transfers from other City departments.

Total operating expenses for the year ended June 30, 2020 were \$1,430.6 million, an increase of \$131.9 million or 10.2% compared to the prior year. The resulting net increase comprises trend changes from various expense categories. Personnel service costs increased by \$73.3 million or 9.1%, attributable mainly to increase in cost-of-living adjustments and retirement costs. General and administrative costs net increase was \$30.7 million or 119.2% mainly due to increase in claim liability per actuarial study. Other operating expenses increased by \$17 million or 86.8% due to higher noncapitalizable expenditures compared to prior year. Depreciation expense increased by \$15.7 million or 8.3% with more assets capitalized. Services from other City departments increased by \$2.4 million or 3.3% mainly from increase in technology infrastructure and police security services. Increase in contractual services by \$1.1 million or 0.7% was attributable to increase in facilities and equipment maintenance services and property leases. The offsetting decrease is in materials and supplies by \$8.3 million or 10.7%.

#### ***Fiscal Year 2019***

Total revenue and net transfers for the year ended June 30, 2019 were \$1,826.4 million, a decrease of \$26.8 million or 1.4% compared to the prior fiscal year. This was due to decreases in operating revenues and net transfers, offset by increases in nonoperating revenues and capital contributions.

Operating revenue decreased by \$8.9 million or 1.7% compared to prior year. This was due to decreases in parking fees of \$9.3 million or 7%, passenger fares revenue by \$6.5 million or 3.2%, and penalties of \$0.1 million or 0.1%. These decreases were offset by increases of permits revenue by \$2.2 million or 13%, advertising revenue by \$2.2 million or 9.5%, charges for services by \$1.7 million or 5.4%, taxi revenues by \$0.7 million or 98.6%, and rental income by \$0.2 million or 2.8%. Decrease in parking fees was mainly due to

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

**June 30, 2020 and 2019**

transfer of financial recording of Union Square garage revenues to the Recreation and Park Department after the Uptown Parking Corporation was dissolved in February 2018. Passenger fares decrease was mainly due to reduction in transit cash fare collections. The increase in permits revenue was due to higher special traffic permit and neighborhood parking permit revenues as a result of increased rates in fiscal year 2019 per automatic fare indexing policy. Increase in charges for services was primarily due to increase in tow surcharge fees, temporary sign fees, and the shared electric mopeds parking permits.

The nonoperating revenue includes operating support received from other sources, primarily federal and state operating grants, development fees, and interest income. Nonoperating revenue increased by \$51.1 million or 26.1%, mostly from federal, state, and other operating grants, amortized portion of the lease leaseback benefits, gain on disposal of assets, and interest and investment income, which were offset by decrease in development fees.

Capital contributions consist principally of funds received or receivable from federal, state, and local grant agencies that provide funding for many of the SFMTA's capital projects. There was an increase in capital expenditures incurred and billable to the grantors in fiscal year 2019 compared to the prior year mostly related to Trolley Vehicles and New Light Rail Vehicles procurement, and other miscellaneous projects. This resulted in the increase in capital contribution by \$10.6 million or 2% when compared to fiscal year 2018.

Net transfers decreased by \$79.6 million or 12.9% in fiscal year 2019 due to decrease of \$176.3 million in capital project support from the City's general obligation bonds. This decrease was offset by \$75.2 million increase in transfers from the City's General Fund for revenue baseline subsidy, in lieu of parking tax and population-based allocation, and \$21.5 million increase in transfers from other City departments.

Total operating expenses for the year ended June 30, 2019 were \$1,298.7 million, an increase of \$4.6 million or 0.4% compared to the prior year. The resulting net increase comprises trend changes from various expense categories. Depreciation expense increased by \$22.2 million or 13.3% with more assets capitalized. Increase in contractual services by \$15 million or 11.3% was attributable to increase in software licensing fees and consultant fees. Materials and supplies increased by \$5.9 million or 8.1%. Other operating expenses increased by \$5.6 million or 22.2% due to high noncapitalizable expenditures from prior year, offset by reduction in recoverable expenditures. Services from other City departments increased by \$4.5 million or 6.6% mainly from major increase in technology infrastructure and legal services. The offsetting decreases are in the following categories: Personnel service costs decreased by \$31.7 million or 3.8%, attributable to reduction of retirement cost associated with GASB Statement No. 68. General and administrative costs net decrease was \$16.9 million or 39.6%, mainly due to decrease in claim liability per actuarial study.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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

June 30, 2020 and 2019

The tables below illustrate the SFMTA's operating revenue by source and expenses by category for fiscal years 2020, 2019, and 2018 as follows:

#### Operating Revenues Comparative

Years ended June 30, 2020, 2019, and 2018

(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Fares	\$ 152,924	195,736	202,280
Parking fees	92,174	123,626	132,985
Parking fines	74,095	98,774	98,884
Advertising	21,414	25,525	23,317
Rents and concessions	6,575	8,339	8,111
Charges for services	27,557	33,843	32,110
Licenses and permits	14,707	19,394	17,169
Other	<u>1,227</u>	<u>1,376</u>	<u>693</u>
Total operating revenues	<u>\$ 390,673</u>	<u>506,613</u>	<u>515,549</u>

#### Operating Expenses Comparative

Years ended June 30, 2020, 2019, and 2018

(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Personnel services	\$ 876,580	803,222	834,950
Depreciation and amortization	205,112	189,436	167,220
Contractual services	149,305	148,201	133,212
Services from other City departments	76,259	73,810	69,261
Materials and supplies	69,554	77,895	72,041
General and administrative	56,382	25,717	42,609
Other	<u>(2,586)</u>	<u>(19,566)</u>	<u>(25,148)</u>
Total operating expenses	<u>\$ 1,430,606</u>	<u>1,298,715</u>	<u>1,294,145</u>

### Capital Assets and Debt Administration

#### *Capital Assets*

The SFMTA's investment in capital assets amounts to \$5,101.8 million net of accumulated depreciation as of June 30, 2020. This investment includes land and land improvements, building structures and improvements, equipment, infrastructure, intangibles, and construction in progress. The increase in capital assets was \$287 million or 6% compared to the previous year. This increase was attributed to continued construction for the New Central Subway Project, Muni Forward program, acquisition of new revenue vehicles, facilities upgrades, street improvements, and traffic signal upgrades.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

The SFMTA's investment in capital assets amounts to \$4,814.8 million net of accumulated depreciation as of June 30, 2019. This investment includes land and land improvements, building structures and improvements, equipment, infrastructure, intangibles, and construction in progress. The increase in capital assets was \$592.7 million or 14% compared to the previous year. This increase was attributed to continued construction for the New Central Subway Project, transit lane and street improvement projects, radio replacement, and acquisition of new revenue vehicles.

### Summary of Capital Assets (In thousands)

	<u>Balance, June 30, 2020</u>	<u>Balance, June 30, 2019</u>	<u>Balance, June 30, 2018</u>
Capital assets not being depreciated:			
Land	\$ 52,199	52,239	63,687
Construction in progress	<u>2,215,094</u>	<u>1,995,760</u>	<u>1,901,549</u>
Total capital assets not being depreciated	<u>2,267,293</u>	<u>2,047,999</u>	<u>1,965,236</u>
Capital assets being depreciated:			
Building structures and improvements	909,049	868,073	786,234
Equipment	2,344,946	2,310,025	1,908,943
Infrastructure	<u>1,627,354</u>	<u>1,539,113</u>	<u>1,469,632</u>
Total capital assets being depreciated	<u>4,881,349</u>	<u>4,717,211</u>	<u>4,164,809</u>
Less accumulated depreciation for:			
Building structures and improvements	347,552	323,924	305,597
Equipment	962,456	928,491	945,072
Infrastructure	<u>736,836</u>	<u>698,023</u>	<u>657,261</u>
Total accumulated depreciation	<u>2,046,844</u>	<u>1,950,438</u>	<u>1,907,930</u>
Total capital assets being depreciated, net	<u>2,834,505</u>	<u>2,766,773</u>	<u>2,256,879</u>
Total capital assets, net	<u>\$ 5,101,798</u>	<u>4,814,772</u>	<u>4,222,115</u>

Construction in progress is made up of various transportation projects. The five projects that have the highest balances on June 30, 2020 are the Central Subway, Muni Forward, Rail Replacement, Light Rail Vehicle Procurement, and Street Improvements.

Central Subway Project will link the existing 5.4-mile Phase I T line, beginning at 4th and King Street, to BART, Muni Metro along Market Street, Union Square, and Chinatown to the north. Construction continues to progress in 2020 towards substantial completion. At Chinatown Station, construction of finishes including elevators, escalators, floor and equipment, and the above-ground plaza area continues. All stations are completing

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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

June 30, 2020 and 2019

installation of the system elements and continuing testing of the various completed systems. All street works have been completed except for some areas within Chinatown Station. At Union Square and Yerba Buena Moscone Stations, construction of public art and pavement renovation have been completed. At 4th and King Street, track has been connected between the existing T Line to the Central Subway, which is a milestone for the project.

Significant capital asset additions during fiscal year 2020 included:

Construction in progress – A majority of the \$545.5 million costs incurred were for the New Central Subway Project, Muni Forward program, facility upgrades, and trolley bus procurement.

Facilities and Improvements – The total of \$41.8 million was incurred in fiscal year 2020 for Muni Forward program, Islais Creek annex renovation projects, and facility upgrades for a total of \$38.4 million. The remaining \$3.4 million is for a building transferred from the Animal Care and Control department.

Equipment – The cost of \$145 million was incurred during the fiscal year mainly for procurement of trolley buses, light rail vehicles and hybrid motor buses, rail replacement, and street car renovation.

Infrastructure – The total of \$88.2 million was incurred during the fiscal year for facility upgrades, traffic signals, street improvements, and Muni Forward program.

Significant capital asset additions during fiscal year 2019 included:

Construction in progress – A majority of the \$798.9 million costs incurred were for the New Central Subway Project, Muni Forward program, facility upgrade, and rail replacement.

Facilities and Improvements – The total of \$81.9 million was incurred in fiscal year 2019 for facility upgrades, Islais Creek annex renovation projects, and land improvements for a total of \$12.2 million, including reclass of \$11.5 million nondepreciable land to depreciable and \$0.7 million incurred for improvement at the Balboa Park Station area.

Equipment – The cost of \$547.9 million was incurred during the fiscal year for radio replacement and procurement of hybrid motor buses, trolley buses, and light rail vehicles.

Infrastructure – The total of \$69.5 million was incurred during the fiscal year for rail and track replacement, street improvement, and traffic signals.

#### *Debt Administration*

At June 30, 2020 and 2019, the SFMTA's bond debt obligations outstanding totaled \$349.5 million and \$362.1 million, respectively. The following table summarizes the balances in debt between fiscal years 2020, 2019, and 2018 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Bonds payable	\$ 349,461	362,106	374,332



## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

**June 30, 2020 and 2019**

These amounts represent bonds secured by all revenue except for City General Fund allocations and restricted sources.

The SFMTA's total bond-related debt decreased by \$12.6 million or 3.5% as of June 30, 2020. The decrease represents principal payments and amortization of issuance premium in fiscal year 2020. During the fiscal year, SFMTA carried underlying debt ratings of AA from Standard & Poor's Global Ratings (S&P) and Aa2 from Moody's Investors Service (Moody's) as of June 30, 2020.

The SFMTA's total bond-related debt decreased by \$12.2 million or 3.3% as of June 30, 2019. The decrease represents principal payments and amortization of issuance premium in fiscal year 2019. During the fiscal year, SFMTA carried underlying debt ratings of AA from S&P and Aa2 from Moody's as of June 30, 2019.

More detailed information about the SFMTA's debt activity is presented in Note 7 to the financial statements.

#### ***Leveraged Lease-Leaseback of Breda Vehicles***

In April 2002, Muni entered into the leveraged-lease leaseback transaction for 118 Breda light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. The sublease provides Muni with an option to purchase the Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment. Muni received an aggregate of \$388.2 million from the equity investors in full prepayment of the head lease. Muni deposited a portion of this amount into an escrow, and a portion was paid to a debt payment undertaker whose repayment obligation is guaranteed by Assured Guaranty Municipal Corp (AGM) as successor to Financial Security Assurance, Inc., a bond insurance company. Muni recorded \$35.5 million in fiscal year 2002 for the difference between the amounts received of \$388.2 million and the amounts paid to the escrows of \$352.7 million. This amount has been classified as a deferred inflow of resources and will be amortized over the life of the sublease unless the purchase option is executed.

In September 2003, Muni entered into a second leveraged-lease leaseback transaction for 21 items of Equipment. The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides Muni with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment. Muni received an aggregate of \$72.6 million from the equity investors in full prepayment of the head lease in fiscal year 2003. Muni deposited a portion of this amount into an escrow, and a portion was paid to a debt payment undertaker whose repayment obligation is guaranteed by AGM as successor to Financial Security Assurance, Inc., a bond insurance company. Approximately \$67.5 million of this head lease payment was deposited into two escrows.

On March 17, 2014, Muni terminated leveraged lease transactions with respect to 30 items of Tranche 1 Equipment having an initial transaction value of \$99.3 million.

On May 24, 2016, Muni terminated leveraged lease transactions with respect to 28 items of Tranche 1 Equipment having an initial transaction value of \$89.6 million and 21 items of Tranche 2 Equipment having an initial transaction value of \$72.6 million. On June 27, 2016, Muni terminated leveraged lease transactions with respect to 31 items of Tranche 1 Equipment having an initial transaction value of \$100.5 million.

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

June 30, 2020 and 2019

On October 25, 2018, Muni terminated leveraged lease transactions with respect to the remaining 29 items of Tranche 1 Equipment having an initial transaction value of \$98.8 million.

More information can be found in Note 15 to the financial statements.

#### **FY2021 and FY2022 Budget**

The SFMTA's adopted two-year Operating Budget supports its Strategic Plan Goals and Transit First Policy Principles. The approved Operating Budget for FY2021 totals to \$1,258.7 million or 1.2% lower than the FY2020 Adopted Budget of \$1,274.4 million. The approved operating budget for FY2022 is \$1,305.1 million or 3.7% higher than the FY2021 budget. The budget also includes \$287.3 million in FY2021 and \$82.4 million in FY2022 for capital expenditures. The combined total appropriation for operating and capital expenditures and reserves is \$1,546 million in FY2021 and \$1,387.5 million in FY2022.

The SFMTA's FY2021 budget continues to fund key programs to meet the needs of historically disadvantaged neighborhoods and populations. The SFMTA has one of the most progressive fare policies in the country and currently provides free fares to low- and moderate-income riders who are seniors, disabled, or youths between the ages of 5 and 18. In 2019, there were 80,000 customers enrolled in these programs. The SFMTA also offers passes up to 50% off full fare value to other low- and moderate-income riders via its Lifeline Program, serving another 20,000 customers monthly.

The Muni Equity Strategy funds operating and capital improvement projects to ensure that Muni service levels in eight historically disenfranchised neighborhoods are equal to, or exceed, those in other areas of the City. Based on a strategy developed in partnership with housing and transportation equity advocates, it uses a neighborhood-based approach to improve the transit routes for Chinatown, Western Addition, Tenderloin/South of Market, Mission, Bayview, Visitacion Valley, Outer Mission/Excelsior, and Oceanview/Ingleside.

To ensure that the SFMTA embodies racial and social equity, the Office of Race, Equity, and Inclusion was created. While this Office will implement policies and practices to enhance racial and social equity within the workforce, it also will analyze performance metrics and data related to the SFMTA's services and identify opportunities to more directly measure and achieve equitable service outcomes.

This budget will also see the completion of a number of projects that will substantially improve Muni operations and reliability across the City. These include opening the Central Subway and bringing online 68 new expansion light rail trains. As these Muni-focused initiatives become operational, other efficiencies, including service realignments, will help offset the increased costs to the transit system.

The SFMTA's capital projects continue to reflect the SFMTA Board of Directors' adopted policies and plans, including the SFMTA Strategic Plan, Vision Zero SF, Transit First, the San Francisco Pedestrian Strategy, the SFMTA Bicycle Strategy, the City's Climate Action Strategy, the City and County of San Francisco Adopted Area Plans, and the San Francisco Transportation Plan.

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

June 30, 2020 and 2019

Through the ongoing Muni Forward program, the SFMTA is making transit service a safer, more reliable, and, ultimately, more viable travel option for more San Franciscans. Muni Forward's implementation and expansion of the Muni Rapid Network of core routes serves nearly 70% of all Muni customers. Major corridor projects under construction include 16th Street Improvement Project (22 Fillmore), 38 Geary Rapid Project, 7 Haight Noriega Rapid Project, and the L Taraval Improvement Project. Service improvements may include creating new transit-only lanes, implementing traffic signal priority to reduce trip times, adding traffic calming medians and pedestrian bulbs, and building new bus boarding islands to reduce loading times.

Over the past several years, the SFMTA has upgraded its entire fleet of buses and is in the process of replacing and expanding its light rail fleet. With 29 new LRV4 light rail vehicles added in 2019, the new state-of-the-art Siemens LRV4 trains are built to handle San Francisco's challenging operating environment, which includes sharp turns and the City's world-famous hills, and are less susceptible to vehicle breakdowns, the most common cause of service delays. The SFMTA also is currently launching an Electric Bus Pilot Program that will procure nine all-electric motor coaches for use in evaluating the technology ahead of its next major fleet procurement scheduled for 2025.

The SFMTA continues to upgrade its fixed guideway infrastructure. It recently renovated the Twin Peaks Tunnel and conducted extensive track and equipment maintenance throughout the subway system. In the coming years, the SFMTA will continue to upgrade its infrastructure, including replacing the 20-year old computer system that controls trains while they operate in the subway.

#### **Requests for Information**

This report is designed to provide a general overview of the SFMTA's finances for all those with a general interest. The financial statements and related disclosures in the notes to the financial statements and supplemental information are presented in accordance with U.S. generally accepted accounting principles. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, SFMTA, One South Van Ness Avenue, 8th Floor, San Francisco, CA 94103.

Questions regarding the City and County of San Francisco or a request for a copy of the City's Comprehensive Annual Financial Report should be addressed to the Office of the Controller, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Statements of Net Position

June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Assets:		
Current assets:		
Cash and investments with City Treasury	\$ 731,318	699,722
Cash and investments held outside City Treasury	3,377	4,971
Cash on hand	5	310
Receivables:		
Grants	189,703	208,538
Due from the San Francisco County Transportation Authority	37,178	45,550
Charges for services (net of allowance for doubtful accounts of \$165 in 2020 and \$151 in 2019)	6,643	6,873
Interest and other	<u>6,160</u>	<u>9,232</u>
Total receivables	239,684	270,193
Inventories	86,460	78,214
Current prepaids and other assets	<u>916</u>	<u>573</u>
Total current assets	<u>1,061,760</u>	<u>1,053,983</u>
Restricted assets:		
Cash and investments with City Treasury	117,017	169,268
Cash and investments held outside City Treasury	20,831	21,656
Other receivables	<u>315</u>	<u>981</u>
Total restricted assets	138,163	191,905
Noncurrent assets:		
Capital assets, net	<u>5,101,798</u>	<u>4,814,772</u>
Total noncurrent assets	<u>5,239,961</u>	<u>5,006,677</u>
Total assets	<u>6,301,721</u>	<u>6,060,660</u>
Deferred outflows of resources:		
Related to pensions	219,043	192,595
Related to other postemployment benefits	<u>85,860</u>	<u>55,584</u>
Total deferred outflows of resources	\$ <u>304,903</u>	<u>248,179</u>

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Statements of Net Position

June 30, 2020 and 2019

(In thousands)

	2020	2019
Liabilities:		
Current liabilities:		
Due to other funds	\$ 437	400
Accounts payable and accrued expenses	76,674	97,158
Accrued payroll	34,893	31,844
Accrued vacation and sick leave	25,908	23,773
Accrued workers' compensation	25,393	24,672
Accrued claims	64,052	36,801
Grants received in advance	57,101	59,042
Unearned revenue and other liabilities	6,888	9,229
Payable from restricted assets	4,966	9,673
Accrued interest payable	4,790	4,960
Bonds, loans, capital leases, and other payables	9,415	10,707
Total current liabilities	310,517	308,259
Noncurrent liabilities:		
Accrued vacation and sick leave, net of current portion	18,581	15,077
Accrued workers' compensation, net of current portion	117,189	112,530
Accrued claims, net of current portion	50,323	41,558
Other postemployment benefits obligation	692,620	637,698
Net pension liability	620,468	609,154
Bonds, loans, capital leases, and other payables, net of current portion	352,170	360,156
Total noncurrent liabilities	1,851,351	1,776,173
Total liabilities	2,161,868	2,084,432
Deferred inflows of resources:		
Unamortized gain on refunding of debt	200	232
Related to pensions	129,910	115,733
Related to other postemployment benefits	50,639	59,140
Total deferred inflows of resources	180,749	175,105
Net position:		
Net investment in capital assets	4,735,223	4,438,717
Restricted:		
Debt service	19,007	19,354
Other purposes	114,190	162,878
Unrestricted	(604,413)	(571,647)
Total net position	\$ 4,264,007	4,049,302

See accompanying notes to financial statements.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years ended June 30, 2020 and 2019**  
(In thousands)

	<b>2020</b>	<b>2019</b>
Operating revenues:		
Passenger fares	\$ 152,924	195,736
Parking and transportation	92,174	123,626
Fines, forfeitures, and penalties	74,095	98,774
Charges for services	27,557	33,843
Licenses, permits, and franchises	14,707	19,394
Advertising	21,414	25,525
Rents and concessions	6,575	8,339
Other	1,227	1,376
Total operating revenues	<u>390,673</u>	<u>506,613</u>
Operating expenses:		
Personnel services	876,580	803,222
Contractual services	149,305	148,201
Materials and supplies	69,554	77,895
Depreciation and amortization	205,112	189,436
Services from other City departments	76,259	73,810
General and administrative	56,382	25,717
Other operating expenses	(2,586)	(19,566)
Total operating expenses	<u>1,430,606</u>	<u>1,298,715</u>
Operating loss	<u>(1,039,933)</u>	<u>(792,102)</u>
Nonoperating revenues (expenses):		
Operating assistance:		
Federal	210,705	12,541
State and other grants	165,179	173,502
Interest and investment income	19,110	28,180
Interest expense	(7,811)	(5,643)
Other, net	15,966	38,873
Total nonoperating revenues, net	<u>403,149</u>	<u>247,453</u>
Loss before capital contributions and transfers	<u>(636,784)</u>	<u>(544,649)</u>
Capital contributions:		
Federal	255,179	325,877
State and others	100,348	207,050
Total capital contributions	<u>355,527</u>	<u>532,927</u>
Transfers in:		
City and County of San Francisco – General Fund	473,968	527,516
San Francisco County Transportation Authority	9,507	10,210
City and County of San Francisco – Other City departments	12,875	3,099
Total transfers in	<u>496,350</u>	<u>540,825</u>
Transfers out:		
City and County of San Francisco – Other City departments	(388)	(1,454)
Net transfers	<u>495,962</u>	<u>539,371</u>
Change in net position	<u>214,705</u>	<u>527,649</u>
Net position at beginning of year	<u>4,049,302</u>	<u>3,521,653</u>
Total net position, end of year	<u>\$ 4,264,007</u>	<u>4,049,302</u>

See accompanying notes to financial statements.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	2020	2019
Cash flows from operating activities:		
Cash received from passengers and service contracts	\$ 371,130	470,349
Cash received from fines, forfeitures, and penalties	74,849	98,532
Cash received from tenants for rent	6,550	8,585
Cash paid to employees for services	(847,737)	(802,823)
Cash paid to suppliers for goods and services	(387,100)	(358,235)
Cash paid for judgments and claims	(4,247)	(10,105)
Net cash used in operating activities	(786,555)	(593,697)
Cash flows from noncapital financing activities:		
Operating grants	354,745	178,525
Net transfers	495,962	539,371
Other noncapital (decreases) increases	(1,264)	19,321
Net cash provided by noncapital financing activities	849,443	737,217
Cash flows from capital and related financing activities:		
Capital grants	402,010	595,325
Proceeds from sale of capital assets	399	3,823
Acquisition of capital assets	(500,765)	(864,431)
Other capital financing increases	6,620	15,083
Bond sale proceeds and loans received	3,818	3,262
Retirement of capital leases, bonds, and loans	(10,996)	(10,055)
Interest paid on long-term debt	(10,113)	(8,006)
Net cash used in capital and related financing activities	(109,027)	(264,999)
Cash flows from investing activities:		
Interest income received	22,760	25,933
Net cash provided by investing activities	22,760	25,933
Net decrease in cash and cash equivalents	(23,379)	(95,546)
Cash and cash equivalents – beginning of year	895,927	991,473
Cash and cash equivalents – end of year	\$ 872,548	895,927

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,039,933)	(792,102)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	205,112	189,436
Provision for doubtful accounts	14	132
Changes in operating assets and liabilities:		
Receivables	79	2,535
Inventories	(8,246)	3,156
Prepaid and others	(302)	(442)
Accounts payable and accrued expenses	(6,080)	7,895
Accrued payroll	2,743	2,652
Accrued vacation and sick leave	5,639	370
Accrued workers' compensation	5,380	6,387
Accrued claims	36,016	(1,538)
Other postemployment benefits obligation	16,145	19,166
Net pension liability	(957)	(26,789)
Due to other funds	37	311
Unearned revenues and other liabilities	(2,202)	(4,866)
Net cash used in operating activities	\$ <u>(786,555)</u>	<u>(593,697)</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and investments with City Treasury:		
Unrestricted	\$ 731,318	699,722
Restricted	117,017	169,268
Cash and investments held outside City Treasury:		
Unrestricted	3,377	4,971
Restricted	20,831	21,656
Total deposits and investments	872,543	895,617
Cash on hand	5	310
Total cash and investments, end of year	\$ <u>872,548</u>	<u>895,927</u>

See accompanying notes to financial statements.



## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

### **Notes to Financial Statements**

June 30, 2020 and 2019

#### **(1) Description of Reporting Entity**

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's financial statements include the entire City's surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and on- and off-street parking, regulation of the taxi industry, and two nonprofit parking garage corporations operated by separate nonprofit corporations whose operations are interrelated. All significant inter-entity transactions have been eliminated. The SFMTA is an integral part of the City, and these statements are reported as a major enterprise fund in the City's Comprehensive Annual Financial Report. The accompanying financial statements present only the financial position, the changes in financial position and cash flows of SFMTA and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position and cash flows in accordance with U.S. generally accepted accounting principles.

The SFMTA was established by voter approval of the addition of Article VIIIA 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 and the City's transportation system. 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, the largest in the Bay Area, and eighth largest system in the United States. It currently has more than 169 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 the City's streets, transit, bicycles, pedestrians, and parking infrastructure. It manages 21 City-owned garages and 18 metered parking lots. In March 2009, the former Taxi Commission was merged with the SFMTA, which then assumed responsibility for taxi regulation to advance industry reforms.

In the beginning of fiscal year 2018, three nonprofit corporations provided operational oversight to four garages, namely Japan Center, Sutter-Stockton, Union Square, and Portsmouth. Of these four garages, Portsmouth and Union Square garages are owned by the Recreation and Park Department but managed by the SFMTA. In February 2018, Uptown Parking Corporation was dissolved and all operations and financial reporting of the Sutter-Stockton garage have been transferred to Sustainable Streets. Union Square garage is still managed by SFMTA but the financial reporting has been transferred to the Recreation and Park Department. The activities of the two remaining nonprofit garages are accounted for in the parking garages account.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

### (2) Significant Accounting Policies

#### (a) *Measurement Focus and Basis of Accounting*

The activities of the SFMTA are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded when the related liabilities are incurred. When both restricted and unrestricted resources are available for use, it is generally SFMTA's policy to use unrestricted resources first, and then use restricted resources when they are needed.

The SFMTA distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses primarily result from the public using the surface transportation system. The principal operating revenue is generated from passenger fares, meter parking, garage parking fees, fines, parking permits, and fees collected from advertisements on the SFMTA property. All other revenues such as operating assistance grants, interest income, and development fees are considered nonoperating revenues. Operating expenses of the SFMTA include costs associated with providing transportation services, including employment and labor costs, materials, services, depreciation on capital assets, support services from other city departments, and other related expenses. All expenses not meeting this definition are reported as nonoperating expenses.

#### (b) *New Accounting Standards Adopted in Fiscal Year 2020*

##### *GASB Statement No. 95*

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB Statement No. 95 extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The SFMTA adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

#### (c) *Effects of Future Pronouncements*

##### (i) *GASB Statement No. 84*

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, 2019. The SFMTA will implement the provisions of GASB Statement No. 84 in fiscal year 2021.

##### (ii) *GASB Statement No. 87*

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 June 15, 2021. The SFMTA will implement the provisions of GASB Statement No. 87 in fiscal year 2022.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

(iii) *GASB Statement No. 89*

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred and no longer included in the historical cost of capital assets. The new standard is effective for periods beginning after December 15, 2020. SFMTA will implement the provisions of GASB Statement No. 89 in fiscal year 2022.

(iv) *GASB Statement No. 90*

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interest—an amendment of GASB Statements No. 14 and No. 61*. GASB Statement No. 90 establishes standards for reporting a government's majority equity interest in a legally separate organization. The new standard is effective for periods beginning after December 15, 2019. SFMTA will implement the provisions of GASB Statement No. 90 in fiscal year 2021.

(v) *GASB Statement No. 91*

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 clarifies the definition of conduit debt and establishes new recognition, measurement, and disclosure requirements. The new standard is effective for periods beginning after December 15, 2021. SFMTA will implement the provisions of GASB Statement No. 91 in fiscal year 2023.

(vi) *GASB Statement No. 92*

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. GASB Statement No. 92 addresses various topics related to postemployment benefits and other issues. The new standard is effective for periods beginning after June 15, 2021. SFMTA will implement the provisions of GASB Statement No. 92 in fiscal year 2022.

(vii) *GASB Statement No. 93*

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBORs)*. GASB Statement No. 93 addresses the accounting and financial reporting effects of replacement of interbank offering rates with other reference rates in agreements that reference an interbank offering rate. The new standard is effective for periods beginning after June 15, 2021. SFMTA will implement the provisions of GASB Statement No. 93 in fiscal year 2022.

(viii) *GASB Statement No. 94*

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. GASB Statement No. 94 establishes standards for public-private and public-public partnerships (PPPs) and availability payment arrangements. A PPP is an arrangement in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An availability payment arrangement is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The new standard requires reporting of related assets and deferred

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

inflows that currently are not reported. The new standard is effective for periods beginning after June 15, 2022. SFMTA will implement the provisions of GASB Statement No. 94 in fiscal year 2023.

(ix) *GASB Statement No. 96*

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. GASB Statement No. 96 defines such arrangements as contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The standard clarifies measurement and recognition of capitalizable costs, intangible assets, and subscription liabilities for such arrangements and also requires additional disclosures related to such arrangements. The new standard is effective for periods beginning after June 15, 2022. SFMTA will implement the provisions of GASB Statement No. 96 in fiscal year 2023.

(x) *GASB Statement No. 97*

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. GASB Statement No. 97 clarifies the criteria used in determining whether a fiduciary component unit exists and clarifies financial reporting for Internal Revenue Code section 457 deferred compensation plans. The new standard is effective for periods beginning after June 15, 2021. SFMTA will implement the provisions of GASB Statement No. 97 in fiscal year 2022.

**(d) Cash and Cash Equivalents and Investments**

The SFMTA maintains its deposits and investments and a portion of its restricted deposits and investments as part of the City's pool of cash and investments pursuant to the City Charter's requirements. The SFMTA's portion of this pool is displayed on the statements of net position as "Cash and investments with City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the City reports certain investments at fair value in the statements of net position and recognizes the corresponding change in fair value of investments in the year in which the change occurred as a component of nonoperating revenues (expenses).

The SFMTA considers its pooled deposits and investments with the City Treasury to be demand deposits and, therefore, cash equivalents for the purposes of the statements of cash flows. The City also may hold nonpooled deposits and investments for the SFMTA. Nonpooled restricted deposits and highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

**(e) Inventories**

Inventories are valued using the average cost method. Inventories are expensed using the consumption method.

Rebuilt inventory items include motors, transmission, and other smaller parts that are removed from existing coaches that are overhauled and repaired.

**(f) Capital Assets**

Capital assets are stated at cost. All construction in progress items over \$100,000 and nonconstruction in progress items over \$5,000 are capitalized. Artifacts held for public exhibition are not capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which ranges from 1 to 60 years for building structures and improvements, infrastructure, equipment, depreciable land improvement, and intangible assets. Generally, no depreciation is recorded in the year of acquisition, and a full year's depreciation is taken in the year of disposal.

Building structures and improvements	2 to 60 years
Infrastructure	1 to 60 years
Equipment	1 to 30 years
Land improvement, depreciable	10 to 50 years
Intangible	5 to 20 years

**(g) Construction in Progress**

Construction in progress represents the design and construction costs of various uncompleted projects. As facilities are accepted by the SFMTA and become operative, they are transferred to building structures and improvements, infrastructure, and equipment accounts and depreciated in accordance with the SFMTA's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

**(h) Bond Premium, Issuance Costs, and Refunding of Debt**

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

**(i) Accrued Vacation and Sick Leave**

Accrued vacation pay, which vests and may be accumulated up to 10 weeks per employee, is charged to expense as earned. Unused sick leave accumulated on or prior to December 6, 1978 is vested and payable upon termination of employment by retirement, death, or disability caused by industrial accident. Sick leave earned subsequent to that date is nonvesting and is charged to expense when used. The amount of allowable accumulation is set forth in various memorandums of understanding but is generally limited to six months per employee.

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

### **Notes to Financial Statements**

June 30, 2020 and 2019

#### **(j) Net Position**

SFMTA financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Restricted category represents net assets that have 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 and includes amounts restricted for debt service and liabilities. At June 30, 2020 and 2019, SFMTA reported \$19 million and \$19.4 million restricted assets related to debt reserves and debt service and \$114.2 million and \$162.9 million were restricted by legislation, respectively. The net investment in capital assets category includes capital assets net of accumulated depreciation and outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. Unrestricted is the residual amount not included in the above categories.

#### **(k) Capital Grants and Contributions**

Capital grants and contributions from external sources are recognized as capital contribution earned when applicable eligibility requirements are met, such as the time reimbursable expenditures related to the grants are incurred.

The U.S. Department of Transportation, through the Federal Transit Administration, provides capital assistance to the SFMTA for the acquisition and construction of transit-related property and equipment. This assistance generally approximates 80% of acquisition cost and is administered through the Metropolitan Transportation Commission (MTC). The capital assistance provided to the SFMTA by the California Transportation Commission and San Francisco County Transportation Authority (SFCTA) is generally used as a local match to the federal capital assistance. Additional capital assistance provided to the SFMTA by other agencies is administered by MTC and is also generally used as a local match for the federal capital assistance.

#### **(l) Operating Assistance Grants**

Operating assistance grants are recognized as revenue when approved by the granting authority and/or when related expenditures are incurred.

The SFMTA receives operating assistance from federal and various state and local sources. Transportation Development Act funds are received from the City to meet, in part, the SFMTA's operating requirements based on annual claims filed with and approved by the MTC. Sales tax represents an allocation by the MTC of the 1/2 cent transactions and use tax collected within San Francisco County for transit services.

Additionally, the SFMTA receives funding from the U.S. Department of Transportation through the Federal Highway Administration, California Transportation Commission, and the MTC to provide safe, accessible, clean, and environmentally sustainable service through transportation programs.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

#### **(m) Development Fees**

Development fees to fund transportation projects are derived from three main sources. These include the following:

The Transportation Sustainability Fee (TSF) is a citywide transportation fee placed on new development in the City and County of San Francisco. The TSF, established in November 2015, expanded the previous Transportation Impact Development Fee to include market-rate residential development and certain large institutions. The fee was established so developers pay their fair share for transportation impacts from new residents and workers. TSF funds transit capital maintenance, transit capital facilities, and complete streets infrastructure.

Developer exactions are specific developer contributions to transportation infrastructure as defined in negotiated development agreements. Development Agreements are contracts entered into by the City and a developer to expressly define a development project's rules, regulations, commitments, and policies for a specific period of time. These contributions can be in addition to or in lieu of community improvement impact fees.

The City imposes community improvement development impact fees on specific development projects in order to help address the impacts caused by new development on public services, infrastructure, and facilities citywide and in certain neighborhoods. It is collected by the Planning Department and a portion of fees is directed to the SFMTA depending on the area from which it is collected. These fees are administered by the Interagency Plan Implementation Committee (IPIC) established by the Board of Supervisors and the SFMTA is a member. The IPIC makes recommendations for Area Plans with respect to capital project funding.

These fees of \$15.2 million and \$27.6 million are recorded as nonoperating revenue for the years ended June 30, 2020 and 2019, respectively, in the accompanying statements of revenues, expenses, and changes in net position.

#### **(n) Pensions**

As prescribed under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the San Francisco City and County Employees' Retirement System plan, and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Contributions are recognized in the period in which they are due pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

#### (o) Other Postemployment Benefits

As prescribed under GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*, net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value.

#### (p) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### (3) Cash and Investments

Pursuant to the City Charter, the SFMTA maintains its cash and investments with the City Treasury and a portion of its restricted asset deposits as part of the City's pool of cash and investments. The City's investment pool is an unrated pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. The Comprehensive Annual Financial Report of the City categorizes the level of common deposits and investment risks associated with the City's pooled cash and investments. As of June 30, 2020 and 2019, the SFMTA's unrestricted and restricted cash and investments with City Treasury totaled \$848.3 million and \$869 million, which represents 7% and 7.5% of the City's investment pool, respectively.

The unrestricted cash and investments outside the City Treasury are cash held by the two remaining nonprofit garage corporations totaling \$0.5 million and \$1.4 million, taxi medallion collateral sale of \$2.7 million and \$2.7 million, and revolving fund of \$0.2 million and \$0.9 million as of June 30, 2020 and 2019, respectively. The SFMTA had restricted cash and investments of \$19 million held by an independent trustee outside the City's investment pool and \$1.8 million held at commercial banks covered by depository insurance as of June 30, 2020. The SFMTA had restricted cash and investments of \$19.4 million held by an independent trustee outside the City's investment pool and \$2.3 million held at commercial banks covered by depository insurance as of June 30, 2019.

The following table shows the percentage distribution of the City's pooled investments by maturity:

	Investment maturities (in months)			
	Under 1	1 to less than 6	6 to less than 12	12-60
2020	30.1%	32.4%	15.6%	21.9%
2019	17.4%	22.2%	16.3%	44.1%



# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

The following table shows the restricted cash and investments outside of City Treasury as of June 30, 2020 and 2019 (in thousands):

<b>Restricted cash and investments outside City Treasury</b>					
<b>Investment</b>	<b>Fair value measurement</b>	<b>June 30, 2020</b>		<b>June 30, 2019</b>	
		<b>Maturities</b>	<b>Fair value</b>	<b>Maturities</b>	<b>Fair value</b>
U.S. Treasury Bills	Level 1	December 31, 2020	\$ 4,571	October 10, 2019	\$ 4,583
Money Market Funds	Exempt	Less than 1 month	<u>14,436</u>	Less than 1 month	<u>14,771</u>
		Total	<u>\$ 19,007</u>	Total	<u>\$ 19,354</u>

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 inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

### (4) Capital Assets

Capital asset balances and their movements as of and for the year ended June 30, 2020 are as follows (in thousands):

	<u>Balance, July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2020</u>
Capital assets not being depreciated:				
Land	\$ 52,239	—	(40)	52,199
Construction in progress	1,995,760	545,544	(326,210)	2,215,094
Total capital assets not being depreciated	<u>2,047,999</u>	<u>545,544</u>	<u>(326,250)</u>	<u>2,267,293</u>
Capital assets being depreciated:				
Building structures and improvements	868,073	41,818	(842)	909,049
Equipment	2,310,025	145,038	(110,117)	2,344,946
Infrastructure	1,539,113	88,241	—	1,627,354
Total capital assets being depreciated	<u>4,717,211</u>	<u>275,097</u>	<u>(110,959)</u>	<u>4,881,349</u>
Less accumulated depreciation for:				
Building structures and improvements	323,924	24,205	(577)	347,552
Equipment	928,491	143,845	(109,880)	962,456
Infrastructure	698,023	38,813	—	736,836
Total accumulated depreciation	<u>1,950,438</u>	<u>206,863</u>	<u>(110,457)</u>	<u>2,046,844</u>
Total capital assets being depreciated, net	<u>2,766,773</u>	<u>68,234</u>	<u>(502)</u>	<u>2,834,505</u>
Total capital assets, net	<u>\$ 4,814,772</u>	<u>613,778</u>	<u>(326,752)</u>	<u>5,101,798</u>

Certain buses, vans, trucks, and other equipment were sold, disposed, and retired during 2020. The net loss on disposal or retirement is \$0.1 million. Increase in capital assets being depreciated was offset by noncapitalizable project costs from prior year. Increase in accumulated depreciation includes depreciable assets transferred from other City's departments.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

Capital asset balances and their movements as of and for the year ended June 30, 2019 are as follows (in thousands):

	<b>Balance, July 1, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance, June 30, 2019</b>
Capital assets not being depreciated:				
Land	\$ 63,687	—	(11,448)	52,239
Construction in progress	1,901,549	798,887	(704,676)	1,995,760
Total capital assets not being depreciated	1,965,236	798,887	(716,124)	2,047,999
Capital assets being depreciated:				
Building structures and improvements	786,234	81,918	(79)	868,073
Equipment	1,908,943	547,931	(146,849)	2,310,025
Infrastructure	1,469,632	69,481	—	1,539,113
Total capital assets being depreciated	4,164,809	699,330	(146,928)	4,717,211
Less accumulated depreciation for:				
Building structures and improvements	305,597	18,406	(79)	323,924
Equipment	945,072	130,268	(146,849)	928,491
Infrastructure	657,261	40,762	—	698,023
Total accumulated depreciation	1,907,930	189,436	(146,928)	1,950,438
Total capital assets being depreciated, net	2,256,879	509,894	—	2,766,773
Total capital assets, net	\$ 4,222,115	1,308,781	(716,124)	4,814,772

A parcel of land and certain buses, vans, trucks, and other equipment were sold, disposed, and retired during 2019. The net gain on disposal or retirement was \$6.3 million.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

Construction in progress consists of the following projects as of June 30, 2020 and 2019 (in thousands):

	<b>2020</b>	<b>2019</b>
New Central Subway	\$ 1,554,610	1,371,307
Muni Forward	223,304	169,866
Rail Replacement	96,792	110,561
Light Rail Vehicle Procurement	91,480	76,610
Street Improvements	82,928	46,754
Facility Upgrades	68,510	101,293
Traffic Signal Upgrades	22,182	24,602
New Asset Management System	21,112	18,556
Trolley Bus Procurement	16,699	14,733
Cable Car Gearbox Rehab	11,987	—
Central Control System Upgrades	11,032	16,743
Traffic Sign Installation/Traffic Calming	5,386	3,515
Historic Street Car Renovation	3,977	5,922
Islais Creek-Woods Annex	1,235	989
Motor Bus Hybrid Procurement	10	20,411
Trolley Overhead Reconstruction	—	963
Security Projects	—	245
Radio Replacement	—	216
Garage Renovation and Parking Equipment Upgrade	—	7,111
Others	3,850	5,363
	<u>\$ 2,215,094</u>	<u>1,995,760</u>

### (5) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were \$76.7 million and \$97.2 million at June 30, 2020 and 2019, respectively. This category consists of liabilities for goods and services either evidenced by vouchers approved for payment but not paid as of June 30, and accrued expenses for amount owed to private persons or organizations for goods and services, and construction contracts retainage payable.

As of June 30, 2020 and 2019, accounts payable and accrued expenses consisted of the following (in thousands):

	<b>2020</b>	<b>2019</b>
Vouchers payable and accruals	\$ 67,308	75,768
Contracts retainage	9,366	21,390
Total accounts payable and accrued expenses	<u>\$ 76,674</u>	<u>97,158</u>

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

#### **(6) Short-Term Debt**

On June 4, 2013, pursuant to the City Charter Section 8A.102 (b) 13, the SFMTA Board of Directors authorized the issuance of commercial paper notes in an aggregate principal amount not to exceed \$100 million. On July 16, 2013, the Board of Supervisors concurred with the issuance. The commercial paper was secured by an irrevocable letter of credit 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. On June 20, 2018, the letter of credit was substituted by Sumitomo Mitsui Banking Corporation, acting through its New York Branch, for a term of five years and interest rate not to exceed 12% per annum. The letter of credit will cover the principal as well as the interest accrued on the 270 days prior to the maturity date. The commercial paper program is jointly administered by the Office of Public Finance (OPF) and SFMTA. OPF will be initiating the issuance of commercial paper with the dealers and reporting on the commercial paper program. The commercial paper notes 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 expenditure schedules.

Events of default, under the reimbursement agreement, include failure to pay the principal or interest on the bank note, any representation made by the SFMTA in the agreement has been incorrect in any materially adverse respect when made, failure to comply with certain covenants, either SFMTA or the City files for bankruptcy, default on any debt or judgment payment of a specified threshold, or reduction of debt rating assigned to senior lien revenue bonds below "Baa1" by Moody's or "BBB+" by S&P or Fitch. In an event of default, the bank may declare the principal and interest on all outstanding obligations to be due and payable immediately, terminate issuance of commercial paper notes, or require final drawing on the letter of credit in the amount equal to the principal amount outstanding plus interest.

In August 2020, SFMTA requested termination of irrevocable letter of credit in accordance with the terms of the reimbursement agreement.

SFMTA has no commercial paper outstanding as of June 30, 2020 and 2019.

#### **(7) Long-Term Debt and Loans**

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.

##### **(a) Series 2017 Revenue Bonds**

In June 2017, the SFMTA issued its Revenue Bonds, Series 2017 in the total amount of \$177.8 million. The net proceeds of \$192.1 million (consisting of \$177.8 million of the Series 2017 bonds plus original issue premium of \$14.3 million) were used to pay \$1.1 million underwriter discount and \$1 million in costs of issuance, and fund \$190 million for various transit and parking capital projects for the SFMTA. The Series 2017 bonds bear interest at fixed rates between 3% to 5% and have a final maturity on March 1, 2047.

##### **(b) Series 2014 Revenue Bonds**

In November 2014, the SFMTA issued its Revenue Bonds, Series 2014 in the total amount of \$70.6 million. The net proceeds of \$80.4 million (consisting of \$70.6 million of the Series 2014 bonds plus original issue premium of \$9.8 million) were used to pay \$0.2 million underwriter discount and \$0.7 million in costs of issuance, deposit \$4.5 million into the Reserve Account, and fund \$75 million for

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

various transit and parking capital projects for the SFMTA. The Series 2014 bonds bear interest at fixed rates between 1% to 5% and have a final maturity on March 1, 2044.

### (c) *Series 2013 Revenue Bonds*

In December 2013, the SFMTA issued its Revenue Bonds, Series 2013 in the total amount of \$75.4 million. The net proceeds of \$82.2 million (consisting of \$75.4 million of the Series 2013 bonds plus original issue premium of \$6.8 million) were used to pay \$0.2 million underwriter discount and \$1 million in costs of issuance, deposit \$6 million into the Reserve Account, and fund \$75 million for various transit and parking capital projects for the SFMTA. The Series 2013 bonds bear interest at fixed rates between 1.5% to 5% and have a final maturity on March 1, 2033.

### (d) *Series 2012A Revenue Refunding Bonds*

In July 2012, the SFMTA issued Revenue Refunding Bonds, Series 2012A in the total amount of \$38 million to refund prior bonds issued by the Parking Authority, the City of San Francisco Ellis-O'Farrell Corporation, the City of San Francisco Downtown Parking Corporation, and the City of San Francisco Uptown Parking Corporation. The Series 2012A bonds bear interest at fixed rates between 2% and 5%, and will mature on March 1, 2032.

The net proceeds of \$46 million (consisting of the \$38 million par amount of the Series 2012A bonds, plus original issue premium of \$5.1 million, plus \$2.9 million accumulated in the debt service and reserve fund related to the refunded bonds) were used to pay \$0.1 million underwriter discount and \$0.5 million in costs of issuance, make a \$2.7 million deposit into Reserve Account, and deposit \$42.7 million into irrevocable escrow funds with the Trustee to defease and refund \$42.3 million in revenue bonds described below (in thousands):

	<u>Refunded</u>	<u>Rate</u>	<u>Price</u>
Series Revenue Bond:			
1999 Parking Meters Refunding	\$ 13,080	4.70%–5.00%	100%
2000A North Beach	5,075	5.00%–5.50%	100
2001 Uptown Parking	15,465	5.50%–6.00%	100
2002 Ellis Parking	2,535	4.20%–4.70%	100
2002 Downtown Parking	<u>6,095</u>	4.50%–5.375%	100
Total	\$ <u>42,250</u>		

The refunded bonds were defeased and redeemed on July 27, 2012. Accordingly, the liabilities for these bonds have been removed from the accompanying statements of net position. The loss of \$0.9 million on refunding of debt resulting from the fiscal year 2013 refunding, previously reported as a contra liability, was recalculated to be a gain of \$0.5 million reported as a deferred inflow of resources. The SFMTA obtained an economic gain (the difference between the present value of the old debt and the new debt) of \$6.7 million or 15.8% of the refunded bonds.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

### (e) Series 2012B Revenue Bonds

In July 2012, the SFMTA issued its Revenue Bonds, Series 2012B in the total amount of \$25.8 million. The net proceeds of \$28 million (consisting of \$25.8 million of the Series 2012B bonds plus original issue premium of \$2.2 million) were used to pay \$0.1 million underwriter discount and \$0.4 million in costs of issuance and set aside for City's audit services, deposit \$1.8 million into the Reserve Account, and fund \$25.7 million for various transit and parking capital projects for the SFMTA. The Series 2012B included serial and term bonds with interest ranging from 3% to 5% and have a final maturity on March 1, 2042.

The following table is a summary of long-term obligations on bonds for the SFMTA (in thousands):

	<b>Final maturity date</b>	<b>Remaining interest rate</b>	<b>Balance June 30, 2020</b>	<b>Balance June 30, 2019</b>
Revenue Bonds Series 2012A	2032	5.0%	\$ 13,218	16,411
Revenue Bonds Series 2012B	2042	3.0%–5.0%	27,597	27,656
Revenue Bonds Series 2013	2033	4.0%–5.0%	60,136	63,659
Revenue Bonds Series 2014	2044	3.0%–5.0%	70,156	71,943
Revenue Bonds Series 2017	2047	3.0%–5.0%	178,354	182,437
Total long-term obligations			\$ <u>349,461</u>	<u>362,106</u>

The bond debt service requirements are as follows (in thousands):

	<b>Principal</b>	<b>Bond interest</b>	<b>Total</b>
Year ending June 30:			
2021	\$ 9,150	14,367	23,517
2022	9,565	13,956	23,521
2023	9,860	13,478	23,338
2024	10,335	13,001	23,336
2025	10,855	12,484	23,339
2026–2030	62,830	53,849	116,679
2031–2035	66,965	37,760	104,725
2036–2040	61,705	25,086	86,791
2041–2045	62,755	11,127	73,882
2046–2047	19,055	1,054	20,109
	\$ <u>323,075</u>	<u>196,162</u>	<u>519,237</u>

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

The SFMTA's debt policy is that the aggregate annual debt service on long-term debt cannot exceed 5% of SFMTA's annual operating expenses. SFMTA met the requirement for the fiscal years ended 2020 and 2019.

Events of default, under the indenture of trust, include failure to pay the principal amount and any installment of interest, failure to pay the purchase price of any bond tendered for optional or mandatory purchase, failure to comply with certain covenants, or either SFMTA or the City files for bankruptcy. In an event of default, the trustee may declare the principal amount of all the bonds outstanding and interest accrued thereon to be due and payable immediately. In case any proceeding taken by the trustee on account of an event of default is discontinued, the SFMTA, trustee, and bondholders shall be restored to their former positions and rights as if no such proceeding had been taken.

The bond indenture for the SFMTA requires that certain funds be established and administered by a trustee. The Reserve Fund is to be maintained by the trustee for the benefit and security of the holders of the bonds to which such accounts are pledged and shall not be available to pay or secure the payment of any other bonds. As of June 30, 2020 and 2019, the bond reserve fund with the trustee totaled \$14.2 million and \$14.3 million, respectively.

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 operating 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 2020 and 2019 were 25.1% and 22.6%, respectively, 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 fiscal year 2020 and 2019, applicable net revenues, and funds available for bond debt service are as follows (in thousands):

	<b>2020</b>	<b>2019</b>
Bonds issued with revenue pledge	\$ 387,670	387,670
Principal and interest remaining due at the end of the year	519,237	544,664
Principal and interest paid during the year	24,806	24,691
Net revenue for the year	73,933	84,685
Fund available for revenue bond debt service	98,739	109,376

On October 1, 2016, the Portsmouth Plaza Parking Corporation entered into a loan agreement with First Republic Bank in a total principal amount of up to \$12.5 million for the garage renovation project. The loan has a term of 30 years at 3.3% per annum and is secured with the collateral of all the garage's business assets. The drawdowns are limited to once a month for a minimum of \$250,000 each disbursement. The loan agreement requires that certain funds shall be administered by the lender which include a loan proceeds account and a reserve account. As of June 30, 2020 and 2019, the reserve account held by the lender totaled \$0.6 million and \$0.6 million, respectively. In an event of default, any outstanding amounts become immediately due if the garage is unable to make payment and fails to comply with the debt service coverage ratio of 1.25:1 for each fiscal year. On February 1, 2019, the loan agreement was amended to reduce the maximum loan amount to \$12 million and change the first principal payment from November 1,



# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

2018 to November 1, 2019. Beginning November 1, 2019, the garage is required to make monthly principal payments and interest. On April 26, 2020, the parking corporation obtained Small Business Administration's (SBA) Paycheck Protection Program loan with First Republic Bank in the amount of \$0.3 million. The loan has a term of two years at a fixed interest rate of 1.0% per annum with no collateral requirement. The loan program allows borrowers to apply for loan forgiveness to cover eligible expenses incurred during the 24-week period. Loan payments shall be deferred until SBA remits the loan forgiveness amount to the lender. For any amount of the loan that is not forgiven, the parking corporation shall be responsible for the payment of principal and accrued interest within the term of the loan. The SFMTA is not responsible for loan repayments and any aspect of loan performance other than reporting in behalf of another government entity. The total loan balances were \$12.1 million and \$8.8 million as of June 30, 2020 and 2019, respectively.

The changes in long-term debt for the SFMTA for years ended June 30, 2020 and 2019 are as follows (in thousands):

	<u>July 1, 2019</u>	<u>Additional obligations, interest accretion, and net increases</u>	<u>Current maturities, retirements, and net decreases</u>	<u>June 30, 2020</u>	<u>Amounts due within one year</u>
Bonds payable:					
Revenue bonds	\$ 333,620	—	(10,545)	323,075	9,150
Add/less unamortized amounts:					
For issuance premiums	<u>28,486</u>	<u>—</u>	<u>(2,100)</u>	<u>26,386</u>	<u>—</u>
Total bonds payable	362,106	—	(12,645)	349,461	9,150
Notes, loans, and other payables	<u>8,757</u>	<u>3,818</u>	<u>(451)</u>	<u>12,124</u>	<u>265</u>
Total long-term debt and loans	<u>\$ 370,863</u>	<u>3,818</u>	<u>(13,096)</u>	<u>361,585</u>	<u>9,415</u>

	<u>July 1, 2018</u>	<u>Additional obligations, interest accretion, and net increases</u>	<u>Current maturities, retirements, and net decreases</u>	<u>June 30, 2019</u>	<u>Amounts due within one year</u>
Bonds payable:					
Revenue bonds	\$ 343,675	—	(10,055)	333,620	10,545
Add/less unamortized amounts:					
For issuance premiums	<u>30,657</u>	<u>—</u>	<u>(2,171)</u>	<u>28,486</u>	<u>—</u>
Total bonds payable	374,332	—	(12,226)	362,106	10,545
Notes, loans, and other payables	<u>5,495</u>	<u>3,262</u>	<u>—</u>	<u>8,757</u>	<u>162</u>
Total long-term debt and loans	<u>\$ 379,827</u>	<u>3,262</u>	<u>(12,226)</u>	<u>370,863</u>	<u>10,707</u>

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

### (8) Other Long-Term Liabilities

The changes in other long-term obligations for the SFMTA for years ended June 30, 2020 and 2019 are as follows (in thousands):

	<b>July 1, 2019</b>	<b>Net increases</b>	<b>Net decreases</b>	<b>June 30, 2020</b>	<b>Amounts due within one year</b>
Accrued vacation and sick leave	\$ 38,850	5,645	(6)	44,489	25,908
Accrued workers' compensation	137,202	33,615	(28,235)	142,582	25,393
Accrued claims	78,359	40,263	(4,247)	114,375	64,052
Other postemployment benefits obligation	637,698	54,922	—	692,620	—
Unearned revenue and other liabilities	9,229	5,441	(7,782)	6,888	6,888
Net pension liability	609,154	11,314	—	620,468	—
Total other long-term liabilities	<u>\$ 1,510,492</u>	<u>151,200</u>	<u>(40,270)</u>	<u>1,621,422</u>	<u>122,241</u>

	<b>July 1, 2018</b>	<b>Net increases</b>	<b>Net decreases</b>	<b>June 30, 2019</b>	<b>Amounts due within one year</b>
Accrued vacation and sick leave	\$ 38,480	591	(221)	38,850	23,773
Accrued workers' compensation	130,815	31,422	(25,035)	137,202	24,672
Accrued claims	79,897	8,567	(10,105)	78,359	36,801
Other postemployment benefits obligation	657,062	—	(19,364)	637,698	—
Unearned revenue and other liabilities	14,593	—	(5,364)	9,229	9,229
Net pension liability	721,282	—	(112,128)	609,154	—
Total other long-term liabilities	<u>\$ 1,642,129</u>	<u>40,580</u>	<u>(172,217)</u>	<u>1,510,492</u>	<u>94,475</u>

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

#### (9) Employee Benefit Plans

##### (a) Pensions – City and County of San Francisco

###### (i) Retirement Plan

The SFMTA participates in the City's retirement plan. The City administers a cost-sharing multiple-employer defined benefit pension Plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. Contributions are recognized in the period in which they are due pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

##### San Francisco Employees' Retirement System – Cost Sharing

###### Fiscal year 2020

Valuation Date (VD)	June 30, 2018 updated to June 30, 2019
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

###### Fiscal year 2019

Valuation Date (VD)	June 30, 2017 updated to June 30, 2018
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018

The City is an employer of the Plan with a proportionate share of 94.13% as of June 30, 2019 (measurement date) and 94.10% as of June 30, 2018 (measurement date). The SFMTA's allocation percentage was determined based on the SFMTA's employer contributions divided by the City's total employer contributions for fiscal years 2019 and 2018. The SFMTA's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows, and pension expense are based on the SFMTA's allocated percentage. The SFMTA's allocation of the City's proportionate share was 14.72% as of June 30, 2019 (measurement date) and 15.11% as of June 30, 2018 (measurement date).

###### (ii) Employees' Retirement System

###### Plan Description

The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

### **Notes to Financial Statements**

**June 30, 2020 and 2019**

San Francisco City and County Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on the Retirement System's website or 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.

#### ***Benefits***

The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual cost-of-living adjustments (COLA) after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The four main categories of 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 included in the Notes to the Basic Financial Statements of San Francisco Employees' Retirement System.

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%. The 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.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

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.

#### *(iii) Funding and Contribution Policy*

Contributions are made to the basic plan by both the City and other participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 13% as a percentage of gross covered salary in fiscal years 2020 and 2019. 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, 2018 actuarial report, the required employer contribution rate for fiscal year 2020 was 20.69% to 25.19%. Based on the July 1, 2017 actuarial report, the required employer contribution rate for fiscal year 2019 was 18.81% to 23.31%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal year ended June 30, 2019 (measurement year) was \$607.4 million. The SFMTA's allocation of employer contributions for fiscal year 2019 was \$91.8 million and \$89.5 million for fiscal year 2018.

#### *(iv) Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions*

##### *Fiscal Year 2020*

As of June 30, 2020, the City reported net pension liabilities for its proportionate share of the net pension liability of the Plan of \$4,213.8 million. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2019 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The SFMTA's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2020 was \$620.5 million.

For the year ended June 30, 2020, the City's recognized pension expense was \$883.4 million, including amortization of deferred outflow/inflow related pension items. The SFMTA's allocation of pension expense, including amortization of deferred outflow/inflow related pension items, was \$102.3 million. Pension expense increased from the prior year, largely due to the amortization of deferrals.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

At June 30, 2020, the SFMTA's reported deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources (in thousands):

### Schedule of Deferred Inflows and Outflows of Resources

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Pension contributions subsequent to measurement date	\$ 103,265	—
Differences between expected and actual experience	4,595	6,830
Changes in assumptions	88,244	—
Net difference between projected and actual earnings on pension plan investments	—	114,335
Changes in employer's proportion	22,939	8,745
Total	\$ <u>219,043</u>	<u>129,910</u>

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows (in thousands):

	<b>Deferred outflows (inflows) of resources</b>
Year ending June 30:	
2021	\$ 24,986
2022	(38,223)
2023	(9,715)
2024	8,820
Thereafter	—
	\$ <u>(14,132)</u>

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

### *Fiscal Year 2019*

As of June 30, 2019, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of \$4,030.2 million. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The SFMTA's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2019 was \$609.2 million.

For the year ended June 30, 2019, the City's recognized pension expense was \$488.3 million, including amortization of deferred outflow/inflow related pension items. The SFMTA's allocation of pension expense, including amortization of deferred outflow/inflow related pension items, was \$65 million. Pension expense decreased from the prior year, largely due to the impact of actual investment earnings.

At June 30, 2019, the SFMTA's reported deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources (in thousands):

### **Schedule of Deferred Inflows and Outflows of Resources**

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Pension contributions subsequent to measurement date	\$ 91,808	—
Differences between expected and actual experience	4,942	17,240
Changes in assumptions	94,979	—
Net difference between projected and actual earnings on pension plan investments	—	97,913
Changes in employer's proportion	866	580
Total	<u>\$ 192,595</u>	<u>115,733</u>

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows (in thousands):

	<b>Deferred outflows (inflows) of resources</b>
Year ending June 30:	
2020	\$ 38,877
2021	17,096
2022	(50,098)
2023	(20,821)
Thereafter	—
	<u>\$ (14,946)</u>

### (v) Actuarial Assumptions

#### Fiscal Year 2020

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2019 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2018 actuarial valuation. Refer to the July 1, 2018 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

#### Key actuarial assumptions:

Valuation date	June 30, 2018 updated to June 30, 2019
Measurement date	June 30, 2019
Actuarial cost method	Entry-Age normal cost method
Expected rate of return	7.40% net of pension plan investment, including inflation
Municipal bond yield	3.87% as of June 30, 2018
	3.50% as of June 30, 2019
	Bond Buyer 20-Bond GO Index, June 28, 2018 and June 27, 2019
Inflation rate	2.75%
Salary increases	3.50% plus merit component based employee classification and years of service
Discount rate	7.50% as of June 30, 2018
	7.40% as of June 30, 2019
Administrative expenses	0.60% of payroll as of June 30, 2018
	0.60% of payroll as of June 30, 2019

	<b>Old Miscellaneous and all New Plans</b>	<b>Old Police &amp; Fire, Pre-7/1/75</b>	<b>Old Police &amp; Fire, Charters A8.595 and A8.596</b>	<b>Old Police &amp; Fire, Charters A8.559 and A8.585</b>
Basic COLA:				
June 30, 2018	2.00%	2.50%	3.10%	4.20%
June 30, 2019	2.00	2.50	3.10	4.20



# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

Mortality rates for active members and healthy annuitants were based upon the 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.

### *Fiscal Year 2019*

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2018 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2017 actuarial valuation. Refer to the July 1, 2017 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

#### Key actuarial assumptions:

Valuation date	June 30, 2017 updated to June 30, 2018
Measurement date	June 30, 2018
Actuarial cost method	Entry age normal cost method
Expected rate of return	7.50%
Municipal bond yield	3.58% as of June 30, 2017 3.87% as of June 30, 2018 Bond Buyer 20-Bond GO Index, June 29, 2017 and June 28, 2018
Inflation rate	3.00%
Salary increases	3.50% plus merit component based employee classification and years of service
Discount rate	7.50% as of June 30, 2017 7.50% as of June 30, 2018
Administrative expenses	0.60% of payroll as of June 30, 2017 0.60% of payroll as of June 30, 2018

	<u>Old Miscellaneous and all New Plans</u>	<u>Old Police &amp; Fire, Pre-7/1/75</u>	<u>Old Police &amp; Fire, Charters A8.595 and A8.596</u>	<u>Old Police &amp; Fire, Charters A8.559 and A8.585</u>
Basic COLA:				
June 30, 2017	2.00%	2.70%	3.30%	4.40%
June 30, 2018	2.00	2.50	3.10	4.20

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.

#### (vi) *Discount Rate*

### *Fiscal Year 2020*

The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.50% as of June 30, 2018 (measurement date) and 7.40% as of June 30, 2019 (measurement date).

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

### **Notes to Financial Statements**

**June 30, 2020 and 2019**

The discount rate used to measure the total pension liability as of June 30, 2019 was 7.40%. 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, 2018 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. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 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 is amortized over 17 years and 5 years, respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.50% 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 actuarial liability in the funding 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 (Post 97 Retirees), 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.

# **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

## **Notes to Financial Statements**

June 30, 2020 and 2019

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, the following assumptions were developed for the probability and amount of Supplemental COLA for each future year. The City has assumed that a full Supplemental COLA will be paid to all Post 97 Retirees effective July 1, 2019. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

### **Assumed Supplemental COLA for Members with a 2.00% Basic COLA**

<b>FYE</b>	<b>96 – Prop C</b>	<b>Before 11/6/96 or After Prop C</b>
2021	0.75%	0.27%
2023	0.75	0.34
2025	0.75	0.36
2027	0.75	0.37
2030+	0.75	0.38

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.50% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2019 is 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. 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

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

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.

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
Global equity	31.0%	5.3%
Treasuries	6.0	0.9
Liquid credit	3.0	3.6
Private credit	10.0	5.2
Private equity	18.0	8.3
Real assets	17.0	5.4
Hedge funds/absolute return	15.0	3.9
	<u>100.0%</u>	

### *Fiscal Year 2019*

The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.50% as of June 30, 2017 (measurement date) and 7.50% as of June 30, 2018 (measurement date).

The discount rate used to measure the total pension liability as of June 30, 2018 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, 2017 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 is amortized over 17 years and 5 years, respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.50% 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.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

While the contributions and measure of actuarial liability in the 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 System for certain members, Cheiron, the consulting actuary for the Plan, developed an assumption as of the June 30, 2018 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA was assumed to be paid to all Post 97 Retirees effective July 1, 2018. The table below shows the net assumed Supplemental COLA for members with a 2% Basic COLA for sample years.

#### **Assumed Supplemental COLA for Members with a 2.00% Basic COLA**

<b>FYE</b>	<b>96 – Prop C</b>	<b>Before 11/6/96 or After Prop C</b>
2019	0.75%	0.00%
2022	0.75	0.29
2025	0.75	0.35
2028	0.75	0.36
2031+	0.75	0.38

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year-end 2097 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.87% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2018 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

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

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.

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
Global equity	31.0%	5.4%
Treasuries	6.0	0.5
Liquid credit	3.0	3.3
Private credit	10.0	4.6
Private equity	18.0	6.6
Real assets	17.0	4.5
Hedge funds/absolute return	15.0	3.7
	<u>100.0%</u>	

### *Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the SFMTA's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what the SFMTA's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands).

#### *Fiscal Year 2020*

<b>Employer</b>	<b>1% decrease share of NPL @ 6.4%</b>	<b>Share of NPL @ 7.4%</b>	<b>1% increase share of NPL @ 8.4%</b>
SFMTA	\$ 1,171,187	620,468	165,453

#### *Fiscal Year 2019*

<b>Employer</b>	<b>1% decrease share of NPL @ 6.5%</b>	<b>Share of NPL @ 7.5%</b>	<b>1% increase share of NPL @ 8.5%</b>
SFMTA	\$ 1,140,882	609,154	169,461

### **(b) Deferred Compensation Plan**

The City offers its employees, including the SFMTA employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all active employees to voluntarily invest a portion of their pretax regular earnings in a diverse selection of investment funds.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

Withdrawals from the deferred compensation plan, by employees or other beneficiaries, are allowed only upon termination, retirement, death, or for unforeseeable emergency.

The deferred compensation plan is managed by the Retirement System and is administered by a third-party administrator. The SFMTA has no administrative involvement and does not perform the investing function. SFMTA has no fiduciary accountability for the plan, and accordingly, the plan assets and related liabilities to the plan participants are not included in these financial statements.

#### **(c) Other Postemployment Benefits**

##### **(i) Benefit Plan**

The SFMTA participates in the City's single-employer defined benefit other postemployment benefits plan (the Plan). The Plan is maintained by the City and administered through the City's Health Service System. It provides postemployment medical, dental, and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other postemployment benefit plan.

GASB Statement No. 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

#### **San Francisco Health Service System Retiree Plan – Single-Employer**

##### **Fiscal Year 2020**

Valuation Date (VD)	June 30, 2018 updated to June 30, 2019
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

##### **Fiscal Year 2019**

Valuation Date (VD)	June 30, 2018
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018

The SFMTA's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the years ended June 30, 2019 and 2018. The SFMTA's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows, and OPEB expense to each department is based on the SFMTA's allocated percentage. The SFMTA's proportionate share of the City's OPEB elements was 17.69% in FY 2020 and 17.71% in FY 2019, as of their respective measurement dates.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

#### (ii) *Benefits*

##### *Fiscal Year 2020*

Permanent full-time and elected employees are eligible to retire and receive postretirement health insurance benefits when they are eligible for retirement benefits from the Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service <sup>1</sup> Age 60 with 10 years of credited service
Disabled Retirement <sup>2</sup>	Safety	Age 50 with 5 years of credited service Any age with 10 years of credited service
Terminated Vested <sup>3</sup>		5 years of credited service at separation

<sup>1</sup> Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012.

<sup>2</sup> No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses/domestic partners of those killed in the line of duty.

<sup>3</sup> Effective with Proposition B, passed June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO – City Health Plan (self-insured) and UHC Medicare Advantage (fully-insured) HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental & DeltaCare USA and UnitedHealthcare Dental
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

Projections of the sharing of benefit related costs are based on an established pattern of practice.



## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

#### *Fiscal Year 2019*

Permanent full-time and elected employees are eligible to retire and receive postretirement health insurance benefits when they are eligible for retirement benefits from the Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service <sup>1</sup> Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service Any age with 10 years of credited service
Disabled Retirement <sup>2</sup>		5 years of credited service at separation
Terminated Vested <sup>3</sup>		

<sup>1</sup> Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012.

<sup>2</sup> No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses/domestic partners of those killed in the line of duty.

<sup>3</sup> Effective with Proposition B, passed June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO – City Health Plan (self-insured) and UHC Medicare Advantage (fully-insured) HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental & DeltaCare USA and UnitedHealthcare Dental
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

Projections of the sharing of benefit related costs are based on an established pattern of practice.

#### *(iii) Contributions*

Benefits provided under the Plan are currently paid through “pay-as-you-go” funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the Retiree Health Care Trust Fund (Trust Fund) a percentage of compensation not to exceed 2% of pretax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City’s GASB Actuary has determined that the City’s portion of the Trust Fund is fully funded. At that time, the City’s 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pretax compensation.

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

### **Notes to Financial Statements**

**June 30, 2020 and 2019**

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pretax compensation into the Trust Fund. Beginning on July 1 of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pretax compensation up to a maximum of 1%. Starting July 1, 2016, the City shall contribute 0.25% of compensation into the Trust Fund for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1 of each subsequent year, the City shall contribute an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City's actuary has determined that the City's portion of the Trust Fund is fully funded, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pretax compensation.

Additional or existing contribution requirements may be established or modified by amendment to the City's Charter.

#### *Fiscal Year 2020*

For the fiscal year ended June 30, 2020, the City's funding was based on "pay-as-you-go" plus a contribution of \$39.5 million to the Retiree Healthcare Trust Fund. The "pay-as-you-go" portion paid by the City was \$196.4 million for a total contribution of \$235.9 million for the fiscal year ended June 30, 2020. The SFMTA's proportionate share of the City's contributions for fiscal year 2020 was \$41.7 million.

#### *Fiscal Year 2019*

For the fiscal year ended June 30, 2019, the City's funding was based on "pay-as-you-go" plus a contribution of \$32.8 million to the Retiree Healthcare Trust Fund. The "pay-as-you-go" portion paid by the City was \$185.8 million for a total contribution of \$218.6 million for the fiscal year ended June 30, 2019. The SFMTA's proportionate share of the City's contributions for fiscal year 2019 was \$38.7 million.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

(iv) *OPEB Liabilities, OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB Fiscal Year 2020*

As of June 30, 2020, the City reported net OPEB liabilities related to the Plan of \$3,915.8 million. The SFMTA's proportionate share of the City's net OPEB liability as of June 30, 2020 was \$692.6 million.

For the year ended June 30, 2020, the City's recognized OPEB expense was \$330.7 million. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The SFMTA's proportionate share of the City's OPEB expense was \$57.9 million.

As of June 30, 20, the SFMTA reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources (in thousands):

### Schedule of Deferred Inflows and Outflows of Resources

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Contributions subsequent to measurement date	\$ 41,736	—
Differences between expected and actual experience	29,423	48,734
Changes in assumptions	14,039	—
Net difference between projected and actual earnings on plan investments	—	1,079
Change in proportion	662	826
Total	<u>\$ 85,860</u>	<u>50,639</u>

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows (in thousands):

	<b>Deferred outflows (inflows) of resources</b>
Year ending June 30:	
2021	\$ (2,479)
2022	(2,479)
2023	(2,216)
2024	(2,267)
2025	(2,089)
Thereafter	5,015
	<u>\$ (6,515)</u>

### Fiscal Year 2019

As of June 30, 2019, the City reported net OPEB liabilities related to the Plan of \$3,601 million. The SFMTA's proportionate share of the City's net OPEB liability as of June 30, 2019 was \$637.7 million.

For the year ended June 30, 2019, the City's recognized OPEB expense was \$320.3 million. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The SFMTA's proportionate share of the City's OPEB expense was \$57.9 million.

As of June 30, 2019, the SFMTA reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources (in thousands):

### Schedule of Deferred Inflows and Outflows of Resources

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Contributions subsequent to measurement date	\$ 38,717	—
Differences between expected and actual experience	—	58,551
Changes in assumptions	16,867	—
Net difference between projected and actual earnings on plan investments	—	589
Total	<u>\$ 55,584</u>	<u>59,140</u>

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2020 and 2019

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows (in thousands):

	<b>Deferred outflows (inflows) of resources</b>
Year ending June 30:	
2020	\$ (7,161)
2021	(7,161)
2022	(7,161)
2023	(6,896)
2024	(6,947)
Thereafter	<u>(6,947)</u>
	<u>\$ (42,273)</u>

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

### (v) Actuarial Assumptions

#### Fiscal Year 2020

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2019 (measurement date) is provided below:

#### Key actuarial assumptions:

Valuation date	June 30, 2018 updated to June 30, 2019
Measurement date	June 30, 2019
Actuarial cost method	The Entry Age Actuarial Cost Method is used to measure the Plan's total OPEB liability
Healthcare cost trend rates	Pre-Medicare trend starts at 6.35% in 2021 and trends down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.00% in 2021 and trends down to ultimate rate of 3.93% in 2076 10-county average trend starts at 5.82% in 2021 and trends down to ultimate rate of 3.93% in 2076 Vision and expense trend remains a flat 3.5% for all years

Expected rate of return on plan assets

7.40%

Discount rate

7.40%

Salary increase rate

Wage Inflation Component: 3.50%  
Additional Merit Component (dependent on years of service):  
Police: 1.50%–8.00%  
Fire: 1.50%–15.00%  
Muni Drivers: 0.00%–15.00%  
Craft: 0.00%–3.50%  
Misc: 0.00%–5.25%

Inflation rate

Wage Inflation: 3.50% compounded annually  
Consumer Price Inflation: 2.75% compounded annually

Mortality tables

Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ended June 30, 2014  
Non-Annuitant – CalPERS employee mortality tables without scale BB projection:

Gender	Adjustment factor	Base year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants – CalPERS healthy annuitant mortality table without scale BB projection:

Gender	Adjustment factor	Base year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disabled Annuitants – RP-2014 Disabled Retiree Tables without MP-2014 projection:

Gender	Adjustment factor	Base year
Female	1.066	2006
Male	0.942	2006

Safety Disabled Annuitants – CalPERS industrial disability mortality table without scale BB projection:

Gender	Adjustment factor	Base year
Female	0.983	2009
Male	0.909	2009

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

The mortality rates in the base tables are projected generationally from the base year using the modified version of the MP-2015 projection scale. The scale was modified using the Society of Actuaries' model implementation tool with rates converging to the ultimate rate in 2017 (instead of 2029) and an ultimate rate of improvement of 0.85% (instead of 1.00%) up to age 85 decreasing to 0.70% (instead of 0.85%) at age 95.

#### *Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate*

The following presents the SFMTA's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what the SFMTA's allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate (in thousands):

	<u>1% decrease</u>	<u>Healthcare trend</u>	<u>1% increase</u>
\$	599,451	692,620	808,298

#### *Discount Rate*

The discount rate used to measure the total OPEB liability as of June 30, 2019 was 7.4%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

The long-term expected rate of return on OPEB plan investments was 7.4% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
<b>Equities</b>		
U.S. equities	41.0%	8.1%
Developed market equity (non-U.S.)	20.0	8.5
Emerging market equity	16.0	10.4
<b>Credit</b>		
High yield bonds	3.0	6.5
Bank loans	3.0	6.1
Emerging market bonds	3.0	5.2
<b>Rate Securities</b>		
Treasury Inflation-Protected Securities	5.0	3.6
Investment grade bonds	9.0	3.9
	<u>100.0%</u>	

The asset allocation targets summarized above have a 20-year return estimate of 8.3%, which was weighted against a 10-year model estimating a 7.5% return, resulting in the ultimate long-term expected rate of return of 7.4%.

The following presents the SFMTA's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what the SFMTA's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

	<b>1% decrease 6.40%</b>	<b>Discount rate 7.40%</b>	<b>1% increase 8.40%</b>
\$	799,776	692,620	605,073



# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

### Fiscal Year 2019

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2018 (measurement date) is provided below:

#### Key actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2018
Actuarial cost method	The Entry Age Actuarial Cost Method is used to measure the Plan's total OPEB liability
Healthcare cost trend rates	Pre-Medicare trend starts at 6.50% and trends down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.50% and trends down to ultimate rate of 3.93% in 2076 10-county average trend starts at 5.90% and trends down to ultimate rate of 3.93% in 2076 Vision and expense trend remains a flat 3.5% for all years
Expected rate of return on plan assets	7.40%
Discount rate	7.40%
Salary increase rate	Wage Inflation Component: 3.50% Additional Merit Component (dependent on years of service): Police: 1.50%–8.00% Fire: 1.50%–15.00% Muni Drivers: 0.00%–15.00% Craft: 0.00%–3.50% Misc: 0.00%–5.25%
Inflation rate	Wage Inflation: 3.50% compounded annually Consumer Price Inflation: 2.75% compounded annually
Mortality tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ended June 30, 2014 Non-Annuitant – CalPERS employee mortality tables without scale BB projection:

Gender	Adjustment factor	Base year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants – CalPERS healthy annuitant mortality table without scale BB projection:

Gender	Adjustment factor	Base year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disabled Annuitants – RP-2014 Disabled Retiree Tables without MP-2014 projection:

Gender	Adjustment factor	Base year
Female	1.066	2006
Male	0.942	2006

Safety Disabled Annuitants – CalPERS industrial disability mortality table without scale BB projection:

Gender	Adjustment factor	Base year
Female	0.983	2009
Male	0.909	2009

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

The mortality rates in the base tables are projected generationally from the base year using the modified version of the MP-2015 projection scale. The scale was modified using the Society of Actuaries' model implementation tool with rates converging to the ultimate rate in 2017 (instead of 2029) and an ultimate rate of improvement of 0.85% (instead of 1.00%) up to age 85 decreasing to 0.70% (instead of 0.85%) at age 95.

#### *Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate*

The following presents the SFMTA's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what the SFMTA's allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate (in thousands):

	<u>1% decrease</u>	<u>Healthcare trend</u>	<u>1% increase</u>
\$	554,263	637,698	741,174

#### *Discount Rate*

The discount rate used to measure the total OPEB liability as of June 30, 2018 was 7.4%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2020 and 2019

The long-term expected rate of return on OPEB plan investments was 7.4% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
<b>Equities</b>		
U.S. equities	41.0%	7.3%
Developed market equity (non-U.S.)	20.0	7.1
Emerging market equity	16.0	9.4
<b>Credit</b>		
High yield bonds	3.0	5.4
Bank loans	3.0	5.0
Emerging market bonds	3.0	4.9
<b>Rate Securities</b>		
Treasury Inflation-Projected Securities	5.0	3.3
Investment grade bonds	9.0	3.6
	<u>100%</u>	

The asset allocation targets summarized above have a 20-year return estimate of 7.5%, which was weighted against a 10-year model estimating a 6.3% return, resulting in the ultimate long-term expected rate of return of 7.4%.

The following presents the SFMTA's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what the SFMTA's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

	1% decrease 6.40%	Discount rate 7.40%	1% increase 8.40%
\$	733,151	637,698	559,596

### (10) Peninsula Corridor Joint Powers Board

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), along with the Santa Clara Valley Transportation Authority and the San Mateo County Transit District. The PCJPB is governed by a separate board composed of nine members, three from each participating agency. The PCJPB was formed in October 1991 to plan, administer, and operate the Peninsula Caltrain rail service. The PCJPB began operating the Peninsula Caltrain rail service on July 1, 1992. Prior to that time, such rail service was operated by the California Department of Transportation. The agreement establishing the PCJPB expired in

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

2001, upon which it continues thereafter on a year-to-year basis, until a participant withdraws, which requires one-year notice. The SFMTA contributes to the net operating costs and administrative expenses of the PCJPB. The SFMTA contributed \$8.1 million and \$7 million for operating needs in fiscal years 2020 and 2019, respectively. The PCJPB's annual financial statements are publicly available.

#### (11) Risk Management

The SFMTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; transit and general liability; injuries to employees; and natural disasters. 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 risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources, i.e., pay-as-you-go. The City's and SFMTA's general policy is to first evaluate self-insurance for the risk 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-insured
b. Property	Self-insured and purchase insurance
c. Workers' compensation	Self-insured
d. Employee (transit operators)	Purchase insurance
e. Directors and officers	Purchase insurance

##### (a) General/Transit Liability

The SFMTA is self-insured. Through coordination with the Controller and City Attorney's Office, the SFMTA's 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 million. The annual budget for claims was \$11.9 million and \$11.9 million for fiscal years 2020 and 2019, respectively. In addition, as of June 30, 2020 and 2019, the reserve was \$29.4 million and \$27.1 million, respectively. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation, and other economic social factors.

##### (b) Property

The SFMTA purchases property insurance on its 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. For SFMTA contractors, SFMTA requires each contractor to provide its own insurance, the traditional insurance ensuring that the full scope of work be covered with satisfactory levels to limit the risk exposure to City and SFMTA's property.

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

### **Notes to Financial Statements**

June 30, 2020 and 2019

#### **(c) *Workers' Compensation***

The workers' compensation payments are addressed through pay-as-you-go funding as part of the budgetary process. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering open claims' future exposure based on current costs, and estimation for injuries that may have occurred but not yet reported. The workers' compensation claims and payouts are handled by the City's third-party administrator. SFMTA continues to develop and implement programs to mitigate growth of costs such as the transitional work programs that bring injured workers back to work on modified duty. Other programs include injury prevention, back care, injury investigation, and medical treatment bills review.

Workers' compensation expense is part of personnel services, while claims expense is part of general and administrative under operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

#### **(d) *Employee Benefits (Transit Operators) Insurance***

SFMTA has purchased group life insurance and a Group Felonious Assault Coverage Insurance on transit operators per Memorandum of Understanding.

#### **(e) *Directors and Officers Insurance***

SFMTA has purchased insurance starting in fiscal year 2012 to cover errors and omissions of its Board members and senior management.

See the changes in workers' compensation and general liabilities for claims paid and incurred claims and changes in estimate in Note 8 to the financial statements.

### **(12) General Fund Contributions**

The amount of operating allocation provided to the SFMTA each year is limited to the amount set by the City Charter and budgeted by the City. Such allocation is recognized as revenue in the year received.

The General Fund support from the City reflected in the accompanying financial statements includes a total revenue baseline transfer of \$362.4 million and \$408.7 million in fiscal years 2020 and 2019, respectively, as required by the City Charter. In addition, SFMTA received \$55.6 million and \$68.8 million allocation in fiscal years 2020 and 2019, respectively, from in lieu of parking tax as required by the City Charter.

Proposition B, approved by the voters in November 2014, provides additional City General Funds to address transportation needs tied to the City's population growth. In fiscal years 2020 and 2019, SFMTA received \$49.8 million and \$47 million, respectively, from this source.

In fiscal year 2020, SFMTA also received additional City General Fund allocation of \$6.2 million to fund various projects such as the Chase Event Center and mixed-use development project and Lombard Street pricing and reservation system implementation.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

#### (13) Federal, State, and Local Assistance

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2020 and 2019, the SFMTA had approved capital grants with unused balances amounting to \$743.1 million and \$614.5 million, respectively. Capital grants receivable as of June 30, 2020 and 2019 totaled \$175 million and \$219.8 million, respectively.

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, 2020 and 2019, the SFMTA had various operating grants receivable of \$51.9 million and \$34.3 million, respectively. In fiscal years 2020 and 2019, the SFMTA received operating assistance from BART's Americans with Disability Act (ADA) related support of \$1.9 million and \$2 million, respectively, and other federal, state, and local grants of \$7.4 million and \$11.7 million, respectively, to fund project expenses that are operating in nature.

The SFMTA received \$373.8 million in CARES funding distributed in two allocations. The first allocation was \$197.2 million appropriated in fiscal year 2020 and the second allocation was \$176.6 million appropriated in fiscal year 2021. No further allocations of federal CARES funding are expected. The SFMTA also received \$2.4 million from the City for its share in Disaster Grants-Public Assistance funding from the Federal Emergency Management Agency (FEMA). The SFMTA expects additional allocation from FEMA in fiscal year 2021.

The capital and operating grants identified above include funds received and due from the SFCTA. During fiscal years 2020 and 2019, the SFCTA approved \$107.9 million and \$33.8 million, respectively, in new capital grants and the SFMTA received payments totaling \$52.7 million and \$70.6 million, respectively. As of June 30, 2020 and 2019, the SFMTA had \$35.1 million and \$42.3 million, respectively, in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA mostly for paratransit support. During fiscal years 2020 and 2019, SFCTA approved \$11.5 million and \$9.9 million, respectively, in new operating grants, and SFMTA received payments totaling \$11 million and \$7.3 million, respectively. The SFMTA had \$2.1 million and \$3.3 million, respectively, in operating grants due from the SFCTA as of June 30, 2020 and 2019.

Proposition 1B is a 10-year \$20 billion transportation infrastructure bond that was approved by state voters in November 2006. The bond measure is 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 \$3.1 million in fiscal year 2019 and none in fiscal year 2020 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 reappropriated 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 California state budget extended the remaining balances of fiscal year 2010 and 2012 to June 30, 2021 and the remaining balances of fiscal years 2015, 2016, and 2017 to June 30, 2022. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal years 2020 and 2019, \$4.2 million and \$6.1 million drawdowns, respectively, were made from the funds for various eligible projects costs. Other allowable costs include incidental expenses, but directly related to

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

construction or acquisition including, but not limited to, planning, engineering, construction management, architectural and other design work, environmental impact reports and assessments, required mitigation expenses, appraisals, legal expenses, site acquisitions, necessary easements, and warranties, as approved by Cal OES under the CTSGP funds. Indirect costs and management and administration are not allowable costs with Proposition 1B funds.

#### (14) Commitments and Contingencies

##### (a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the funds were expended in accordance with appropriate statutes, grant terms, and regulations. The SFMTA believes that no significant liabilities will result from any such audits.

##### (b) Operating Leases

The SFMTA leases certain equipment and various properties for use as office space, fleet storage space, and machine shops under lease agreements that expire at various dates through fiscal year 2068. These agreements are accounted for as operating leases. Rent expense was \$25.4 million and \$21 million for the years ended June 30, 2020 and 2019, respectively.

The SFMTA has operating leases for certain buildings that require the following minimum annual payments (in thousands):

Year ending June 30:		
2021	\$	21,609
2022		8,370
2023		8,398
2024		5,985
2025		4,531
2026–2030		22,337
2031–2035		14,393
2036–2040		1,722
2041–2045		1,993
2046–2068		13,786
	\$	<u>103,124</u>

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2020 and 2019

SFMTA leases certain owned facilities to tenants and concessionaires who will provide the following minimum annual payments (in thousands):

Year ending June 30:		
2021	\$	4,799
2022		3,519
2023		3,038
2024		2,400
2025		2,270
2026–2030		8,510
2031–2035		6,250
2036–2040		6,250
2041–2045		6,250
2046–2056		13,333
	\$	<u>56,619</u>

#### (c) Other Commitments

As of June 30, 2020 and 2019, the SFMTA has outstanding commitments of approximately \$319.8 million and \$422.2 million, respectively, with third parties for various capital projects. Grant funding is available for the majority of this amount. The SFMTA also has outstanding commitments of approximately \$57.3 million and \$53.7 million with third parties for noncapital expenditures as of June 30, 2020 and 2019, respectively. Various local funding sources are used to finance these expenditures.

In addition, the SFMTA is involved in various lawsuits, claims, and disputes that have arisen in SFMTA's routine conduct of business. In the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of SFMTA.

#### (15) Leveraged Lease-Leaseback of Breda 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.



## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

### **Notes to Financial Statements**

**June 30, 2020 and 2019**

Muni received an aggregate of \$388.2 million and \$72.6 million in 2002 and 2003, respectively, 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. as successor to Financial Security Assurance, a bond insurance company, that was rated “AAA” by S&P and “Aaa” by 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 years 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 and amortized over the life of each sublease unless the purchase option is executed or the sublease is otherwise terminated before its expiration date.

Prior to fiscal year 2019, six of the seven lease transactions had been terminated. On October 26, 2018, SFMTA terminated its one remaining leveraged lease transaction.

The deferred inflows of resources amortized amount was \$3.7 million in fiscal year 2019 upon the lease termination.

As of June 30, 2020, there were no leveraged lease transactions.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Supplemental Schedule – Schedule of Net Position

June 30, 2020

(In thousands)

	<u>Transit</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>Total</u>
<b>Assets:</b>				
<b>Current assets:</b>				
Cash and investments with				
City Treasury	\$ 530,417	200,901	—	731,318
Cash and investments held outside				
City Treasury	189	2,720	468	3,377
Cash on hand	5	—	—	5
<b>Receivables:</b>				
Grants	185,750	3,953	—	189,703
Due from the San Francisco County				
Transportation Authority	25,390	11,788	—	37,178
Charges for services, net	5,051	1,580	12	6,643
Interest and other	3,818	2,342	—	6,160
Total receivables	220,009	19,663	12	239,684
Inventories	86,460	—	—	86,460
Current prepaids and other assets	67	—	849	916
Total current assets	837,147	223,284	1,329	1,061,760
<b>Restricted assets:</b>				
Cash and investments with				
City Treasury	87,118	29,899	—	117,017
Cash and investments held outside				
City Treasury	11,823	7,184	1,824	20,831
Other receivables	275	40	—	315
Total restricted assets	99,216	37,123	1,824	138,163
<b>Noncurrent assets:</b>				
Capital assets, net	4,703,202	386,993	11,603	5,101,798
Total noncurrent assets	4,802,418	424,116	13,427	5,239,961
Total assets	5,639,565	647,400	14,756	6,301,721
<b>Deferred outflows of resources:</b>				
Related to pensions	186,254	32,789	—	219,043
Related to other postemployment benefits	74,410	11,450	—	85,860
Total deferred outflows of resources	\$ 260,664	44,239	—	304,903

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Supplemental Schedule – Schedule of Net Position

June 30, 2020

(In thousands)

	<u>Transit</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>Total</u>
Liabilities:				
Current liabilities:				
Due to other funds	\$ 207	230	—	437
Accounts payable and accrued expenses	67,052	9,287	335	76,674
Accrued payroll	30,484	4,357	52	34,893
Accrued vacation and sick leave	22,084	3,824	—	25,908
Accrued workers' compensation	22,043	3,350	—	25,393
Accrued claims	50,200	13,852	—	64,052
Grants received in advance	57,025	76	—	57,101
Unearned revenue and other liabilities	4,228	2,654	6	6,888
Payable from restricted assets	3,244	1,722	—	4,966
Accrued interest payable	3,717	1,073	—	4,790
Bonds, loans, capital leases, and other payables	6,486	2,664	265	9,415
Total current liabilities	<u>266,770</u>	<u>43,089</u>	<u>658</u>	<u>310,517</u>
Noncurrent liabilities:				
Accrued vacation and sick leave, net of current portion	15,834	2,669	78	18,581
Accrued workers' compensation, net of current portion	99,191	17,998	—	117,189
Accrued claims, net of current portion	35,856	14,467	—	50,323
Other postemployment benefits obligation	600,251	92,369	—	692,620
Net pension liability	538,739	81,729	—	620,468
Bonds, loans, capital leases, and other payables, net of current portion	270,266	70,045	11,859	352,170
Total noncurrent liabilities	<u>1,560,137</u>	<u>279,277</u>	<u>11,937</u>	<u>1,851,351</u>
Total liabilities	<u>1,826,907</u>	<u>322,366</u>	<u>12,595</u>	<u>2,161,868</u>
Deferred inflows of resources:				
Unamortized gain on refunding of debt	—	200	—	200
Related to pensions	107,808	22,102	—	129,910
Related to other postemployment benefits	43,650	6,989	—	50,639
Total deferred inflows of resources	<u>151,458</u>	<u>29,291</u>	<u>—</u>	<u>180,749</u>
Net position:				
Net investment in capital assets	4,422,733	313,011	(521)	4,735,223
Restricted:				
Debt service	11,823	7,184	—	19,007
Other purposes	84,149	28,217	1,824	114,190
Unrestricted	(596,841)	(8,430)	858	(604,413)
Total net position	<u>\$ 3,921,864</u>	<u>339,982</u>	<u>2,161</u>	<u>4,264,007</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Supplemental Schedule – Schedule of Revenues, Expenses,  
and Changes in Net Position

Year ended June 30, 2020

(In thousands)

	<b>Transit</b>	<b>Sustainable Streets</b>	<b>Parking Garages</b>	<b>SFMTA Eliminations</b>	<b>Total</b>
Operating revenues:					
Passenger fares	\$ 152,924	—	—	—	152,924
Parking and transportation	—	85,275	6,899	—	92,174
Fines, forfeitures, and penalties	—	74,095	—	—	74,095
Charges for services	1,346	26,211	—	—	27,557
Licenses, permits, and franchises	—	14,707	—	—	14,707
Advertising	21,414	—	—	—	21,414
Rents and concessions	2,643	3,887	45	—	6,575
Other	—	1,211	16	—	1,227
<b>Total operating revenues</b>	<b>178,327</b>	<b>205,386</b>	<b>6,960</b>	<b>—</b>	<b>390,673</b>
Operating expenses:					
Personnel services	768,005	106,258	2,317	—	876,580
Contractual services	83,567	64,339	1,399	—	149,305
Materials and supplies	63,224	6,203	127	—	69,554
Depreciation and amortization	188,200	16,653	259	—	205,112
Services from other City departments	67,359	8,900	—	—	76,259
General and administrative	47,216	8,739	427	—	56,382
Other operating expenses	(10,911)	7,297	1,028	—	(2,586)
<b>Total operating expenses</b>	<b>1,206,660</b>	<b>218,389</b>	<b>5,557</b>	<b>—</b>	<b>1,430,606</b>
<b>Operating income (loss)</b>	<b>(1,028,333)</b>	<b>(13,003)</b>	<b>1,403</b>	<b>—</b>	<b>(1,039,933)</b>
Nonoperating revenues (expenses):					
Operating assistance:					
Federal	205,959	4,746	—	—	210,705
State and other grants	165,179	—	—	—	165,179
Interest and investment income	13,157	5,952	1	—	19,110
Interest expense	(5,232)	(2,196)	(383)	—	(7,811)
Other, net	13,375	2,591	—	—	15,966
<b>Total nonoperating revenues, net</b>	<b>392,438</b>	<b>11,093</b>	<b>(382)</b>	<b>—</b>	<b>403,149</b>
<b>Income (loss) before capital contributions and transfers</b>	<b>(635,895)</b>	<b>(1,910)</b>	<b>1,021</b>	<b>—</b>	<b>(636,784)</b>
Capital contributions:					
Federal	252,989	2,190	—	—	255,179
State and others	83,755	16,593	—	—	100,348
<b>Total capital contributions</b>	<b>336,744</b>	<b>18,783</b>	<b>—</b>	<b>—</b>	<b>355,527</b>
Transfers in:					
City and County of San Francisco – General Fund	357,995	115,973	—	—	473,968
San Francisco County Transportation Authority	8,862	645	—	—	9,507
City and County of San Francisco – Other City departments	9,635	3,240	—	—	12,875
SFMTA operating transfers in	196,792	1,386	—	(198,178)	—
<b>Total transfers in</b>	<b>573,284</b>	<b>121,244</b>	<b>—</b>	<b>(198,178)</b>	<b>496,350</b>
Transfers out:					
City and County of San Francisco – Other City departments	—	—	(388)	—	(388)
SFMTA operating transfers out	—	(196,792)	(1,386)	198,178	—
<b>Net transfers</b>	<b>573,284</b>	<b>(75,548)</b>	<b>(1,774)</b>	<b>—</b>	<b>495,962</b>
<b>Change in net position</b>	<b>274,133</b>	<b>(58,675)</b>	<b>(753)</b>	<b>—</b>	<b>214,705</b>
<b>Total net position, beginning of year</b>	<b>3,647,731</b>	<b>398,657</b>	<b>2,914</b>	<b>—</b>	<b>4,049,302</b>
<b>Total net position, end of year</b>	<b>\$ 3,921,864</b>	<b>339,982</b>	<b>2,161</b>	<b>—</b>	<b>4,264,007</b>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – Federal

Year ended June 30, 2020

(In thousands)

	Authorized grants as of July 1, 2019	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2020	Amounts not expended as of June 30, 2020	Grants receivable as of June 30, 2020
Capital grants:							
FY 2014 Section 5307 Urban Area Formula	\$ 5,444	—	(5,444)	—	—	—	—
FY 2016 Section 5307 Urban Area Formula	6,123	—	(2,545)	—	3,578	(1,924)	1,654
FY 2013 Section 5307 CMAQ and Surface Transportation Program	3,771	—	—	—	3,771	(2,980)	791
FY 2015 Section 5307 Formula Fund	299	—	(299)	—	—	—	—
FY 2016 Section 5307 Formula Fund	—	—	(208)	208	—	—	—
FY 2017 Section 5307 Formula Fund	2,134	—	(2,134)	—	—	—	—
FY 2017 Section 5307 Vision Zero Safety Investments	3,897	—	(1,555)	—	2,342	(2,342)	—
FY 2018 Section 5307 Geary Rapid Project	5,619	—	(138)	—	5,481	(4,765)	716
FY 2018 Section 5307 Van Ness Avenue BRT	7,300	—	—	—	7,300	(7,300)	—
FY 2019 Section 5307 New Central Subway	—	15,980	(15,980)	—	—	—	—
FY 2019 Section 5307 Geary Rapid	—	6,939	(4)	—	6,935	(6,351)	584
FY 2019 Section 5307 Formula Funds	—	41,657	—	—	41,657	(36,605)	5,052
FY 2011 Section 5309 Bus and Facilities	1,196	—	(1,196)	—	—	—	—
FY 2013 Section 5309 Bus Livability	1,712	—	(1,569)	—	143	(71)	72
FY 2011 Section 5309 Fixed Guideway	398	—	(398)	—	—	—	—
FY 2012 Section 5309 Fixed Guideway	4,937	—	(4,937)	—	—	—	—
FY 2007 Section 5309 New Starts	58,999	150,000	(119,489)	—	89,510	(40,959)	48,551
FY 2016 Section 5309 New Starts	41,106	—	(21,945)	—	19,161	(11,235)	7,926
FY 2013 Section 5337 State of Good Repair	200	—	(200)	—	—	—	—
FY 2014 Section 5337 State of Good Repair	635	—	(635)	—	—	—	—
FY 2015 Section 5337 State of Good Repair	9,762	—	(2,142)	—	7,620	(6,290)	1,330
FY 2016 Section 5337 State of Good Repair	19,252	—	(3,682)	—	15,570	(14,516)	1,054
FY 2017 Section 5337 State of Good Repair	7,761	—	(4,817)	—	2,944	(2,188)	756
FY 2018 Section 5337 State of Good Repair	123,959	—	(77,026)	—	46,933	(40,921)	6,012
FY 2019 Section 5337 State of Good Repair	—	72,319	(1,045)	—	71,274	(70,415)	859
FY 2019 Section 5339 Bus and Bus Facilities	—	3,617	—	—	3,617	(3,214)	403
Total capital grants	\$ 304,504	290,512	(267,388)	208	327,836	(252,076)	75,760
Operating grants:							
FY 2013 Section 5307 CMAQ and Surface Transportation Program	\$ 168	—	(113)	—	55	(55)	—
FY 2016 Section 5307 Formula Fund	220	—	—	(208)	12	(12)	—
FY 2018 Section 5307 Formula Funds	6,239	—	(6,239)	—	—	—	—
FY 2019 Section 5307 Formula Funds	—	4,344	—	—	4,344	—	4,344
FY 2020 Section 5307 CARES Act	—	197,191	(179,235)	—	17,956	—	17,956
FY 2017 Section 5310 Enhanced Mobility of Seniors and Individuals With Disabilities	427	—	(171)	—	256	(256)	—
Total operating grants	\$ 7,054	201,535	(185,758)	(208)	22,623	(323)	22,300

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2020

(In thousands)

	Authorized grants as of July 1, 2019	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2020	Amounts not expended as of June 30, 2020	Grants receivable as of June 30, 2020
Capital grants:							
FY 2008 Prop 1B: 3rd St. Light Rail	\$ 1,233	—	—	—	1,233	(1,233)	—
FY 2008 Prop 1B: Operator Restrooms	732	—	(20)	—	712	(712)	—
FY 2009 Prop 1B: New Central Subway	1,084	—	(24)	—	1,060	(1,060)	—
FY 2010 Prop 1B: Balboa Park Eastside Connection	209	—	(124)	—	85	(85)	—
FY 2013 Prop 1B: Mission Mobility Maximization	1,738	—	(852)	—	886	(886)	—
FY 2013 Prop 1B: 8X Mobility Maximization	1,474	—	(203)	—	1,271	(1,271)	—
FY 2014 Prop 1B: LRV Procurement	2,657	—	(312)	—	2,345	(2,345)	—
FY 2014 Prop 1B: Flynn Lifts	770	—	—	—	770	(770)	—
FY 2017 Prop 1B: 31 Balboa Project	725	—	—	—	725	(725)	—
Total Prop 1B	10,622	—	(1,535)	—	9,087	(9,087)	—
FY 2015 Prop 1B: Transit Security	2,835	—	(839)	—	1,996	(1,996)	—
FY 2016 Prop 1B: Transit Security	6,264	—	(300)	—	5,964	(5,964)	—
FY 2017 Prop 1B: Transit Security	4,643	—	(1,442)	—	3,201	(3,201)	—
Total Transit Security	13,742	—	(2,581)	—	11,161	(11,161)	—
FY 2019 Transit and Intercity Rail Capital Program	24,449	—	(24,449)	—	—	—	—
FY 2020 Transit and Intercity Rail Capital Program	—	26,867	—	—	26,867	(6,993)	19,874
Total Transit and Intercity Rail Capital Program	24,449	26,867	(24,449)	—	26,867	(6,993)	19,874
FY 2019 Low Carbon Transit Operations Grant - LRV	—	—	—	4,116	4,116	(4,116)	—
FY 2019 Low Carbon Transit Operations Grant -CS	—	—	(4,000)	4,000	—	—	—
FY 2019 Low Carbon Transit Operations Grant West Portal Optimization	—	—	(1,367)	2,185	818	(818)	—
Total Low Carbon	—	—	(5,367)	10,301	4,934	(4,934)	—
Total capital grants	\$ 48,813	26,867	(33,932)	10,301	52,049	(32,175)	19,874
Operating grant:							
FY 2017 Low Carbon Transit Operations Grant	\$ 7,235	—	—	—	7,235	(7,235)	—
FY 2018 Low Carbon Transit Operations Grant	5,034	—	(2,974)	—	2,060	(2,060)	—
FY 2019 Low Carbon Transit Operations Grant - Prototype Battery Conv.	15,901	—	—	(10,301)	5,600	(5,600)	—
Total operating grants	\$ 28,170	—	(2,974)	(10,301)	14,895	(14,895)	—

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2020

(In thousands)

	<u>Authorized grants as of July 1, 2019</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded adjusted grants</u>	<u>Authorized grants as of June 30, 2020</u>	<u>Amounts not expended as of June 30, 2020</u>	<u>Grants receivable as of June 30, 2020</u>
Capital grants:							
Bridge Toll:							
Match to Capital Grants	\$ 123,553	45,730	(41,799)	19	127,503	(85,539)	41,964
State Transit Assistance:							
State of Good Repair	18,901	9,816	(1,817)	—	26,900	(26,900)	—
Total capital grants	<u>\$ 142,454</u>	<u>55,546</u>	<u>(43,616)</u>	<u>19</u>	<u>154,403</u>	<u>(112,439)</u>	<u>41,964</u>
Operating grants:							
AB1107 Sales Tax	\$ 3,643	45,500	(44,995)	(1,014)	3,134	—	3,134
State Transit Assistance	17,801	66,707	(65,360)	(3,743)	15,405	—	15,405
Transportation Development Act	—	49,898	(46,202)	(464)	3,232	—	3,232
RM2:							
Owl Service	188	188	(188)	(17)	171	—	171
T-Third Light Rail	—	2,500	—	(219)	2,281	—	2,281
Lifeline Cycle 5:							
Expanded Late Night Transit	—	911	(911)	—	—	—	—
Shopping Shuttle	—	32	(32)	—	—	—	—
Wheelchair Accessible Taxis	—	30	(30)	—	—	—	—
Bayview Transit Assistance	—	17	—	(17)	—	—	—
Total operating grants	<u>\$ 21,632</u>	<u>165,783</u>	<u>(157,718)</u>	<u>(5,474)</u>	<u>24,223</u>	<u>—</u>	<u>24,223</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2020

(In thousands)

	Authorized grants as of July 1, 2019	New grants approved/ spending commences	Payments received	Expired/ rescinded/ adjustment grants	Authorized grants as of June 30, 2020	Amounts not expended as of June 30, 2020	Grants receivable as of June 30, 2020
Capital grants:							
3rd Street Light Rail Projects	\$ 4,169	—	—	—	4,169	(4,169)	—
Central Subway	14,717	—	(14,717)	—	—	—	—
Escalator Replacement Study	5	—	—	—	5	—	5
Islais Creek Woods	485	—	—	—	485	(485)	—
Rail Replacement/Mntce Equip/Mission Bay	—	—	—	—	—	—	—
Radio Communications System and CAD	3,890	—	—	—	3,890	(3,890)	—
Central Train Control and Communication	5,359	—	(589)	—	4,770	(3,837)	933
Bus Rapid Transit (Geary and Van Ness)	26,423	—	(3,345)	—	23,078	(18,301)	4,777
Balboa Park Intermodal Improvements	742	—	(742)	—	—	—	—
Balboa Park Station Eastside Connection	134	—	(134)	—	—	—	—
Motor Coach NABI Replacement	3,193	—	—	—	3,193	(3,193)	—
Green Center Rail Replacement	—	—	—	—	—	—	—
50 Motor Coach Replacement	3,174	—	—	(3,174)	—	—	—
Central Subway Phase 3 Initial Study	404	540	(28)	—	916	(916)	—
60 Foot Trolley Coach Replacement	10,975	—	(2,511)	—	8,464	(1)	8,463
Phelan Plaza Development	91	—	—	—	91	(91)	—
Muni Forward	1,601	—	(355)	—	1,246	(781)	465
New Light Rail Vehicles	126,561	—	—	—	126,561	(125,756)	805
Geneva-Harvey Bus Rapid Transit Study	3,771	—	—	—	3,771	(3,105)	666
Muni Metro East (MME) Phase II	1,217	—	—	—	1,217	(1,217)	—
Fall Protection System	5,363	—	(1,826)	—	3,537	(3,351)	186
Replace M-Line Curve Tracks	964	—	—	—	964	(794)	170
Procurement of 30, 40 and 60 Ft Hybrid Buses	30,540	—	(12,717)	—	17,823	(17,821)	2
Kearny Corridor Multimodal Project	85	—	(66)	—	19	—	19
Fire Life Safety Upgrade	952	—	—	—	952	(482)	470
1570 Burke Facility Renovation	902	—	—	—	902	(902)	—
33 Stanyan Pole Replacement and Ovhd Recon	67	—	—	—	67	(30)	37
Rail Grinding Project	271	—	(19)	—	252	(252)	—
Cable Car Drive Reduction Gearbox Rehab	569	—	—	—	569	(101)	468
ATCS Tunnel Wiring Replacement	127	—	—	—	127	(79)	48
Elevator Safety and Reliability Project	261	—	—	—	261	(194)	67
Paratransit Van Replacement Project	98	—	—	—	98	(92)	6
Twin Peaks Tunnel Rail Replacement-Rev	5,296	—	(264)	—	5,032	(4,302)	730
Track Support System	1,649	—	(137)	—	1,512	(1,503)	9
Track Replacement and Upgrade	2,811	—	—	—	2,811	(2,811)	—
30' Coaches Replacement	217	—	—	(217)	—	—	—
Paratransit Sedan Procurement	270	—	—	—	270	—	270
Alternative Fuel Taxicab In	250	—	(18)	(35)	197	(197)	—
Cable Car Sheave Rebuild	281	—	—	—	281	(276)	5
Replacement Manual Switch S	592	—	—	—	592	(592)	—
MF Corridors PL and CE	3,339	—	(158)	—	3,181	(3,137)	44
Local Bus Transit Signal Priority	1,190	—	—	—	1,190	(41)	1,149
Paratransit Replacement	931	—	(2)	—	929	(490)	439
Eti Bus Lifts	4,400	—	—	—	4,400	(1,923)	2,477
LRV 2and3 HVAC Refurbish	3,200	—	—	—	3,200	(3,192)	8
LRV2 and LRV3 Overhauls	7,500	—	(9)	—	7,491	(7,082)	409
Streetcar Extension to Fort Mason	—	926	—	—	926	(920)	6
Muni Metro Expansion	—	3,488	—	—	3,488	(2,488)	1,000
Rehab of Historic Street Cars	—	1,076	—	—	1,076	(1,051)	25
Muni Forward 22 Fillmore	—	5,600	—	—	5,600	(5,600)	—
New Flyer Midlife Overhaul	—	17,937	—	—	17,937	(17,937)	—
Light Rail Vehicle Procurement	—	60,732	—	—	60,732	(60,732)	—
New Castro Station Elevator	—	1,500	—	—	1,500	(1,352)	148
Wheelchair Accessible Taxi	—	50	—	—	50	(50)	—
Total capital grants	\$ 279,036	91,849	(37,637)	(3,426)	329,822	(305,516)	24,306



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2020

(In thousands)

	Authorized grants as of July 1, 2019	New grants approved/ spending commences	Payments received	Expired/ rescinded/ adjustment grants	Authorized grants as of June 30, 2020	Amounts not expended as of June 30, 2020	Grants receivable as of June 30, 2020
Operating grants:							
Paratransit	\$ 2,849	9,682	(10,627)	—	1,904	(952)	952
Transit Corridor Investment Study	54	—	—	—	54	(54)	—
N-Judah Customer First	215	—	—	—	215	(215)	—
66 Quintara Reconfiguration Study	4	—	—	—	4	(4)	—
Van Gough Shuttles	—	228	—	—	228	(96)	132
Total operating grants	<u>\$ 3,122</u>	<u>9,910</u>	<u>(10,627)</u>	<u>—</u>	<u>2,405</u>	<u>(1,321)</u>	<u>1,084</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – Others

Year ended June 30, 2020

(In thousands)

	<b>Authorized grants as of July 1, 2019</b>	<b>New grants approved/ spending commences</b>	<b>Payments received</b>	<b>Expired/ rescinded adjusted grants</b>	<b>Authorized grants as of June 30, 2020</b>	<b>Amounts not expended as of June 30, 2020</b>	<b>Grants receivable as of June 30, 2020</b>
Capital grants:							
Homeland Security:							
FY 2011 Federal Homeland Security – TSA K9 Project	\$ 197	—	—	(197)	—	—	—
Muni Metro Station Enhancement Phase I	2,465	—	—	(2,465)	—	—	—
Bus Rapid Transit (Geary and Van Ness)	237	—	—	(237)	—	—	—
BART Better Market Street	—	389	—	—	389	(389)	—
Total capital grants	<u>\$ 2,899</u>	<u>389</u>	<u>—</u>	<u>(2,899)</u>	<u>389</u>	<u>(389)</u>	<u>—</u>
Operating grants:							
FY 2017 Transit Security Grant Program	493	—	(425)	—	68	(66)	2
FY 2019 Transit Security Grant Program	—	5,228	—	—	5,228	(3,698)	1,530
FY 2020 Federal Homeland Security – TSA K9 Project	—	126	(196)	197	127	(30)	97
Total security grants	<u>493</u>	<u>5,354</u>	<u>(621)</u>	<u>197</u>	<u>5,423</u>	<u>(3,794)</u>	<u>1,629</u>
FY 2020 FEMA Funding for COVID 19	—	2,384	(2,384)	—	—	—	—
Total operating grants	<u>\$ 493</u>	<u>7,738</u>	<u>(3,005)</u>	<u>197</u>	<u>5,423</u>	<u>(3,794)</u>	<u>1,629</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – Federal

Year ended June 30, 2020

(In thousands)

	Authorized grants as of July 1, 2019	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2020	Amounts not expended as of June 30, 2020	Grants receivable as of June 30, 2020
Capital grants:							
FY 2009 CMAQ - SF Park	\$ 398	—	—	—	398	(398)	—
FY 2012 Safe Routes to School - Chinatown	18	—	—	(18)	—	—	—
FY 2013 Highway Safety Improvements - Continental Crosswalks	16	—	—	—	16	(14)	2
FY 2013 Highway Safety Improvements - Masonic Signals Project	58	—	—	—	58	(58)	—
FY 2014 Highway Safety Improvement - Polk Street Signals	463	—	—	—	463	(463)	—
FY 2013 Highway Safety Improvement - Rail Signals	562	—	—	—	562	(562)	—
FY 2016 Surface Transportation - Eddy and Ellis Traffic Calming Projects	117	—	—	—	117	(117)	—
FY 2013 Surface Transportation - Mansell Corridor Complete Streets	84	—	(40)	—	44	(4)	40
FY 2015 State Transportation Improvement - Crosswalks	11	—	—	—	11	(6)	5
FY 2015 State Transportation Improvement - Twin Peaks Connectivity	38	—	(22)	—	16	(16)	—
FY 2015 Section 5307 Formula Fund - Embarcadero Enhancement Project	40	—	(18)	—	22	—	22
FY 2016 and 2017 Highway Safety Improvement - South Van Ness Pedestrian Signals Projects	208	—	—	—	208	(208)	—
FY 2018 Highway Safety Improvement - NOMA SOMA Signal Timing Project	269	2,396	(1,574)	—	1,091	(136)	955
FY 2018 Advanced Transportation and Congestion Management Technologies Deployment Initiatives	10,979	—	(121)	—	10,858	(10,653)	205
Total capital grants	\$ 13,261	2,396	(1,775)	(18)	13,864	(12,635)	1,229
Operating grants:							
TEA Pedestrian Safety Education	\$ 20	—	—	—	20	—	20
Tenderloin Pedestrian Improvements	279	—	—	—	279	(279)	—
Golden Gate Park Pedestrian Improvements	63	—	—	—	63	(3)	60
Chinatown Safe Routes to School	25	—	—	—	25	(25)	—
Alamo School Safe Routes to School	86	—	—	—	86	(86)	—
SFGO Van Ness Corridor Management - TSP/BRT	10,487	—	(4,791)	—	5,696	(4,912)	784
SF Bicycle Parking Program	12	—	—	—	12	(8)	4
Pedestrian Safety Program	4	—	—	—	4	(2)	2
Masonic Avenue Signal Upgrade	45	—	—	—	45	(45)	—
FY 2007 Safe Routes to School	29	—	—	—	29	(29)	—
FY 2012 Safe Routes to School - Tenderloin	96	—	—	—	96	(81)	15
FY 2013 Safe Routes to School - Denman	285	—	(281)	—	4	(4)	—
FY 2019 Safe Routes to School - Non Infrastructure	—	2,813	(431)	—	2,382	(2,007)	375
FY 2010 and 2011 State Transportation Improvement Program - SF Pedestrian Safety and Encouragement	6	—	—	—	6	(6)	—
FY 2012 State Transportation Improvement - Church and Duboce	24	—	—	—	24	(7)	17
FY 2013 Linked Price Electric Bike Sharing	724	—	—	—	724	(623)	101
FY 2013 Regional Priority Development Area -Various Projects	110	—	—	—	110	(14)	96
FY 2015 State Active Transportation Program - SF Safer Street Campaign	127	—	—	—	127	(127)	—
FY 2017 California Office of Traffic Safety - Vision Zero Three Year Motorcycle Education Campaign Pilot	307	—	(55)	—	252	(252)	—
FY 2018 Section 5303 Short Range Transit Plan	—	43	—	—	43	(43)	—
Caltrans Planning SF Transit Corridor Study	438	—	—	—	438	(266)	172
Total operating grants	\$ 13,167	2,856	(5,558)	—	10,465	(8,819)	1,646

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2020

(In thousands)

	Authorized grants as of July 1, 2019	New grants approved/ spending commences	Payments received	Expired/ rescinded/ Adjustment grants	Authorized grants as of June 30, 2020	Amounts not expended as of June 30, 2020	Grants receivable as of June 30, 2020
Capital grants:							
Prop 1B – Persia Triangle Improvements	\$ 141	—	—	(141)	—	—	—
FY 2013 Prop 1B: 8X Mobility Maximization	131	—	—	—	131	(131)	—
FY 2014 Prop 1B: LRV Procurement	142	—	(110)	—	32	(32)	—
Total Prop 1B	414	—	(110)	(141)	163	(163)	—
FY 2016 Prop 1B: Transit Security	177	—	—	(177)	—	—	—
FY 2017 Prop 1B: Transit Security	21	—	—	—	21	(21)	—
Total Transit Security	198	—	—	(177)	21	(21)	—
Citywide Bicycle Wayfinding	779	—	(387)	(392)	—	—	—
Affordable Housing and Sustainable Comm. Dev.	1,019	—	—	(935)	84	—	84
Safer Intersections Program	1,971	—	(225)	—	1,746	(1,463)	283
West Portal SR2SL	748	—	—	(748)	—	—	—
Total capital grants	\$ 5,129	—	(722)	(2,393)	2,014	(1,647)	367
Operating grants:							
Randolph/Farallones/Orizaba Transit Access	\$						
Pedestrian Safety	3	—	—	—	3	(3)	—
Addison and Dighy Traffic Circle	63	—	—	(63)	—	—	—
Class II and III Bikeways	51	—	—	(36)	15	—	15
West Portal Improvements School Access	162	—	—	(162)	—	—	—
Jean Parker Safe Routes to School	125	—	—	(125)	—	—	—
HSIP SSARP Bicycle Safety	59	—	—	—	59	(52)	7
District 11 Neighborhood Greenway Planning Project	17	—	—	(17)	—	—	—
Bayview CBTP	91	—	(91)	—	—	—	—
Hyde Street Safety Project	—	300	—	—	300	(300)	—
Total operating grants	\$ 571	300	(91)	(403)	377	(355)	22

See accompanying independent auditors' report

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2020

(In thousands)

	<u>Authorized grants as of July 1, 2019</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded/ Adjustment grants</u>	<u>Authorized grants as of June 30, 2020</u>	<u>Amounts not expended as of June 30, 2020</u>	<u>Grants receivable as of June 30, 2020</u>
Capital grants:							
TDA:							
TDA FY2020 Allocation	\$ —	486	—	—	486	(486)	—
TDA FY2019 Allocation	462	—	—	—	462	(390)	72
TDA FY2018 Allocation	442	—	(175)	—	267	—	267
TDA FY2017 Allocation	85	—	(85)	—	—	—	—
CBTP:							
Western Addition CBTP	<u>2</u>	<u>—</u>	<u>—</u>	<u>(2)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total capital grants	<u>\$ 991</u>	<u>486</u>	<u>(260)</u>	<u>(2)</u>	<u>1,215</u>	<u>(876)</u>	<u>339</u>
Operating grants:							
TDA:							
Long-Term Bike Parking	\$ 21	—	—	—	21	(21)	—
Bridge Tolls (RM2):							
Bicycle Transit System Integ	<u>26</u>	<u>—</u>	<u>—</u>	<u>(26)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating grants	<u>\$ 47</u>	<u>—</u>	<u>—</u>	<u>(26)</u>	<u>21</u>	<u>(21)</u>	<u>—</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2020

(In thousands)

	Authorized grants as of July 1, 2019	New grants approved/ spending commences	Payments received	Expired/ rescinded/ Adjustment grants	Authorized grants as of June 30, 2020	Amounts not expended as of June 30, 2020	Grants receivable as of June 30, 2020
Capital grants:							
Bicycle Program Projects	\$ 1,437	565	(741)	(12)	1,249	(874)	375
Pedestrian Safety Program Projects	1,029	1,970	(145)	—	2,854	(1,884)	970
Traffic Calming Program Projects	6,567	10,678	(2,248)	—	14,997	(10,335)	4,662
Traffic Signal/Traffic Sign Projects	23,857	2,251	(11,440)	—	14,668	(10,284)	4,384
Transit Study and Street Improvement Projects	1,617	—	(218)	(352)	1,047	(943)	104
Transportation/Land Use Coordination	—	—	(32)	32	—	—	—
Transportation Demand/Parking Management	623	195	(106)	—	712	(624)	88
Total capital grants	<u>\$ 35,130</u>	<u>15,659</u>	<u>(14,930)</u>	<u>(332)</u>	<u>35,527</u>	<u>(24,944)</u>	<u>10,583</u>
Pass-through capital grants:							
Bicycle Program Projects	\$ 120	358	(120)	—	358	(135)	223
Taxi Vehicle Alternative Fuel Program	214	—	—	—	214	(214)	—
Total pass-through capital grants	<u>\$ 334</u>	<u>358</u>	<u>(120)</u>	<u>—</u>	<u>572</u>	<u>(349)</u>	<u>223</u>
Operating grants:							
Bicycle Program Projects	\$ 185	932	(178)	(1)	938	(819)	119
Pedestrian Safety Program Projects	504	—	—	—	504	(149)	355
Traffic Calming Program Projects	94	353	(90)	—	357	(205)	152
Traffic Signal/Traffic Sign Projects	596	—	(23)	—	573	(459)	114
Transit Study and Street Improvement Projects	157	—	(94)	—	63	(63)	—
Transportation/Land Use Coordination	—	280	—	320	600	(358)	242
Total operating grants	<u>\$ 1,536</u>	<u>1,565</u>	<u>(385)</u>	<u>319</u>	<u>3,035</u>	<u>(2,053)</u>	<u>982</u>
Pass-thru operating grants:							
Bicycle Program Projects	\$ 72	—	—	—	72	(72)	—
Transportation Outreach Program	105	—	(26)	—	79	(79)	—
Total pass-through operating grants	<u>\$ 177</u>	<u>—</u>	<u>(26)</u>	<u>—</u>	<u>151</u>	<u>(151)</u>	<u>—</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – Others

Year ended June 30, 2020

(In thousands)

	<b>Authorized grants as of July 1, 2019</b>	<b>New grants approved/ spending commences</b>	<b>Payments received</b>	<b>Expired/ rescinded/ Adjustment grants</b>	<b>Authorized grants as of June 30, 2020</b>	<b>Amounts not expended as June 30, 2020</b>	<b>Grants receivable as June 30, 2020</b>
Capital grants:							
Electronic Bicycle Lockers	\$ 100	—	—	—	100	(14)	86
TA Traffic/Bike Programs	1,671	—	(1,409)	—	262	—	262
Total capital grants	<u>\$ 1,771</u>	<u>—</u>	<u>(1,409)</u>	<u>—</u>	<u>362</u>	<u>(14)</u>	<u>348</u>
Operating grants:							
UCSF - 18th St and Minnesota Signal	\$ 574	—	—	—	574	(574)	—
Group I - Bryant and Sterling Construction	200	—	—	—	200	(200)	—
Equity Residential Mariposa and Pennsylvania	20	—	—	—	20	(20)	—
Lake Merced Pedestrian Safety CBTP	—	75	—	—	75	(73)	2
FY 2020 FEMA Funding for COVID 19	—	54	(54)	—	—	—	—
Total operating grants	<u>\$ 794</u>	<u>129</u>	<u>(54)</u>	<u>—</u>	<u>869</u>	<u>(867)</u>	<u>2</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2020

(In thousands)

Project title	Allocation	Beginning balance July 1, 2019	Additions	Reassigned allocation	Interest earned	Reassigned interest earnings	Expenditures	Ending balance June 30, 2020
First Allocation Fiscal Year 2007–2008:								
Third Street Light Rail Interest	\$ —	176	—	—	35	—	—	211
Third Street/Metro East CP/Other Direct	1,383	289	—	—	—	—	—	289
LRV4 VCC Support	2,200	1,121	—	—	—	—	—	1,121
Elevator Safety and Reliability Project	117	4	—	—	—	—	—	4
Subtotal PTSB01	3,700	1,590	—	—	35	—	—	1,625
Auto Passenger Count	1,200	—	—	—	—	—	—	—
New Central Subway	1,300	1	—	—	—	—	—	1
Subtotal PTSB02	2,500	1	—	—	—	—	—	1
Trolley Overhead Reconstruction	2,267	1	—	—	—	—	—	1
Mid-Life Rehabilitation of Neoplan Buses	733	—	—	—	—	—	—	—
Subtotal PTSB03	3,000	1	—	—	—	—	—	1
STA Prop 1B; FY0708; Farebox Rehab	—	5	—	—	—	—	—	5
Operator-Restroom	27	—	—	—	—	—	—	—
Farebox Rehabilitation	19,590	—	—	—	—	—	—	—
Neoplan Life Cycle Rehabilitation	223	—	—	—	—	—	—	—
Vehicle Video Surveillance Replacement	80	—	—	—	—	—	—	—
14 Mission Customer First	80	—	—	—	—	—	—	—
Subtotal PTSB04	20,000	5	—	—	—	—	—	5
STA Prop 1B; FY0708; Geneva	—	3	—	—	—	—	—	3
Historic Streetcar Shed	6,092	—	—	—	—	—	—	—
New Central Subway	1,200	—	—	—	—	—	—	—
14 Mission Customer First	208	—	—	—	—	—	—	—
Subtotal PTSB05	7,500	3	—	—	—	—	—	3
Subtotal Allocation	36,700	1,600	—	—	35	—	—	1,635
Second Allocation Fiscal Year 2007–2008:								
STA Prop 1B; FY0708; Metro East LRV	—	18	—	—	—	—	—	18
New Third Street Light Rail	8,052	—	—	—	—	—	—	—
FY10 TSGP Subway CCTV Surveillance System	822	—	—	—	—	—	—	—
Vehicle Video Surveillance Replacement	485	—	—	—	—	—	—	—
Capital Program Controls System Procurement	—	6	—	—	—	—	—	6
14 Mission Customer First	341	—	—	—	—	—	—	—
Green Center Rail Replacement	—	55	—	—	—	—	—	55
Subtotal PTSB06	9,700	79	—	—	—	—	—	79



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2020

(In thousands)

Project title	Allocation	Beginning balance July 1, 2019	Additions	Reassigned allocation	Interest earned	Reassigned interest earnings	Expenditures	Ending balance June 30, 2020
STA Prop 1B; FY0708; Operator Restrooms	\$ —	66	—	—	14	—	—	80
Operator-Restroom	2,164	—	—	—	—	—	—	—
Woods Lifts Heavy Maintenance Shop	10	—	—	—	—	—	—	—
Cable Car Safety and Reliability Improvement	422	385	—	—	—	—	(42)	343
Transportation Capital Infrastructure	369	348	—	—	—	—	21	369
Subtotal PTSB07	2,965	799	—	—	14	—	(21)	792
STA Prop 1B; FY0708; Wysd Fare Collect Eq	—	37	—	—	1	—	—	38
Wayside Fare Collection	1,000	—	—	—	—	—	—	—
Subtotal PTSB08	1,000	37	—	—	1	—	—	38
Subtotal Allocation	13,665	915	—	—	15	—	(21)	909
First Allocation Fiscal Year 2008–2009:								
STA Prop 1B; FY0910; Central Subway	—	134	—	—	25	—	—	159
Operator-Restroom	19	—	—	—	—	—	—	—
New Central Subway	20,001	—	—	—	—	—	—	—
Wayside/Central Train Control System	3,345	866	—	—	—	—	59	925
Mid-Life Rehabilitation of Neoplan Buses	1,404	—	—	—	—	—	—	—
Subway CCTV Surveillance System	1,169	—	—	—	—	—	—	—
Vehicle Video Surveillance Replacement	689	63	—	—	—	—	(24)	39
14 Mission Customer First	882	96	—	—	—	—	—	96
Fall Protection Scaffolding	773	—	—	—	—	—	—	—
8X Customer First	562	—	—	—	—	—	—	—
Safer Market Street	649	—	—	—	—	—	—	—
Flynn Lift	20	—	—	—	—	—	—	—
L Taraval Early Implementation Project	455	27	—	—	—	—	—	27
Potrero Facility Vehicle Lifts	32	32	—	—	—	—	—	32
Subtotal PTSB11	30,000	1,218	—	—	25	—	35	1,278
STA Prop 1B; FY0910; Interim Line Mgt	—	19	—	—	—	—	—	19
Central Control and Communications Program	400	—	—	—	—	—	—	—
Subtotal PTSB12	400	19	—	—	—	—	—	19
STA Prop 1B; FY0910; Lt RI Op Cont Ctr	—	60	—	—	1	—	—	61
Central Control and Communications Program	1,300	—	—	—	—	—	—	—
Subtotal PTSB13	1,300	60	—	—	1	—	—	61
STA Prop 1B; FY0809; Persia Triangle	—	8	—	—	—	—	—	8
Persia Triangle Improvements	127	49	—	—	—	—	—	49
Subtotal PKSB01	127	57	—	—	—	—	—	57
Randolph/Farallones/Orizaba	85	4	—	—	—	—	—	4
Subtotal PKSB02	85	4	—	—	—	—	—	4
Subtotal Allocation	31,912	1,358	—	—	26	—	35	1,419

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2020

(In thousands)

Project title	Allocation	Beginning balance July 1, 2019	Additions	Reassigned allocation	Interest earned	Reassigned interest earnings	Expenditures	Ending balance June 30, 2020
Third Allocation Fiscal Year 2007–2008 and Second Allocation 2008–2009:								
STA Prop 1B; FY0910; LRV Rehab Program	\$ —	14	—	—	—	—	—	14
LRV Safety Mods and Overhaul Project	3,638	—	—	—	—	—	—	—
Subtotal PTSB14	3,638	14	—	—	—	—	—	14
New Central Subway	352	—	—	—	—	—	—	—
Subtotal PTSB15	352	—	—	—	—	—	—	—
STA Prop 1B; FY0910; High Speed Connectivity	—	26	—	—	—	—	—	26
Central Control and Communications Program	817	—	—	—	—	—	—	—
Subtotal PTSB16	817	26	—	—	—	—	—	26
Subtotal Allocation	4,807	40	—	—	—	—	—	40
Third Allocation Fiscal Year 2008–2009:								
Islais Creek-woods Annex	—	116	—	—	—	—	—	116
LRV Safety Mods and Overhaul Project	5,262	—	—	—	—	—	—	—
Capital Program Controls System Procurement	—	60	—	—	—	—	—	60
Subtotal PTSB18	5,262	176	—	—	—	—	—	176
STA Prop 1B; FY0809 LRV Restoration Prgm	—	46	—	—	1	—	—	47
LRV Collision Repairs	3,831	—	—	—	—	—	—	—
Subtotal PTSB19	3,831	46	—	—	1	—	—	47
New Central Subway	719	—	—	—	—	—	—	—
Subtotal PTSB20	719	—	—	—	—	—	—	—
Subtotal Allocation	9,812	222	—	—	1	—	—	223
First Allocation Fiscal Year 2009–2010:								
STA Prop 1B; FY2009-2010 PTMISEA Funds	13	27	—	—	3	—	—	30
Hunters View Revitalize Transit Stop Connection	497	—	—	—	—	—	—	—
New Central Subway	20,216	—	—	—	—	—	—	—
LRV Collision Repairs	770	—	—	—	—	—	—	—
Mid-Life Rehabilitation of Neoplan Buses	700	—	—	—	—	—	—	—
Balboa Park Station Eastside Connection	864	220	—	—	—	—	(135)	85
Green Center Rail Replacement	—	51	—	—	—	—	(51)	—
Capital Program Controls System Procurement	—	101	—	—	—	—	—	101
Safer Market Street	—	1	—	—	—	—	—	1
Subtotal PTSB22	23,060	400	—	—	3	—	(186)	217
Subtotal Allocation	23,060	400	—	—	3	—	(186)	217

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2020

(In thousands)

Project title	Allocation	Beginning balance July 1, 2019	Additions	Reassigned allocation	Interest earned	Reassigned interest earnings	Expenditures	Ending balance June 30, 2020
Second Allocation Fiscal Year 2009–2010:								
STA Prop 1B; FY2009-2010 PTMISEA Funds	\$ —	10	—	—	—	—	—	10
New Central Subway	16,045	—	—	—	—	—	—	—
Green Center Rail Replacement	—	147	—	—	—	—	—	147
Capital Program Controls System Procurement	—	53	—	—	—	—	—	53
Subtotal PTSB23	16,045	210	—	—	—	—	—	210
Randolph/Farallones/Orizaba	395	—	—	—	—	—	—	—
Subtotal PKSB03	395	—	—	—	—	—	—	—
Subtotal Allocation	16,440	210	—	—	—	—	—	210
Third Allocation Fiscal Year 2009–2010:								
STA Prop1B; Central Subway and Persia	—	88	—	—	3	—	—	91
Persia Triangle Improvements	676	88	—	—	—	—	—	88
New Central Subway	48,400	—	—	—	—	—	—	—
Central Subway Goodwill	—	55	—	—	—	—	—	55
Green Center Rail Replacement	—	106	—	—	—	—	(106)	—
Capital Program Controls System Procurement	—	14	—	—	—	—	—	14
Subtotal PTSB24	49,076	351	—	—	3	—	(106)	248
Subtotal Allocation	49,076	351	—	—	3	—	(106)	248
First Allocation Fiscal Year 2010–2011:								
STA Prop1B; FY12-13 PTMISEA Fnds Central	—	12	—	—	6	—	—	18
Islais Creek-woods Annex	—	156	—	—	—	—	—	156
Twin Peaks Tunnel Rail	—	38	—	—	—	—	—	38
Traffic Signal E 89	—	270	—	—	—	—	—	270
New Central Subway	117,681	—	—	—	—	—	—	—
FY10 TSGP Subway CCTV Surveillance System	—	—	—	—	—	—	—	—
Subtotal PTSB26	117,681	476	—	—	6	—	—	482
Subtotal Allocation	117,681	476	—	—	6	—	—	482
Second Allocation Fiscal Year 2010–2011:								
STA Prop1B; FY13 PTMISEA Mission Mobility	—	122	—	—	32	—	—	154
Islais Creek-woods Annex	—	124	—	—	—	—	—	124
14 Mission Customer First	836	492	—	—	—	—	—	492
Muni Forward - West Portal/St Francis Circle	1,743	830	—	(830)	—	—	—	—
Cable Car Safety and Reliability Improvement	978	—	—	—	—	—	—	—
Muni Forward - Lower Haight Street (71)	1,500	1,133	—	—	—	—	(20)	1,113
MT L Taraval Track Rail and OH	—	—	—	830	—	—	(830)	—
Subtotal PTSB27	5,057	2,701	—	—	32	—	(850)	1,883

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2020

(In thousands)

Project title	Allocation	Beginning balance July 1, 2019	Additions	Reassigned allocation	Interest earned	Reassigned interest earnings	Expenditures	Ending balance June 30, 2020
STA Prop1B; FY13 PTMISEA 8X Mobility Max	\$ —	205	—	(6)	42	—	—	241
Potrero Hill Ped Safety and Transit Impv	216	96	—	—	—	—	(2)	94
Operator-Restroom	186	—	—	—	—	—	—	—
FY10 TSGP Subway CCTV Surveillance System	1,060	—	—	—	—	—	—	—
Balboa Park Station Area and Plaza Improvement	1,460	—	—	6	—	—	(6)	—
Mission Bay Transit Loop	448	—	—	—	—	—	—	—
8X Customer First	1,763	1,324	—	—	—	—	(89)	1,235
Transportation Capital Infrastructure	152	152	—	(152)	—	—	—	—
MT Special Trackwork Replacement	—	—	—	152	—	—	(115)	37
Subtotal PTSB28	5,285	1,777	—	—	42	—	(212)	1,607
STA Prop1B; FY13 PTMISEA Mission Bay Loop	—	35	—	—	1	—	—	36
Mission Bay Transit Loop	1,382	—	—	—	69	—	—	69
Subtotal PTSB29	1,382	35	—	—	70	—	—	105
Subtotal Allocation	11,724	4,513	—	—	144	—	(1,062)	3,595
First Allocation Fiscal Year 2013–2014:								
STA Prop1B; FY14 LRV Procurement	—	256	—	(80)	—	—	—	176
Islais Creek-woods Annex	—	57	—	—	—	—	(57)	—
Van Ness Bus Rapid Transit	639	155	—	—	—	—	195	350
Mission Bay Transit Loop	2,197	—	—	—	—	—	—	—
Muni Forward	1,008	299	—	—	—	—	(52)	247
Elevator Safety and Reliability Project	2,200	2,021	—	—	—	—	(291)	1,730
Muni Metro Subway Station Enhancement	287	81	—	—	—	—	(13)	68
MS Arguello Traffic Signal	249	34	—	—	—	—	(2)	32
MT Cable Car Curved Track Rep	—	—	—	80	—	—	(80)	—
Subtotal PTSB31	6,580	2,903	—	—	—	—	(300)	2,603
STA Prop1B; FY14 Central Subway	—	1,177	—	—	502	—	—	1,679
Islais Creek-woods Annex	—	194	—	—	—	—	—	194
Twin Peaks Tunnel Rail	—	56	—	—	—	—	—	56
New Central Subway	81,880	—	—	—	—	—	—	—
Potrero Facility Vehicle Lifts	—	215	—	—	—	(215)	—	—
MT Transportn Capital CPT995	—	—	—	—	—	215	—	215
Subtotal PTSB33	81,880	1,642	—	—	502	—	—	2,144
Subtotal Allocation	88,460	4,545	—	—	502	—	(300)	4,747
First Allocation Fiscal Year 2015–2016:								
STA Prop1B; FY16 PTMISEA Van Ness Brt	—	72	—	—	1	—	—	73
Van Ness Bus Rapid Transit	5,550	—	—	—	—	—	—	—
Subtotal PTSB36	5,550	72	—	—	1	—	—	73
Subtotal Allocation	5,550	72	—	—	1	—	—	73

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2020

(In thousands)

<b>Project title</b>	<b>Allocation</b>	<b>Beginning balance July 1, 2019</b>	<b>Additions</b>	<b>Reassigned allocation</b>	<b>Interest earned</b>	<b>Reassigned interest earnings</b>	<b>Expenditures</b>	<b>Ending balance June 30, 2020</b>
First Allocation Fiscal Year 2016–2017:								
Prop 1B: 31 Balboa	\$ 725	725	—	—	—	—	—	725
Subtotal CTR25	725	725	—	—	—	—	—	725
Subtotal Allocation	725	725	—	—	—	—	—	725
Residual Allocation Fiscal Year 2008–2009 and 2009–2010:								
FY2014 Prop1B: Flynn Lifts	770	770	—	—	—	—	—	770
Subtotal CTR1055	770	770	—	—	—	—	—	770
Subtotal Allocation	770	770	—	—	—	—	—	770
Grand Total	\$ 410,382	16,197	—	—	736	—	(1,640)	15,293

See accompanying independent auditors' report.



KPMG LLP  
Suite 1400  
55 Second Street  
San Francisco, CA 94105

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

The Honorable Mayor and Board of Supervisors, and  
San Francisco Municipal Transportation Agency Board of Directors  
City and County of San Francisco, California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of San Francisco Municipal Transportation Agency (SFMTA), an enterprise fund of the City and County of San Francisco (the City), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and the changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2020. Our report includes a reference to other auditors who audited the financial statements of Japan Center Garage Corporation (Japan Center) and City of San Francisco Portsmouth Plaza Parking Corporation (Portsmouth), as described in our report on SFMTA's financial statements. The financial statements of Portsmouth were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Portsmouth.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SFMTA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SFMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of SFMTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SFMTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SFMTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SFMTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California  
November 19, 2020

## **APPENDIX B**

This Appendix B provides information on the City's general fund's overall operations and finances, and is provided for informational purposes only. Neither the City or the San Francisco Municipal Transportation Agency ("SFMTA") make any representation that all of the information provided in this Appendix B is material to holders of the Series 2021C Bonds. No City resources or property is pledged to the repayment of the Series 2021C Bonds, and the City is not required to levy any form of taxes and/or lend its credit for the payment therefor, and no transfers from the City's general fund to the SFMTA shall constitute Pledged Revenues, as such term is defined under the SFMTA's Indenture. See "SECURITY FOR THE BONDS" in the forepart of this Official Statement. The information contained in this Appendix B contains certain financial information regarding the City's fiscal year 2019-20. The City released its fiscal year 2019-20 Comprehensive Annual Financial Report ("CAFR") on March 2, 2021.

The SFMTA has not undertaken to provide the City's financial statements in connection with the issuance of the Series 2021C Bonds. However recent financial statements of the City may be located on the Controller's website or annual postings on EMMA.

**THE SERIES 2021C BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE SFMTA SECURED BY AND PAYABLE SOLELY FROM PLEDGED REVENUES (AS DEFINED IN THE INDENTURE) OF THE SFMTA AND FROM MONEYS HELD IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED PURSUANT TO THE INDENTURE. THE SFMTA IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2021C BONDS FROM ANY SOURCE OF FUNDS OTHER THAN PLEDGED REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE AND SUBJECT TO THE TERMS THEREOF. THE SFMTA HAS NO TAXING POWER. THE GENERAL FUND OF THE CITY IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2021C BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2021C BONDS. THE SERIES 2021C BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR OF THE SFMTA OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT PLEDGED REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE AND SUBJECT TO THE TERMS THEREOF. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" ABOVE.**

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

This Appendix B to the Official Statement of the City provides general information about the City's governance structure, budget processes, property taxation system and tax and other revenue sources, City expenditures, labor relations, employment benefits and retirement costs, investments, bonds, and other long-term obligations.

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in this Appendix B 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 B and should not be considered in making a decision to buy the bonds.

Information concerning the City's finances that does not materially impact the availability of moneys deposited in the General Fund including San Francisco International Airport ("SFO" or the "Airport"),



Public Utilities Commission ("PUC"), and other enterprise funds, or the expenditure of moneys from the General Fund, is generally not included or, if included, is not described in detail in this Appendix B.

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

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## **PUBLIC HEALTH EMERGENCY – COVID-19**

On February 11, 2020 the World Health Organization (“WHO”) announced the official name for the outbreak of a new disease (“COVID-19”) caused by a strain of novel coronavirus, an upper respiratory tract illness which has since spread across the globe. The spread of COVID-19 is having significant adverse health and financial impacts throughout the world, including the City and County of San Francisco (“City”). The WHO has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the Mayor of the City, the Governor of the State and the President of the United States.

As of March 1, 2021, there were over 34,200 confirmed cases of COVID-19 in the City, and health officials expect the number of confirmed cases to continue grow. The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread closings of businesses, universities and schools (including the San Francisco Unified School District) throughout the United States. On June 8, 2020 the National Bureau of Economic Research announced that the U.S. officially entered into a recession in February 2020. In addition, capital markets in the United States and globally have been volatile.

The COVID-19 pandemic has materially adversely impacted the financial condition of the City. Existing and potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the City’s public health system, reductions in tourism and disruption of the regional and local economy, widespread business closures, and significantly higher levels of unemployment, with corresponding decreases in City revenues.

From time to time, all counties in the Bay Area (including the City) have implemented and revised shelter-in-place (“Shelter-in-Place”) emergency orders, which direct individuals to stay home, except for limited travel for the conduct of essential services. Most retail establishments (including restaurants, bars and nightclubs, entertainment venues and gyms) were closed in response to the Shelter-in-Place order. The Governor of the State has announced similar Shelter-in-Place emergency orders effective for the entire State. The State and various counties, including the City have allowed limited reopening of retail establishments, at times under limitations such as only providing outdoor or curbside service, based on local performance against public health indicators. On August 28, 2020, the State adopted a color coded, four-tiered framework to guide reopening statewide. Counties can be more restrictive than this State framework. As discussed below, San Francisco is currently designated to the red tier (the second most restrictive tier).

Most recently, in addition to the four-tier classification system, on December 3, 2020 the State announced a Regional Stay at Home Order, under which a county must enforce even stricter rules if hospital intensive care unit capacity drops below 15%. The City was, for a time, subject to those stricter rules. As of December 16, 2020 the Bay Area’s ICU capacity had fallen below 15% and triggered the State of California’s Regional Stay Home order. On December 17, 2020 the City announced a public health order placing a mandatory quarantine of 10 days on anyone traveling, moving, or returning to San Francisco from outside the Bay Area. Limited exceptions applied to people traveling for certain critical activities. The order also strongly discouraged any non-essential travel within the 10-county Bay Area region. On January 25, 2021, the City announced plans to reopen certain businesses and activities in response to the State lifting the Bay Area Regional Stay at Home Order. On February 23, 2021, as a result of the City’s progress in managing COVID-19, San Francisco lifted the 10-day quarantine order but still urged against non-essential travel outside of the Bay Area. On March 3, 2021, the City announced the reopening of most business and activities permitted by the State, following the City’s assignment to the State’s Red Tier based on COVID-19 cases and hospitalization rates. Future updates to the Order are uncertain at this time, and there can be no assurances that more restrictive requirements previously in place will not be re-imposed.

Beginning December 15, 2020, the City began administering the first vaccines to frontline healthcare workers. On February 24, 2021, the City moved to Phase 1B, Tier 1 of the State's population prioritization plan and began vaccinating people who work in education and childcare, emergency services, and the food and agriculture sectors, while continuing to vaccinate healthcare workers and people age 65 and older. As of March 3, 2021, more than 20% of San Francisco's population has received the first dose of vaccine, as have almost 65% of the City's residents over 65 years. Between January 22, 2021 and February 16, 2021, the City launched three high-volume vaccination sites at Moscone Center, City College of San Francisco, and SF Market in the Bayview to serve anyone who meets the eligibility requirements regardless of health coverage, by appointment only. The high-volume sites are part of San Francisco's network of vaccination sites to facilitate the quick and efficient delivery of COVID-19 vaccines.

When the Mayor declared a state of emergency in February 2020, the City's Emergency Operations Center was activated. The City's response quickly grew into a multi-agency initiative to address issues arising from the health crisis. In addition to Department of Public Health-led efforts to respond to the immediate health emergency, the City has established multiple programs to assist residents and businesses with the ancillary impacts of COVID-19. The City announced emergency relief measures for local businesses that defer collection of certain tax revenues and increase City expenditures, with potential offsets from federal and State emergency funds. The City estimates that emergency response expenditures relating to the COVID-19 Emergency were approximately \$521.8 million across all funds and departments during fiscal year 2019-20 alone. Federal sources, including Federal Emergency Management Agency ("FEMA") reimbursements and Coronavirus Aid, Relief, and Economic Security ("CARES") Act allocations, substantially offset the majority of emergency costs during fiscal year 2019-20. The final adopted budget for fiscal years 2020-21 and 2021-22 reflects the assumption that \$82.1 million of CARES Act allocations to the General Fund will be available to support response expenditures in fiscal year 2020-21.

The economic impact of COVID-19 has drastically reduced the City's tax revenues and may affect the City's ability to sustain regular operations at current levels. As shown in Table B-4, after years of increases, fiscal year 2019-20 General Fund revenue declined by \$417.3 million, or 7.1%, from fiscal year 2018-19. These decreases occurred in nearly every category of revenue except intergovernmental revenue; most significantly, the City experienced the greatest decline in its "other local taxes," which includes hotel and sales taxes. Another significant decline was in property tax revenue, which declined by \$173.0 million from fiscal year 2018-19 due to the recognition of three years' excess ERAF revenue (fiscal years 2016-17, 2017-18, and 2018-19) in fiscal year 2018-19 compared to just one year in fiscal year 2019-20. See "PROPERTY TAXATION – "Tax Levy and Collection" for additional detail.

The Final Adopted Budget for Fiscal Years 2020-21 and 2021-22 approved by the Board of Supervisors on October 1, 2020 (the "Final Adopted Budget") assumed \$755.6 million of COVID-19 response costs in fiscal year 2020-21, and none in fiscal year 2021-22. Actual costs will ultimately depend on the duration and severity of the pandemic. New costs will be partially offset by the re-assignment of City employees and may be offset by FEMA reimbursement for eligible costs. See "CITY BUDGET - Final Adopted Budget for Fiscal Years 2020-21 and 2021-22" herein.

On February 12, 2021, the Controller's Office released the Six-Month Report. The report includes updated projections for fiscal year 2020-21 from the Final Adopted Budget, as well as COVID-19 emergency response revenues and expenditures. See "CITY BUDGET – Other Budget Updates: Fiscal Year 2020-21 Six-Month Budget Status Report."

## **CITY GOVERNMENT**

### **City Charter**

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

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

Unique among California cities, San Francisco as a charter city and county provides the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including a port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for slightly less than 50% of all City expenditures. In addition, voters have approved Charter amendments that impose certain spending mandates and tax revenue set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including transportation services, children's services and public education, and libraries.

Under its original charter, the City committed to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. In 1927, the City dedicated Mills Field Municipal Airport at a site in what is now San Mateo County 14 miles south of downtown San Francisco, which would grow to become today's San Francisco International Airport. In 1969, the City acquired the Port of San Francisco (the "Port") in trust from the State. Substantial expansions and improvements have been made to these enterprises since their original acquisition. SFO, the Port, the PUC (which includes the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Water and Power Project), the Municipal Transportation Agency ("MTA") (which operates the San Francisco Municipal Railway or "Muni" and the Department of Parking and Traffic ("DPT"), including the Parking Authority and its five public parking garages), and the City-owned hospitals

(San Francisco General and Laguna Honda), are collectively referred to herein as the “enterprise fund departments,” as they are not integrated into the City’s General Fund operating budget. However, certain enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital, and the MTA, annually receive significant General Fund transfers.

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

## Mayor

Mayor London Breed is the 45th Mayor of San Francisco and the first African-American woman to serve in such capacity in the City’s history. Mayor Breed was elected at the June 4, 2018 special election to serve until January 2020, fulfilling the remaining term of the late Mayor Edwin Lee. In November 2019, Mayor Breed was elected to serve her first full term. Prior to her election, Mayor Breed served as Acting Mayor, leading the City following the sudden passing of Mayor Lee. Mayor Breed previously served as a member of the Board of Supervisors for six years, including the last three years as President of the Board.

## Board of Supervisors

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

At the election on November 3, 2020, voters voted on Supervisor seats with terms expiring in 2020 and 2021. Incumbents Aaron Peskin (District 3), Dean Preston (District 5), Hillary Ronen (District 9) and Ahsha Safai (District 11) retained their seats for another four years, while new Supervisors Connie Chan and Myrna Melgar joined the Board for District 1 and District 7, respectively.

TABLE B-1

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

## **Other Elected and Appointed City Officers**

The City Attorney represents the City in all legal proceedings in which the City has an interest. Dennis J. Herrera was re-elected to a four-year term as City Attorney in November 2019. 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.

The Assessor-Recorder administers the property tax assessment system of the City. On February 8, 2021, Joaquín Torres, formerly the Director of the Office of Economic and Workforce Development, was sworn in as the new Assessor-Recorder. The position of Assessor-Recorder is a citywide elected position, and Mr. Torres will have to run in the next election, which is currently scheduled for June 2022, to complete the current term. Mr. Torres filled a vacancy left by the former Assessor-Recorder, Carmen Chu, who now serves as the City Administrator.

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

The City Controller is responsible for timely accounting, disbursement, and other disposition of City moneys, certifies the accuracy of budgets, estimates the cost of ballot measures, provides payroll services for the City's employees, and, as the Auditor for the City, directs performance and financial audits of City activities. Benjamin Rosenfield was appointed to a ten-year term as Controller of the City by then-Mayor Newsom in March 2008 and was confirmed by the Board of Supervisors in accordance with the Charter. Mr. Rosenfield was reappointed by then-Mayor Mark Farrell to a new ten-year term as Controller in Spring 2018, and his nomination was confirmed by the Board of Supervisors on May 1, 2018. 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 during that period, 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.

The City Administrator has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. The City Administrator oversees the General Services Agency consisting of 25 departments, divisions, and programs that include the Public Works Department, Department of Technology, Office of Contract Administration/Purchasing, Real Estate, County Clerk, Fleet Management, Convention Facilities, Animal Care and Control, Medical Examiner, and Treasure Island. Following the announcement of former City Administrator Naomi Kelly's resignation, Mayor Breed nominated Carmen Chu to serve as San Francisco's City Administrator, which was confirmed by the Board on January 26, 2021. Ms. Chu was sworn in as the City Administrator on February 2, 2021. Prior to becoming the City Administrator, Ms. Chu had served as



the City's Assessor-Recorder since 2013. 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.

## **CITY BUDGET**

### **Overview**

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, and funds such departments and enterprises through its annual budget process. Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. General Fund revenues consist largely of local property tax, business tax, sales tax, other local taxes and charges for services. A significant portion of the City's revenue also comes in the form of intergovernmental transfers from the State and federal governments. Thus, the City's fiscal position is affected by the health of the local real estate market, the local business and tourist economy, and, by budgetary decisions made by the State and federal governments which depend, in turn, on the health of the larger State and national economies. All these factors are almost wholly outside the control of the Mayor, the Board of Supervisors and other City officials. In addition, the State Constitution limits the City's ability to raise taxes and property-based fees without a vote of City residents. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" herein. Also, the fact that the City's annual budget must be adopted before the State and federal budgets adds uncertainty to the budget process and necessitates flexibility so that spending decisions can be adjusted during the course of the fiscal year. See "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The fiscal years 2020-21 and 2021-22 Final Adopted Budget was approved by the Board of Supervisors on September 20, 2020 and signed by Mayor Breed on October 1, 2020. Typically, the Final Adopted Budget is approved in August; however, due to the COVID-19 emergency, the fiscal years 2020-21 and 2021-22 budget process was delayed by two months under the Mayor's emergency powers.

The Final Adopted Budget for fiscal year 2020-21 appropriated annual revenues, fund balance, transfers and reserves of \$13.6 billion, of which the City's General Fund accounts for \$6.2 billion. The Final Adopted Budget for fiscal year 2021-22 appropriated revenues, fund balance, transfers and reserves of \$12.4 billion, of which \$5.8 billion represents the General Fund budget. Table B-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2017-18 through 2019-20, and the Final Adopted Budget for fiscal years 2020-21 and 2021-22. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein. For detailed discussion of the fiscal years 2020-21 proposed budget, see "CITY BUDGET - Final Adopted Budget for Fiscal Years 20-21 and 2021-22" herein.

Economic and tax revenue losses associated with the COVID-19 Emergency have been stark and immediate, and the COVID-19 Emergency may have further material adverse impacts on the projections and budget information provided in this Appendix B. See "CITY BUDGET - Controller's Revenue Letter," and "GENERAL FUND REVENUES" for a discussion of current projections of the magnitude of the financial impact of the COVID-19 Emergency on the City. See "BUDGETARY RISKS" for a discussion of factors that may affect the revenue and expenditure levels assumed in the Final Adopted Budget.

TABLE B-2

**CITY AND COUNTY OF SAN FRANCISCO**  
**Budgeted General Fund Revenues and Appropriations for**  
**Fiscal Years 2017-18 through 2021-22**  
**(000s)**

	2017-18 Final Revised Budget	2018-19 Final Revised Budget	2019-20 Final Revised Budget <sup>6</sup>	2020-21 Original Budget <sup>7</sup>	2021-22 Original Budget <sup>7</sup>
Prior-Year Budgetary Fund Balance & Reserves	\$1,999,334	\$2,342,082	\$2,817,270	\$526,905	\$331,674
<b>Budgeted Revenues</b>					
Property Taxes <sup>1</sup>	\$1,557,000	\$2,142,727	\$1,956,008	\$2,019,600	\$1,976,900
Business Taxes	750,820	879,414	1,050,392	826,400	1,030,900
Other Local Taxes <sup>2</sup>	1,112,570	1,053,390	1,144,376	657,990	924,130
Licenses, Permits and Franchises	29,964	30,794	30,361	23,175	23,688
Fines, Forfeitures and Penalties	4,579	3,131	3,131	2,338	3,088
Interest and Investment Earnings	18,615	20,323	69,579	23,490	16,530
Rents and Concessions	14,089	14,896	15,270	10,948	15,451
Grants and Subventions	965,549	1,072,205	1,234,987	1,380,693	1,029,486
Charges for Services	242,842	263,340	246,003	257,295	245,657
Other	40,130	29,712	31,712	25,254	24,325
<b>Total Budgeted Revenues</b>	<b>\$4,736,158</b>	<b>\$5,509,932</b>	<b>\$5,781,819</b>	<b>\$5,227,184</b>	<b>\$5,290,154</b>
Bond Proceeds & Repayment of Loans	\$110	\$87	-	-	-
<b>Expenditure Appropriations</b>					
Public Protection	\$1,316,870	\$1,390,266	\$1,493,240	\$1,448,004	\$1,419,535
Public Works, Transportation & Commerce	238,564	214,928	216,824	186,729	167,017
Human Welfare & Neighborhood Development	1,047,458	1,120,892	1,270,530	1,477,225	1,272,305
Community Health	832,663	967,113	1,065,051	1,152,275	1,004,399
Culture and Recreation	142,081	154,056	161,274	158,511	167,908
General Administration & Finance	259,916	290,274	332,296	363,650	367,768
General City Responsibilities <sup>3</sup>	114,219	172,028	137,851	219,635	175,806
<b>Total Expenditure Appropriations</b>	<b>\$3,951,771</b>	<b>\$4,309,557</b>	<b>\$4,677,066</b>	<b>\$5,006,029</b>	<b>\$4,574,738</b>
Budgetary reserves and designations, net	-	-	\$34,721	\$149,000	\$874
Transfers In	\$232,032	\$239,056	\$190,642	\$447,095	\$182,537
Transfers Out <sup>4</sup>	(1,010,203)	(1,468,068)	(1,157,312)	(1,046,155)	(1,228,753)
Net Transfers In/Out	(\$778,171)	(\$1,229,012)	(\$966,670)	(\$599,060)	(\$1,046,216)
<b>Budgeted Excess (Deficiency) of Sources</b>					
Over (Under) Uses	\$2,005,661	\$2,313,531	2,920,632	-	-
Variance of Actual vs. Budget	336,422	503,738	(139,127)	-	-
<b>Total Actual Budgetary Fund Balance<sup>5</sup></b>	<b>\$2,342,083</b>	<b>\$2,817,269</b>	<b>\$2,781,505</b>	<b>\$0</b>	<b>\$0</b>

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

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

<sup>3</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>4</sup> Other Transfers Out is primarily related to transfers to support Charter-mandated spending requirements and hospitals.

<sup>5</sup> Fiscal year 2017-18 through fiscal year 2019-20 Final Revised Budget reflects prior year *actual* budgetary fund balance.

<sup>6</sup> FY 2019-20 Final Revised Budget updated from FY 2019-20 CAFR. Does not reflect material adverse impacts of the COVID-19 pandemic on the General Fund in FY2019-20.

See reserve discussion under "CITY BUDGET" section.

<sup>7</sup> FY 2020-21 and 2021-22 amounts represent the Final Adopted Budget, adopted on October 1, 2020.

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

## **Budget Process**

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

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

The City is required by the Charter to adopt, each year, a budget which is balanced in each fund. During its budget approval process, the Board of Supervisors has the power to reduce or augment any appropriation in the proposed budget, provided the total budgeted appropriation amount in each fund is not greater than, the total budgeted appropriation amount for such fund submitted by the Mayor. The Board of Supervisors approves the budget by adoption of the Annual Appropriation Ordinance (also referred to herein as the "Original Budget") typically 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 Annual Appropriation Ordinance, the Charter directs the Mayor to promptly return the ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any 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 upon release of the City's Comprehensive Annual Financial Report ("CAFR") to reflect the year-end revenue and expenditure appropriations for that fiscal year.

## Multi-Year Budgeting and Planning

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

1. Fixed two-year budgets are approved by the Board of Supervisors. In the most recent Final Adopted Budget for fiscal years 2020-21 and 2021-22, four departments adopted fixed budgets: MTA, PUC, AIR, and PRT. All other departments prepare balanced, rolling two-year budgets for Board approval.
2. Five-year financial plan and update, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. A five-year financial plan update, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, the Budget Analyst for the Board of Supervisors and Controller's Office on January 15, 2021, for fiscal year 2021-22 through fiscal year 2025-26. The forecasts associated with such financial plan will be updated in March and May to reflect the projected impacts of COVID-19 on the City's finances. The next update of the City's Five-Year Financial Plan is expected to be submitted in March 2021. 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. Key financial policies include:
  - Non-Recurring Revenue Policy - This policy limits the Mayor's and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance, the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long-term obligations. The Mayor and the Board approved legislation to temporarily suspend this policy. See "Controller's Revenue Letter" section for more details.
  - Rainy Day and Budget Stabilization Reserve Policies – These reserves were established to support the City's budget in years when revenues decline. These and other reserves are discussed in detail below. Charter Section 9.113.5 requires deposits into the Rainy Day Reserve if total General Fund revenues for a fiscal year exceed total General Fund revenues for the prior fiscal year by more than five percent. Similarly, if budgeted revenues exceed a fiscal year's revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues. Given the City's projected revenue declines, the City is eligible to withdraw from these reserves and is not required to make any deposits. The Final Adopted Budget withdraws the maximum permissible amounts from the City's Rainy Day and Budget Stabilization Reserves. These and other reserves are discussed under Rainy Day Reserve and Budget Stabilization Reserve, as well as the "Controller's Revenue Letter" section.

4. The City is required to submit labor agreements for all public employee unions to the Board of Supervisors by May 15, so the fiscal impact of the agreements can be incorporated in the Mayor's proposed June 1 budget. All labor agreements are closed for the budget year, fiscal year 2020-21.

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

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

In addition to the five-year planning responsibilities discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the first of these reports, the fiscal year 2020-21 Three Month Report (the "Three Month Report"), in November 2020 and issued the second of these reports, the fiscal year 2020-21 Six Month Report (the "Six Month Report") on February 12, 2021. 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.

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

The City issued the Comprehensive Annual Financial Report (the "CAFR," which includes the City's audited financial statements) for fiscal year 2019-20 on March 2, 2021. As of June 30, 2020, the General Fund fund balance available for appropriation in subsequent years was \$896.2 million (see Table B-4), which represents an \$83.4 million increase in available fund balance from the \$812.7 million available as of June 30, 2019. This increase resulted primarily from greater-than-budgeted property tax revenue and operating surpluses at the Department of Public Health, mostly offset by under-performance in business and other local tax revenues in fiscal year 2019-20.

The General Fund fund balance as of June 30, 2020 was \$2.7 billion (shown in Tables B-3 and B-4) using Generally Accepted Accounting Principles (“GAAP”), derived from revenues of \$5.5 billion. The City prepares its budget on a modified accrual basis, which is also referred to as “budget basis” in the CAFR. Accruals for incurred liabilities, such as claims and judgments, workers’ compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. Table B-3 focuses on a specific portion of the City’s balance sheet; General Fund fund balances are shown on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2016 through June 30, 2020.

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TABLE B-3

**CITY AND COUNTY OF SAN FRANCISCO**  
**Summary of General Fund Fund Balances**  
**Fiscal Years 2015-16 through 2019-20**  
**(000s)**

	2015-16	2016-17	2017-18	2018-19	2019-20
Restricted for rainy day (Economic Stabilization account) <sup>1</sup>	\$74,986	\$78,336	\$89,309	\$229,069	\$229,069
Restricted for rainy day (One-time Spending account) <sup>2,6</sup>	45,120	47,353	54,668	95,908	-
Committed for budget stabilization (citywide) <sup>2</sup>	178,434	323,204	369,958	396,760	362,607
Committed for Recreation & Parks savings reserve <sup>4</sup>	8,736	4,403	1,740	803	803
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	\$190,965	\$244,158	\$345,596	\$351,446	\$394,912
Assigned for appropriation carryforward	293,921	434,223	423,835	496,846	630,759
Assigned for budget savings incentive program (Citywide) <sup>3,6</sup>	58,907	67,450	73,650	86,979	-
Assigned for salaries and benefits <sup>5</sup>	18,203	23,051	23,931	28,965	25,371
Total Fund Balance Not Available for Appropriation	\$869,272	\$1,222,178	\$1,382,687	\$1,686,776	\$1,643,521
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies <sup>4</sup>	\$145,443	\$136,080	\$235,925	\$186,913	\$160,314
Assigned for subsequent year's budget	172,128	183,326	188,562	210,638	370,405
Unassigned for General Reserve <sup>5</sup>	76,913	95,156	106,878	130,894	78,498
Unassigned - Budgeted for use second budget year	191,202	288,185	223,251	285,152	84
Unassigned - Contingency for second budget year <sup>6</sup>	60,000	60,000	160,000	308,000	510,400
Unassigned - Available for future appropriation	11,872	14,409	44,779	8,897	18,283
Total Fund Balance Available for Appropriation	\$657,558	\$777,156	\$959,395	\$1,130,494	\$1,137,984
Total Fund Balance, Budget Basis	\$1,526,830	\$1,999,334	\$2,342,082	\$2,817,270	\$2,781,505
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$1,526,830	\$1,999,334	\$2,342,082	\$2,817,270	\$2,781,505
Unrealized gain or loss on investments	343	(1,197)	(20,602)	16,275	36,626
Nonspendable fund balance	522	525	1,512	1,259	1,274
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(36,008)	(38,469)	(25,495)	(23,793)	(20,655)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(56,709)	(83,757)	(68,958)	(87,794)	(139,590)
Inventories	-	-	-	-	33,212
Pre-paid lease revenue	(5,816)	(5,733)	(6,598)	(6,194)	(6,450)
Total Fund Balance, GAAP Basis	\$1,429,162	\$1,870,703	\$2,221,941	\$2,717,023	\$2,685,922

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

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

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

<sup>3</sup> Additional information in Budget Savings Incentive Reserve section of Appendix A, following this table.

<sup>4</sup> Additional information in Salaries, Benefits and Litigation Reserves section of Appendix A, following this table.

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

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

<sup>6</sup> Includes \$507.4 million COVID Response and Economic Loss Reserve. Additional information in the COVID Response and Economic Loss Reserve section of Appendix A, following this table.

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

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

The fiscal years 2020-21 and 2021-22 Final Adopted Budget consolidated the balances of several City reserves into a single COVID Response and Economic Loss Reserve of \$507.4 million in fiscal year 2019-20, as shown as part of “Unassigned Contingency for Second Budget Year” line in Table B-3 above. The COVID Response and Economic Loss Reserve will be available to offset revenue losses or to assist otherwise with balancing of future fiscal year budgets. The Controller has noted that the \$507.4 million total balance would be sufficient to offset some, but not all, of the budget risks identified in the Final Adopted Budget. See “CITY BUDGET - Controller’s Revenue Letter.”

## **Rainy Day Reserve**

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

- 37.5 percent of the excess revenues to the City Reserve;
- 12.5 percent of the excess revenues to the School Reserve (not shown in Table B-3 because it is not part of the General Fund, it is reserved for SFUSD);
- 25 percent of the excess revenues to the Rainy Day One-Time or Capital Expenditures account; and
- 25 percent of the excess revenues to any lawful governmental purpose.

The fiscal year 2019-20 ending balance of the Rainy Day Economic Stabilization City Reserve was \$229.1 million, as shown in Table B-3. In the Five-Year Financial Plan and fiscal years 2020-21 and 2021-22 Final Adopted Budget, the maximum permissible withdrawal is budgeted from this reserve, \$114.5 million in fiscal year 2020-21 and \$57.3 million in fiscal year 2021-22. As a result, the balance of the reserve is expected to decline to \$57.3 million by the end of fiscal year 2021-22 and be fully depleted by the end of fiscal year 2022-23.

The Rainy Day One Time Reserve was consolidated into the COVID Response and Economic Loss Reserve at the end of fiscal year 2019-20. See “COVID Response and Economic Loss Reserve” above.

The combined balances of the Rainy Day Reserve’s Economic Stabilization account and the Budget Stabilization Reserve are subject to a cap of 10% of actual total General Fund revenues as stated in the City’s most recent independent annual audit. Amounts in excess of that cap in any year will be placed in the Budget Stabilization One-Time Reserve, which is eligible to be allocated to capital and other one-time expenditures. Monies in the City Reserve are available to provide budgetary support in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year’s total General Fund revenues). Monies in the Rainy Day One-Time Reserve are available for capital and other one-time spending initiatives.



## **Budget Stabilization Reserve**

The City maintains a Budget Stabilization Reserve, as shown on the third line of Table B-3 above. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues, including Real Property Transfer Tax ("RPTT") receipts in excess of the rolling five-year annual average (adjusting for the effect of any rate increases approved by voters), funds from the sale of assets, and year-end unassigned General Fund balances beyond the amount assumed as a source in the subsequent year's budget.

The combined value of the Budget Stabilization Reserve and the Budget Stabilization One Time Reserve is \$362.6 million in fiscal year 2019-20. Because the City's combined Rainy Day Economic Stabilization Reserve and Budget Stabilization Reserve exceeded 10% of General Fund revenues for fiscal year 2019-20, the Budget Stabilization Reserve balance was capped in fiscal year 2019-20 at \$307.8 million, with the remaining balance of \$54.9 million deposited in the Budget Stabilization One-Time Reserve.

The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn. No deposits are required in years when the City is eligible to withdraw.

In the Final Adopted Budget, the maximum permissible withdrawal is budgeted from this reserve, \$42.0 million in fiscal year 2020-21 and \$125.3 million in fiscal year 2021-22. Due to a larger than previously anticipated ending balance in Budget Stabilization Reserve in fiscal year 2019-20, the Five Year Financial Plan assumes maximum permissible withdrawals greater than budgeted: \$46.5 million in fiscal year 2020-21 and \$130.6 million in fiscal year 2021-22. The balance of the reserve is expected to decline to \$130.6 million by the end of fiscal year 2021-22 and be fully depleted by the end of fiscal year 2022-23.

## **General Reserve**

The City maintains a General Reserve, shown as "Unassigned for General Reserve" in the "assigned and unassigned, available for appropriation" section of Table B-3 above. The General Reserve is to be used for current-year fiscal pressures not anticipated during the budget process. The policy, originally adopted on April 13, 2010, set the reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues in years when the City is eligible to withdraw from its economic stabilization reserves. The intent of this policy change was to increase reserves available during a multi-year downturn. In fiscal year 2019-20, the City made a budgeted deposit of \$28.9 million to the General Reserve. The Mayor ultimately withdrew \$75.5 million to address fiscal year 2019-20 shortfalls as reported in the May 2020 Nine Month Report, and the Board appropriated \$2.2 million to support public safety expenditures during the year. As a result, the fiscal year 2019-20 ending balance of the General Reserve was \$78.5 million. As of the publication of the Five Year Financial Plan, in fiscal years 2020-21 and 2021-22, there are no anticipated deposits or withdrawals to the General Reserve.

### **Budget Savings Incentive Reserve**

The Charter requires reserving a portion of Recreation and Parks revenue surplus in the form of the Recreation and Parks Budget Savings Incentive Reserve, as shown with note 4 of Table B-3. The Administrative Code authorizes reserving a portion of departmental expenditure savings in the form of the Citywide Budget Savings Incentive Reserve, also referred to as the “Budget Savings Incentive Fund,” as shown with note 4 of the “assigned, not available for appropriation” section of Table B-3. In fiscal year 2019-20, the Recreation and Parks Savings Reserve had a balance of \$0.8 million and the balance of the Citywide Budget Savings Incentive Reserve was moved into the COVID Response and Economic Loss Reserve. See “—COVID Response and Economic Loss Reserve” above.

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

The City maintains two types of reserves to offset unanticipated expenses and which are available to City departments through a Controller’s Office review and approval process. These are shown with note 5 in the “assigned, not available for appropriation,” and “assigned and unassigned, available for appropriation” sections of Table B-3 above. These include the Salaries and Benefit Reserve (balance of \$25.4 million as of fiscal year 2019-20), and the Litigation and Public Health Management Reserve (balance of \$136.5 million in Fiscal Year 2019-20).

### **Operating Cash Reserve**

Not shown in Table B-3, under the City Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City’s operating cash reserve from any unencumbered funds then held in the City’s pooled investment fund (which contains cash for all pool participants, including city departments and external agencies such as San Francisco Unified School District and City College). The operating cash reserve is available to cover cash flow deficits in various City funds, including the City’s General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other City funds. Any such transfers must be repaid within the same fiscal year in which the transfer was made, together with interest at the rate earned on the pooled funds at the time the funds were used. See “INVESTMENT OF CITY FUNDS – Investment Policy” herein.

Table B-4, entitled “Audited Statement of Revenues, Expenditures and Changes in General Fund Balances,” is extracted from information in the City’s published CAFRs through fiscal year 2019-20. Audited financial statements can be obtained from the City Controller’s website <https://sfcontroller.org/comprehensive-annual-financial-report-cafr>. 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 B-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

TABLE B-4

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Revenues, Expenditures and Changes in General Fund Fund Balances<sup>1</sup>**  
**Fiscal Years 2015-16 through 2019-20**  
**(000s)**

	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Revenues:</b>					
Property Taxes <sup>2</sup>	\$1,393,574	\$1,478,671	\$1,673,950	\$2,248,004	\$2,075,002
Business Taxes	659,086	700,536	897,076	917,811	822,154
Other Local Taxes <sup>3</sup>	1,054,109	1,203,587	1,093,769	1,215,306	996,180
Licenses, Permits and Franchises	27,909	29,336	28,803	27,960	25,318
Fines, Forfeitures and Penalties	8,985	2,734	7,966	4,740	3,705
Interest and Investment Income	9,613	14,439	16,245	88,523	65,459
Rents and Concessions	46,553	15,352	14,533	14,460	9,816
Intergovernmental	900,820	932,576	983,809	1,069,349	1,183,341
Charges for Services	233,976	220,877	248,926	257,814	229,759
Other	22,291	38,679	24,478	46,254	62,218
<b>Total Revenues</b>	<b>\$4,356,916</b>	<b>\$4,636,787</b>	<b>\$4,989,555</b>	<b>\$5,890,221</b>	<b>\$5,472,952</b>
<b>Expenditures:</b>					
Public Protection	\$1,204,666	\$1,257,948	\$1,312,582	\$1,382,031	\$1,479,195
Public Works, Transportation & Commerce	136,762	166,285	223,830	202,988	203,350
Human Welfare and Neighborhood Development	853,924	956,478	999,048	1,071,309	1,252,865
Community Health	666,138	600,067	706,322	809,120	909,261
Culture and Recreation	124,515	139,368	142,215	152,250	155,164
General Administration & Finance	223,844	238,064	244,773	267,997	304,073
General City Responsibilities	114,663	121,444	110,812	144,808	129,941
<b>Total Expenditures</b>	<b>\$3,324,512</b>	<b>\$3,479,654</b>	<b>\$3,739,582</b>	<b>\$4,030,503</b>	<b>\$4,433,849</b>
<b>Excess of Revenues over Expenditures</b>	<b>\$1,032,404</b>	<b>\$1,157,133</b>	<b>\$1,249,973</b>	<b>\$1,859,718</b>	<b>\$1,039,103</b>
<b>Other Financing Sources (Uses):</b>					
Transfers In	\$209,494	\$140,272	\$112,228	\$104,338	\$87,618
Transfers Out	(962,343)	(857,629)	(1,010,785)	(1,468,971)	(1,157,822)
Other Financing Sources	4,411	1,765	-	-	-
Other Financing Uses	-	-	(178)	(3)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(\$748,438)</b>	<b>(\$715,592)</b>	<b>(\$898,735)</b>	<b>(\$1,364,636)</b>	<b>(\$1,070,204)</b>
<b>Excess (Deficiency) of Revenues and Other Sources</b>					
Over Expenditures and Other Uses	\$283,966	\$441,541	\$351,238	\$495,082	(\$31,101)
<b>Total Fund Balance at Beginning of Year</b>	<b>\$1,145,196</b>	<b>\$1,429,162</b>	<b>\$1,870,703</b>	<b>\$2,221,941</b>	<b>\$2,717,023</b>
<b>Total Fund Balance at End of Year -- GAAP Basis</b>	<b>\$1,429,162</b>	<b>\$1,870,703</b>	<b>\$2,221,941</b>	<b>\$2,717,023</b>	<b>\$2,685,922</b>
<b>Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End</b>					
-- GAAP Basis	\$249,238	\$273,827	\$286,143	\$326,582	\$395,776
-- Budget Basis	\$435,202	\$545,920	\$616,592	\$812,687	\$896,172

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

<sup>3</sup> Other Local Taxes includes sales, hotel, utility users, parking, sugar sweetened beverage, stadium admissions, access line, and cannabis taxes (once it takes effect beginning January 1, 2022).

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. Charter Section 9.119 requires that by March 1 of each odd-numbered year, the Mayor submit a Plan to the Board. The City's Administrative Code requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimated for the remaining four years of the most recently adopted Plan.

On January 15, 2021, the Mayor, Budget Analyst for the Board of Supervisors, and the Controller's Office issued the Plan for fiscal years 2021-22 through 2025-26 ("Five-Year Plan"), which projected cumulative annual shortfalls of \$411.1 million, \$242.1 million, \$323.7 million, \$413.3 and \$503.3 million, for fiscal years 2021-22 through 2025-26, respectively. The next update of the Five-Year Plan is expected to be submitted in March 2021.

The Five-Year Plan, which assumes a slower pace of re-opening of economic activity than the Final Adopted Budget, projects declines in fiscal year 2021-22 followed by growth in General Fund sources over the forecast period of 15.5%, composed of growth in local tax sources as the local economy recovers from the COVID-19 pandemic that largely recovers to pre-pandemic levels by the end of the plan period. Revenue growth is fully offset by projected expenditure increases of 23.7% 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 Plan projects growth in General Fund sources of \$963.4 million over the Plan period, and expenditure growth of \$1.47 billion. The composition of the projected shortfall is shown in Table B-5 below.

TABLE B-5

CITY AND COUNTY OF SAN FRANCISCO						
Five Year Financial Plan Update						
Fiscal Years 2021-22 through 2025-26						
Projections as of January 15, 2021						
(\$ Millions)						
	2021-22	2022-23	2023-24	2024-25	2025-26	% of Uses for 2025-26
Sources - Increase / (Decrease):	(\$117.6)	\$268.5	\$487.2	\$732.1	\$963.4	
Uses:						
Baselines & Reserves	(\$54.4)	(\$157.7)	(\$242.1)	(\$293.2)	(\$354.6)	24.2%
Salaries & Benefits	(150.8)	(233.4)	(318.0)	(433.8)	(565.1)	38.5%
Citywide Operating Budget Costs	(21.4)	(8.2)	(94.2)	(219.4)	(304.8)	20.8%
Departmental Costs	(67.0)	(111.2)	(156.5)	(198.9)	(242.2)	16.5%
Total Uses - (Increase) / Decrease:	(\$293.6)	(\$510.5)	(\$810.8)	(\$1,145.3)	(\$1,466.7)	100.0%
Projected Cumulative Surplus / (Shortfall):	(\$411.3)	(\$242.0)	(\$323.6)	(\$413.2)	(\$503.3)	

The Five-Year Plan is a "base case" projection that makes the following key assumptions:

- **No major changes to service levels and number of employees:** The projection assumes no major changes to policies, service levels, or the number of employees from the Final Adopted Budget for fiscal years 2020-21 and 2021-22 budgeted levels unless specified below.

- Revenue losses and subsequent recovery from COVID-19 pandemic:** San Francisco's economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity, and tourism, all of which were impacted significantly by the COVID-19 pandemic. This report assumes that San Francisco will largely recover to prior peak revenue levels over the five-year period, though that recovery is delayed from the timeline assumed in the Final Adopted Budget. Revenue projections are based on the assumption that there is widespread vaccination by fall 2021, with mass gatherings returning to pre-COVID levels by summer 2022. While most revenues are expected to rebound to pre-pandemic levels by fiscal year 2025-26, further challenges around recovery for tourism, small businesses, and office work could cause revenue to grow more slowly than projected in this report.
- Full use of new revenue sources adopted by voters in November 2020 election:** The projections assume that Proposition I (increased transfer tax rates) continues to phase in in fiscal year 2021-22 and Proposition L (new tax on executive pay) goes into effect in fiscal year 2021-22 and fiscal year 2022-23, respectively. The report does not assume any new expenditures associated with these general tax increases although the Board of Supervisors has discussed but not appropriated funds for various purposes using these general tax proceeds. Such actions, if taken, would increase projected shortfalls accordingly. This projection also assumes implementation of Proposition F (overhaul of the business tax), which is expected to increase General Fund business tax in all years of the report, unlock \$149.0 million of General Fund one-time funds that were assumed in the Final Adopted Budget for fiscal year 2021-22, and unlock \$28.0 million in on-going funding in each remaining year of the report. Additionally, the projection assumes the implementation of two voter-approved November 2020 Propositions, which create new General Fund costs over the five-year period: Proposition B (Department of Sanitation and Streets) and Proposition D (Sheriff Oversight).
- Assumes previously negotiated wage increases and inflationary increases for open contracts in line with CPI:** This report assumes the additional salary and benefit costs for previously negotiated, closed labor agreements. Police and Firefighters' unions have closed memorandums of understanding (MOU) through fiscal year 2022-23 as a result of a recent amendment. Miscellaneous unions have closed MOUs through fiscal year 2021-22. This report does not assume the recession trigger in these MOUs is met, but will be revaluated for future projection updates. In open contract years, this report projects salary increases equal to the change in CPI using the average projection of the California Department of Finance San Francisco Area CPI and Moody's SF Metropolitan Statistical Area CPI. This corresponds to 3.01% for fiscal year 2021-22, 2.88% for fiscal year 2022-23, 3.10% for fiscal year 2023-24, 3.11% for fiscal year 2024-25, and 2.98% for fiscal year 2025-26. Importantly, these assumptions do not indicate a willingness or ability to negotiate wage increases at these levels, but rather are used for projection purposes.
- Pension investment returns meet expectations, but do not trigger a supplemental COLA:** This report assumes a return on SFERS assets of 7.4%, the actuarially assumed rate of return. This projection does not assume that any on-going supplemental COLA payment to certain retirees is triggered, which would require increased employer contributions.
- Health insurance cost increases:** This projection assumes that the employer share of health insurance costs for active employees will increase by 5.5% in fiscal year 2021-22, and then 6% in each following year, for an average of 5.9% annually over the projection period. Retiree health costs are assumed to grow by 6% in fiscal year 2021-22, 5.3% in fiscal year 2022-23, and then 6.1% in each subsequent fiscal year, an average of 5.9% annually over the projection period.

- **Inflationary increase on non-personnel operating costs:** This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations, and other non-personnel operating costs will increase by the rate of CPI. The projection reflects the Final Adopted Budget for fiscal year 2021-22, which did not include a cost-of-doing business increase for General Fund nonprofit contracts.
- **Ten-Year Capital Plan, Five-Year ICT Plan, and inflationary increases on equipment:** For capital, this report assumes the Final Adopted Budget for fiscal year 2021-22 funding levels, and assumes funding will increase by 10% annually thereafter with a significant increase in fiscal year 2024-25, in line with forthcoming recommendations in the City's upcoming Fiscal Years 2022-31 Ten-Year Capital Plan. The IT investment projection similarly assumes partial funding of projects in the City's Information and Communications Technology (ICT) Plan in fiscal year 2021-22, in accordance with the most recent budget, and 10% annual growth in the following four years, with a significant funding increase in fiscal year 2024-25. For equipment, this report assumes the budgeted level of funding in fiscal year 2021-22, and annual growth of 10% in the following four years.
- **Deposits and withdrawals from reserves:** The projection makes several key assumptions regarding deposits to and withdrawals from major General Fund reserves. In fiscal years 2021-22 and 2022-23, \$188 million from the Economic Stabilization Reserve is assumed to be withdrawn in each year, exhausting the reserve balance by the end of fiscal year 2022-23. The report assumes that deposits to this reserve are only made in the final two years of the five-year period. In order to remain consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), no funds are projected to be withdrawn from the General Reserve in the five-year period, and deposits to the General Reserve are projected to begin in fiscal year 2022-23. No withdrawal from the COVID Response and Economic Loss Reserve is assumed in this projection.
- **Property tax shifts:** In the past two fiscal years, the City's General Fund received "Excess ERAF" property tax allocations, after distributions from the Educational Revenue Augmentation Fund (ERAF) fulfilled all other statutory distributions to other local taxing entities. Legislation adopted by the Mayor and the Board of Supervisors stipulates that at least 50% of these revenues should be dedicated to on one-time affordable housing production and preservation, and 50% to be made available for other purposes. The Final Adopted Budget for fiscal years 2020-21 and 2021-22 budget does not allocate spending in accordance with this legislation, in order to most effectively allocate this resource to support priority homelessness and mental health programming in the face of the City's sharp revenue loss. This report assumes the City will continue to receive Excess ERAF revenues in all years of the report according to current state law. However, the report does not assume expenditure allocations in accordance with the previous legislation referenced above, and primarily reserves the use of these revenues to solve for projected revenue losses. Should the original legislation be enforced in the coming five years, the General Fund deficit would increase commensurately.
- **COVID-19 Response:** The Base Case assumes the City will sustain its current level of General Fund support for public health and human services programs in response to the COVID-19 pandemic in fiscal year 2021-22. These projections do not incorporate any estimates of additional state or federal revenue to support the response. Starting in fiscal year 2022-23, no further costs are assumed given the uncertainty of the duration of the pandemic.

The Charter requires that each year's budget be balanced. To close the \$643.2 million gap in fiscal years 2021-22 and 2022-23, in December 2020 based on preliminary projections, the Mayor instructed departments to reduce on-going General Fund support by 7.5% for their proposed fiscal years 2021-22 and 2022-23 budgets. Departments were also instructed to propose a 2.5% on-going contingency reduction that may be utilized in the event that fiscal conditions worsen.

#### **Final Adopted Budget for Fiscal Years 2020-21 and 2021-22**

On October 1, 2020, the Mayor signed the Final Adopted Budget, which was approved by the Board of Supervisors on September 29, 2020.

The Final Adopted budget totals \$13.6 billion for fiscal year 2020-21 and \$12.4 billion for fiscal year 2021-22, representing a year over year increase of \$1.3 billion in fiscal year 2020-21 and year over year decrease of \$1.2 billion in fiscal year 2021-22. The General Fund portion is \$6.2 billion in fiscal year 2020-21 and \$5.8 billion in fiscal year 2021-22, representing a year over year increase of \$58.3 million in fiscal year 2020-21 and decrease of \$396.8 million in fiscal year 2021-22. There are 31,778 funded full-time positions in fiscal year 2020-21 and 31,749 in fiscal year 2021-22, representing year-over-year increases of 6 and 29 positions, respectively.

#### **Other Budget Updates: Fiscal Year 2020-21 Six-Month Budget Status Report**

The Controller's Office provides periodic budget status updates to the City's policy makers during each fiscal year, as required by the City Charter Section 3.105. The most recent budget status update (the "Six-Month Report") was released on February 12, 2021.

The Six-Month Report indicates a projected General Fund net surplus of \$125.2 million in fiscal year 2020-21 (as compared to the Final Adopted Budget). This represents an improvement of \$241 million as compared to the projected deficit of \$115.9 projected in the fiscal year 2020-21 Three-Month Budget Status Report released in November 2020. The Six-Month Report noted that application of this additional projected current year fund balance would reduce the projected shortfalls in the upcoming two-year budget to \$528.0 million. The January 2021 Five-Year Plan assumed the \$115.9 million fiscal year 2020-21 shortfall was solved in the current year. The January 2021 Five-Year Plan also projected shortfalls of \$411.1 million in fiscal year 2021-22 and an additional \$242.1 million in fiscal year 2022-23, for a cumulative total of \$653.2 million. These projections will be updated in or about the end of March 2021.

The Sixth-Month Report does not reflect the numerous proposals pending at the Board of Supervisors to mitigate the economic and financial impact of the COVID-19 emergency, including but not limited to, measures to withdraw from the General Reserve to support the acquisition, creation and operation of affordable, social housing, a deferral to fiscal year 2021-22 of business tax registration fees, the proposed waiver of business registration and license fees for certain entities with less than \$25 million in gross receipts, among other initiatives. If adopted, these proposals would substantially reduce or eliminate the projected ending balance of the General Fund.

In addition, the Sixth-Month Report does not include any projections from the Federal stimulus bill, which includes a potential proposal to include \$350 billion to state and local governments across the United States.

TABLE B-6

**Six Month-Month Report**  
**Fiscal Year 2020-21 Projected General Fund Variances to Final Adopted Budget (\$ million)**

**Changes from Final Adopted Budget**

Fiscal Year 2019-20 estimated fund balance (unaudited)	\$18.4
Citywide Revenue	(18.3)
Baseline Offsets	34.2
Departmental Revenues and Expenditures (including November 2020 Local Ballot Measures)	90.9
<b>Surplus / (Shortfall)</b>	<b>\$125.2</b>

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

- The City currently estimates a fiscal year 2019-20 ending balance of approximately \$388.8 million, or \$18.4 million above the \$370.4 million assumed in the Final Adopted Budget.
- Citywide revenues are now projected to be \$18.3 million below the Final Adopted Budget. Property tax revenues are projected to be \$195.6 million higher as compared to the Final Adopted Budget). In addition, the passage of Proposition I (which increased real property transfer tax rates) and increased real property transfer activity is projected to result in \$115.8 million higher real property transfer taxes as compared to the Final Adopted Budget. These increases are offset by continued underperformance in hotel taxes (\$98.4 million lower projection as compared to the Final Adopted Budget), sales taxes (\$43.5 million lower projection as compared to the Final Adopted Budget) and business taxes (\$158.3 million lower projection as compared to the Final Adopted Budget). The Six-Month Report reflects the continuing high levels of uncertainty relating to revenue projections.
- Voters have adopted many measures that require General Fund contributions to various purposes, the majority of which are indexed to the City's discretionary revenues. Required contributions from the General Fund to voter-approved purposes are currently projected to decline from the Final Adopted Budget by \$34.2 million as a result of the projected discretionary revenue shortfall.
- The projected \$90.9 million net operating surplus in departments is comprised of a \$32.9 million surplus in revenue and \$57.9 million in reduced expenses.

It should be noted that Federal and state legislative and regulatory actions are significant factors in the revenue improvements in the Six-Month Report. For example, a state change in procedures governing allocation of property tax increment to redevelopment successor agencies, and pending state guidelines on the calculation of excess ERAF, are projected to increase property tax revenue retained in the City's General Fund (an estimated additional \$56 million in fiscal year 2020-21, or \$43.1 million after baseline allocations).

The Sixth-Month Report shows no additional deposits or withdrawals from reserves.



The Controller is expected to publish an update to its Five-Year Plan in or about the end of March 2021, and the Nine-Month Fiscal Year 2020-21 budgetary projections is scheduled to be published in or about May 2021.

Periodic budget status updates are provided by the Controller in accordance with reporting requirements of the Charter. The level of uncertainty regarding City revenues and expenditures remains extraordinarily high, driven by the economic and financial impacts of the public health emergency. The City can give no assurances that the COVID-19 pandemic will not result in further adverse impacts on the City's financial condition (including continuing reductions in revenues and/or increases in expenses) in fiscal year 2020-21 and future fiscal years.

## **BUDGETARY RISKS**

### **Threat of Extended Recession**

Following the widespread shutdown of businesses and supply chain disruption in response to the COVID-19 pandemic, on June 8, 2020 the National Bureau of Economic Research announced that the US officially entered into a recession in February 2020. According to the California Employment Development Department, the State's unemployment rate hit a record high of 16.4% in April 2020 and has decreased to 8.2% as of November 2020. In the "Great Recession" that occurred nationally from December 2007 to June 2009 (according to the U.S. National Bureau of Economic Research), California real GDP growth slowed for five consecutive quarters from the third quarter of 2008 to the third quarter of 2009 and did not return to pre-recession level of output until three years later in the third quarter of 2012. The unemployment rate rose steadily from 4.9% in the fourth quarter of 2006 to peak at 12.3 percent in the fourth quarter of 2010 and did not return to the pre-recession level until the second quarter of 2017. More than a third of California jobs are in sectors that are immediately vulnerable to stay-at-home emergency orders.

### **Commuting Pattern Changes**

The sudden and sharp increase in telecommuting creates revenue risk. Approximately half of workers in major tax-paying sectors such as professional services, financial services, and information live outside of San Francisco. Extended periods of working at-home during the emergency may affect how much of a business's payroll expense and gross receipts is apportionable to San Francisco. Some of the City's largest private employers have instructed their employees to telecommute whenever possible, as evidenced by BART ridership declining almost 90% from its pre-COVID-19 baseline ridership. Businesses owe payroll tax only on their employees physically working within the City. For certain categories of businesses, the gross receipts tax is also dependent on their San Francisco payroll. Thus, the sharp rise in telecommuting will result in reduced business taxes. Although some San Francisco residents who previously commuted out of the City are now telecommuting from within the City, many of these residents work for employers who do not have a nexus in the City, and thus are not subject to business taxes.

### **COVID-19 Pandemic**

The COVID-19 emergency is ongoing, and the City's response will likely cost hundreds of millions of dollars, depending on the ultimate duration and severity of the pandemic. The City can give no assurance of the duration or severity of the COVID-19 pandemic, and there is no assurance that its effects will not impose

more significant financial and operating effects on the City before mitigation measures are successfully implemented. For additional information see “PUBLIC HEALTH EMERGENCY – COVID-19.”

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

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

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

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

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

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

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

Francisco Unified School District (“Proposition G” and, together with June Proposition C, the “June Propositions C and G”). In addition, on November 6, 2018 voters passed by a majority vote a special tax submitted through the citizen initiative process: a Homelessness Gross Receipts Tax (“November Proposition C”), a gross receipts tax on larger companies in the City to fund affordable housing, mental health, and other homeless services. The 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.

In August 2018, the Howard Jarvis Taxpayers Association and several other plaintiffs filed a reverse validation action in San Francisco Superior Court challenging the validity of June Proposition C. In September 2018 the City initiated a validation action in the same court seeking a judicial declaration of the validity of Proposition G. In January 2019, the City initiated a similar validation action in the same court concerning November Proposition C.

On July 5, 2019, the San Francisco Superior Court granted the City’s dispositive motions in the lawsuits concerning June Proposition C and November Proposition C, concluding that both measures, which proposed tax increases for specific purposes, required only a simple majority for approval because they were put on the ballot through a citizen signature petition. The Howard Jarvis Taxpayers Association and other petitioners/plaintiffs appealed the decision in the litigation concerning June Proposition C, and the California Business Properties Association and the other defendants/respondents appealed the decision in the litigation concerning November Proposition C.

On June 30, 2020, the Court of Appeal upheld the decision of the trial court in the litigation concerning November Proposition C. The Howard Jarvis Taxpayers Association sought review in the California Supreme Court of this decision. Briefing in the appeal concerning June 2018’s Proposition C is not yet complete, and no oral argument has been scheduled.

On September 9, 2020, the California Supreme Court declined to take an appeal by the Howard Jarvis Taxpayers Association of the Court of Appeal’s ruling in the City’s favor regarding November Proposition C. As noted above, cases relating to June Proposition C and Proposition G are still pending at the Court of Appeal. These cases will proceed through the judicial process.

The Final Adopted Budget for fiscal years 2020-21 and 2021-22 appropriates \$931 million of the November Proposition C funds for various voter-adopted purposes (of which \$492 million has been collected to date). With voters’ adoption of Proposition F on the November 2020 ballot, the City is able to unlock these funds if legal proceedings continue or conclude against the City. Of this total, the Final Adopted Budget assumes repayment to the General Fund of \$196 million in advances made in previous years to begin to implement these programs while the case proceeded. As a result of the above-mentioned court decision, these funds are now free of legal risk on the voter threshold issue.

The Final Adopted Budget also appropriates \$568 million of funds resulting from the contested commercial rents tax measure, and programs those funds for voter-adopted childcare expenditures. Of this total, \$135 million supports the General Fund budget. These funds were at risk and could only be released following a final court ruling the City’s favor or voter adoption of the 2020 Proposition F on the November ballot. Voters approve the 2020 Proposition F. See “CITY BUDGET – Role of Controller in Budgetary Analysis and Projections” for the process in the event revenue shortfalls exceed applicable reserves and any other allowances for revenue shortfalls in the Final Adopted Budget. Parcel taxes collected for teacher compensation were similarly reserved until the legal proceedings conclude, although the

adoption of Proposition J on the November 2020 ballot by a two-thirds vote removed the legal risks on the voter threshold issue going forward and will allow the appropriation of future funds collected under the new tax.

The November 2020 ballot included three major revenue initiatives, which significantly impact local finance. All three measures passed.

- A business tax reform measure, which would increase the gross receipts tax on certain taxpayers and impose new replacement general taxes on the gross receipts from the lease of certain commercial space or larger businesses if two contested 2018 (June Proposition C and November Proposition C) business tax measures are struck down. This measure is assumed in the Final Adopted Budget such that \$330.8 million of new revenue transfers into the General Fund are assumed, to repay prior year General Fund advances made for these purposes. As discussed above, on September 9, 2020, the California Supreme Court declined to take an appeal by the Howard Jarvis Taxpayers Association regarding November Proposition C, Homeless Gross Receipts Tax, allowing the lower court decisions in the City's favor to stand. As a result, \$196 million of the \$330.8 million General Fund advances assumed in the budget could be realized without regard to passage of the ballot measure.
- A transfer tax rate increase, doubling the rates on real property transfers over \$10 million. The Controller's Office estimates the measure could increase transfer tax revenue between \$13.0 million to \$346.0 million. This measure was not assumed in the Final Adopted Budget, but it is assumed in the Six-Month Report and Five Year Financial Plan.
- An additional business tax on businesses with disproportionate executive pay, which the Controller's Office estimates could increase the City's revenue by \$60 to \$140 million annually. This measure is not assumed in the Final Adopted Budget, but it is assumed in the Five Year Financial Plan.

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

Revenues from the State represent approximately 13% of the General Fund revenues appropriated in the Final Adopted Budget for fiscal years 2020-21 and 2021-22, 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 January 8, 2021, the Governor released the State of California's proposed budget for fiscal year 2021-22. The State projects its General Fund budget to be \$164.5 billion, \$8.6 billion (5.5 percent) more than fiscal year 2020-21. Due to previously unanticipated strength in the financial markets, Personal Income Tax – the State's largest General Fund source – is expected to increase by \$5.2 billion in fiscal year 2021-22 over the prior year. This strength is partially offset by expected losses in nearly every other General Fund source.

The state's fiscal year 2020-21 budget requires the State Controller's Office (SCO), which regularly audits all counties' allocations of property tax revenue, to issue guidelines for counties to use in the calculation

and allocation of ERAF by the end of December 2020, applicable to fiscal years 2019-20 and forward only. The City has received a summary of guidance on the calculation of excess ERAF from the California State Controller's Office. See "CITY BUDGET – Fiscal Year 2020-21 Six-Month Budget Status Report." State legislative changes are likely to be introduced in the coming months and could apply retroactively, creating uncertainty about future excess ERAF revenue.

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

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

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

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

On December 27, 2020, the president signed H.R. 133 Consolidated Appropriations Act 2021, funding the federal government for the rest of the federal fiscal year 2020-21 and providing additional COVID relief for individuals, businesses, and health care providers affected by the COVID pandemic. The legislation addresses key priorities for public health systems, including extension of Medicaid DSH cuts to fiscal year 2023-24 and an additional \$3 billion in Provider Relief Funding (PRF) created in the CARES Act. In addition, the Center for Medicare and Medicaid Services granted a one-year extension of California's Section 1115(a) Medicaid waiver, which was set to expire on December 31, 2020. The bill did not include additional support for state and local government.

On February 27, 2021, the House of Representatives passed its version of H.R. 1319, the American Rescue Plan Act of 2021, and the Senate approved an amended version of such legislation on March 6, 2021. The House expects to vote on a reconciled version of the bill, which is expected to be signed by President Biden on or around March 15, 2021. The City continues to study the legislation to determine the amount, if any, of aid that may be available to the City.

Both House and Senate versions of the bill include \$350 billion in state and local government fiscal aid to augment allocations provided in the CARES Act Coronavirus Relief Fund (CRF), and similar amounts to local governments specifically. Under the Senate version, San Francisco would directly receive approximately \$636 million, comprising a CDBG formula allocation to cities and a population-based county allocation. Distributions would occur in two tranches, one each in 2021 and 2022, and be required to be spent by December 31, 2024. Allowable uses include COVID-19 response or mitigation of the negative economic impacts of it, such as assistance to households, small businesses, nonprofits, and aid to impacted industries. A critical improvement versus CRF funds is that it may be used for the provision of government services to the extent of the reduction in revenue. The bill contains \$195 billion of aid to states, and it is possible California will pass through a portion of its aid to local governments, as it did with its CRF funding. San Francisco is also likely to benefit from other subventions and grants included in the legislation, including additional aid to transit systems.

This funding is not currently assumed in the City's budget, budget status reports, planning documents, or projections, and the City can make no assurance that Congress will approve this proposal, including the level of aid for state and local governments.

## **THE SUCCESSOR AGENCY**

### *Effect of the Dissolution Act*

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

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

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

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, certain major redevelopment projects that were previously administered by the Former Agency: (i) the Mission Bay North and South Redevelopment Project Areas, (ii) the Hunters Point Shipyard Redevelopment Project Area and Zone 1/Candlestick Point of the

Bayview Hunters Point Redevelopment Project Area, and (iii) the Transbay Redevelopment Project Area (collectively, the “Major Approved Development Projects”). The Successor Agency exercises land use, development and design approval authority for the Major Approved Development Projects. The Successor Agency also issues community facilities district (“CFD”) bonds from time to time to facilitate development in the major approved development projects in accordance with the terms of such enforceable obligations.

## **GENERAL FUND REVENUES**

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

## **PROPERTY TAXATION**

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

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

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

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

Table B-7 provides a recent history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion, and 2) all voter-approved overrides which fund debt service for general obligation bond indebtedness. It is possible that the COVID-19 Emergency will result in a reduction in property values in the City, and such reduction could be material.

The total tax rate shown in Table B-7 includes taxes assessed on behalf of the City as well as the San Francisco Unified School District (SFUSD), County Office of Education (SFCOE), San Francisco Community College District (SFCCD), Bay Area Air Quality Management District (BAAQMD), and San Francisco Bay Area Rapid Transit District (BART), all of which are legal entities separate from the City. See also, Table B-33: “Statement of Direct and Overlapping Debt and Long-Term Obligations.” In addition to *ad valorem* taxes, voter-approved special assessment taxes or direct charges may also appear on a property tax bill.

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Office of Community Investment and Infrastructure (OCII), the successor agency to the San Francisco Redevelopment Agency. Property tax revenues attributable to the growth in assessed value of taxable property (known as “tax increment”) within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations and a portion of administrative costs of the agency, reducing tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. OCII received \$155.5 million of property tax increment in fiscal year 2019-20 for recognized obligations, diverting about \$86.5 million that would have otherwise been apportioned to the City’s General Fund.

The percent collected of property tax (current year levies excluding supplemental) was 99.05% for fiscal year 2019-20. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder’s Office, numbered 39 for the 6-month period of July 1 to December 31, 2020. For fiscal year 2019-20 a total of 99 trustee deeds were recorded compared to 86 for the fiscal year 2018-19, 111 for fiscal year 2017-18 and 92 for fiscal year 2016-17. It is possible that the COVID-19 Emergency will result in increased foreclosures in the City, and the effect of such increased foreclosures could be material.

**TABLE B-7**

**CITY AND COUNTY OF SAN FRANCISCO**  
**Assessed Valuation of Taxable Property**  
**Fiscal Years 2008-09 through 2020-21**  
**(000s)**

Fiscal Year	Net Assessed <sup>1</sup> Valuation (NAV)	% Change from Prior Year	Total Tax Rate per \$100 <sup>2</sup>	Total Tax Levy <sup>3</sup>	Total Tax Collected <sup>3</sup>	% Collected June 30
2008-09	141,274,628	8.7%	1.163	1,702,533	1,661,717	97.6%
2009-10	150,233,436	6.3%	1.159	1,808,505	1,764,100	97.5%
2010-11	157,865,981	5.1%	1.164	1,888,048	1,849,460	98.0%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.2%
2012-13	165,043,120	4.0%	1.169	1,997,645	1,970,662	98.6%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.8%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.8%
2015-16	194,392,572	6.9%	1.183	2,290,280	2,268,876	99.1%
2016-17	211,532,524	8.8%	1.179	2,492,789	2,471,486	99.1%
2017-18	234,074,597	10.7%	1.172	2,732,615	2,709,048	99.1%
2018-19	259,329,479	10.8%	1.163	2,999,794	2,977,664	99.3%
2019-20	281,073,307	8.4%	1.180	3,509,022	3,475,682	99.0%
2020-21	301,409,161 <sup>4</sup>	7.2%	1.198	3,612,279	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 2019-20 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 2020-21 is based upon initial assessed valuations times the secured property tax rate to provide an estimate.

<sup>4</sup> Based on initial assessed valuations for fiscal year 2020-21

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 2020-21, the total net assessed valuation of taxable property within the City was \$301.4 billion. Of this total, \$283.9 billion (94.2%) represents secured valuations and \$17.5 billion (5.8%) represents unsecured valuations. See “Tax Levy and Collection” below, for a further discussion of secured and unsecured property valuations.

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in assessment appeals as the economy rebounds. During the severe economic downturn of fiscal years 2009-10 and 2010-11, partial reductions of up to approximately 30% of the assessed valuations appealed were granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCOE, SFCCD, BAAQMD, and BART share proportionately in any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In the period following the Great Recession, assessment appeals increased significantly. In fiscal year 2010-11, the Assessor granted 18,841 temporary reductions in residential property assessed value worth a total of \$2.35 billion, compared to 18,110 temporary reductions with a value of \$1.96 billion granted in fiscal year 2009-10. As described further below, the number of new assessment appeals filed as of December 31, 2020, which represents approximately 1.0% of all parcels in San Francisco, was almost double the number of new assessment appeals filed during the same period last year.

It is possible that the current global and national recession and economic dislocation resulting from the COVID-19 Emergency will result in declines in real estate values in the City, and such declines could be material.

Appeals activity is reviewed each year and incorporated into the current and subsequent years’ budget projections of property tax revenues. Refunds of prior years’ property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2013-14 through 2019-20 are listed in Table B-8 below.

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TABLE B-8

**CITY AND COUNTY OF SAN FRANCISCO**  
**Refunds of Prior Years' Property Taxes**  
**General Fund Assessment Appeals Reserve**  
**Fiscal Years 2013-14 through 2019-20**  
**(000s)**

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

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

As of July 1, 2020 the Assessor granted 2,797 temporary decline-in-value reductions resulting in a cumulative assessed value reduction of \$377.88 million (using the 2019-2020 tax rate of 1.1801% this equates to a reduction of approximately \$4.46 million in General Fund taxes), compared to July 1, 2019, when the Assessor granted 2,546 temporary reductions in property assessed values worth a total of \$244.01 million (equating to a reduction of approximately \$2.84 million in General Fund taxes). Of the 2,797 total reductions, 633 temporary reductions were granted for residential properties, 2,065 reductions were for timeshares and 99 reductions were for historically designated properties with an existing Mills Act Contract with the City and County of San Francisco. 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 is between July 2<sup>nd</sup> and September 15<sup>th</sup>. If the 15<sup>th</sup> falls on a Saturday or Sunday, applications filed or postmarked the next business day are considered timely.

As of June 30, 2020, the total number of open appeals before the AAB was 1,166. During the fiscal year 2019-20 there were 1,417 new applications filed. The difference between the current assessed value and the taxpayer's opinion of values for all the open applications is \$15.7 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 \$185.7 million would result. The General Fund's portion of that potential \$185.7 million would be approximately \$87.4 million. As of December 31, 2020, the total number of open appeals before the AAB was 3,065, which represents a total negative potential property tax impact of \$382.7 million. Of this, 2,173 appeals, representing a total a total negative potential property tax impact of \$204.2 million, were filed in fiscal year 2020-21. This potential negative impact would only be realized to the extent appeals were heard by the Assessment Appeals Board and assessed values are actually reduced to the value asserted by property owners. Actual reductions have historically been much lower than values asserted by property owners in appeals, given the large number of appeals that are eventually withdrawn. Of the 994 appeals closed during fiscal year 2019-20, 701, or 70.5% of appeals, were withdrawn.

Nearly all of the appeal applications filed during fiscal year 2020-21 challenge the assessed value of property for fiscal year 2020-21, however, because the assessed value of secured property for fiscal year 2020-21 is determined by the Assessor as of the January 1, 2020 lien date, which predates the COVID-19 pandemic and its related economic effects, the City does not expect a material reduction in assessed values resulting from fiscal year 2020-21 appeal applications. However, the effects of the pandemic and ensuing recession will likely increase the number of future appeals. Additionally, under Proposition 8, adopted by California voters in 1978, the Assessor could on its own initiative reduce the assessed value of properties with market values that fall below their values assessed in accordance with Proposition 13. Following a Proposition 8 reduction, the assessed value continues to match the market value until the market value again exceeds the maximum assessed value calculated under Proposition 13.

The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals that are based on historical results as to appeals.

### **Tax Levy and Collection**

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the BAAQMD and BART. The total tax levy for all taxing entities to begin fiscal year 2019-20 was \$3.3 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of total property tax revenues (including supplemental and escape property taxes), the City budgeted to receive \$2.0 billion in the General Fund and \$235.1 million in special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD were estimated to receive approximately \$199.8 million and \$37.4 million, respectively, and the local ERAF was estimated to receive \$401.1 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency was estimated to receive approximately \$171.3 million. The remaining portion will be 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. The City's General Fund is allocated about 47.1% of total property tax revenue before adjusting for the VLF backfill shift and excess ERAF.

General Fund property tax revenues in fiscal year 2019-20 were \$2.1 billion, representing a decrease of \$173.0 million (7.7%) over fiscal year 2018-19 actual revenue. The decrease is due to recognition of three years' excess ERAF revenue (fiscal years 2016-17, 2017-18, and 2018-19) in fiscal year 2018-19 compared to just one year in fiscal year 2019-20. The COVID-19 Emergency may negatively impact the availability of Excess ERAF contributions, as described in "Impact of the State of California Budget on Local Finances." Tables B-2 and B-4 set forth a history of budgeted and actual property tax revenues.

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

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

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

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

In connection with the COVID-19 Emergency, property owners unable to pay their April 10, 2020 property taxes by May 15, 2020 due to COVID-19 were able to request a penalty waiver. Pursuant to the Governor’s Executive Order N-61-20, if a property owner was approved for a waiver and was unable to pay property taxes for a primary residence or small business due to COVID-19, an extension until May 6, 2021 was granted without any late payment penalties. Currently, 1,303 secured parcels and 347 unsecured parcels, representing a total property tax amount of \$18.3 million, remain unpaid. If these parcels remain unpaid after May 6, 2021, the parcel owners will be delinquent and may seek waivers under the normal course available to them under the California Revenue and Taxation Code. Even under the Governor’s Executive Order N-61-20 waiver program, San Francisco’s delinquent rate on secured parcels for fiscal year 2019-20 was less than 1.0%.

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 B-9. The Tax Loss Reserve sets aside 1% of the total of all taxes and

assessments levied for which the Teeter Plan is the applicable distribution method. The purpose of the Tax Loss Reserve is to cover losses that may occur. The amount has grown in recent years as the assessed values on the secured roll has grown.

**TABLE B-9**

**CITY AND COUNTY OF SAN FRANCISCO**  
**Teeter Plan**  
**Tax Loss Reserve Fund Balance**  
**Fiscal Years 2013-14 through 2019-20**  
**(000s)**

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

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, 2019 are shown in Table B-10. 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 B-10**

**CITY AND COUNTY OF SAN FRANCISCO**  
**Top 10 Parcels Total Assessed Value**  
**July 1, 2020**

Assessee <sup>1</sup>	Location	Parcel Number	Type	Total Assessed Value <sup>2</sup>	% Basis of Levy <sup>3</sup>
SUTTER BAY HOSPITALS <sup>4</sup>	1101 - 1133 VAN NESS AVE	0695 007	HOSPITAL	\$2,692,380,427	0.891%
TRANSBAY TOWER LLC	415 MISSION ST	3720 009	OFFICE	\$1,784,578,020	0.591%
GSW ARENA LLC	1 WARRIORS WAY	8722 021	ENTERTAINMENT COMP	\$1,356,965,686	0.449%
HWA 555 OWNERS LLC	555 CALIFORNIA ST	0259 026	OFFICE	\$1,059,562,654	0.351%
ELM PROPERTY VENTURE LLC	101 CALIFORNIA ST	0263 011	OFFICE	\$1,025,109,898	0.339%
PPF PARAMOUNT ONE MARKET PLAZA OWNER LP	1 MARKET ST	3713 007	OFFICE	\$868,013,216	0.287%
KR MISSION BAY LLC	1800 OWENS ST	8727 008	OFFICE	\$835,809,683	0.277%
SHR GROUP LLC	301 - 345 POWELL ST	0307 001	HOTEL	\$765,686,754	0.254%
SUTTER BAY HOSPITALS <sup>4</sup>	3615 CESAR CHAVEZ ST/555 SAN JOSE	6575 005	HOSPITAL	\$762,407,195	0.252%
SFDC 50 FREMONT LLC	50 FREMONT ST	3709 019	OFFICE	\$717,267,750	0.237%
				<b>\$11,867,781,283</b>	<b>3.930%</b>

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

<sup>2</sup> Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year. TAV includes land & improvements, personal property, and fixtures. Values reflect information as of January 1, 2020.

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

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

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

## Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2020-21 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. The City's General Fund is also supported by other sources of revenue, including charges for services, fines and penalties, and transfers-in, which are not discussed below.

See Table B-11 below for a summary of revenue source as a percentage of total General Fund revenue based on audited financials for fiscal year 2019-20 and the Final Adopted Budget for fiscal year 2020-21.

TABLE B-11

Revenues	FY 2019-20		FY 2020-21	
	Audited		Final Adopted Budget	
Property Taxes	\$2,075,002	37.9%	\$2,019,600	38.6%
Business Taxes	822,154	15.0%	826,400	15.8%
Other Local Taxes	996,180	18.2%	657,990	12.6%
Licenses, Permits and Franchises	25,318	0.5%	23,175	0.4%
Fines, Forfeitures and Penalties	3,705	0.1%	2,338	0.0%
Interest and Investment Income	65,459	1.2%	23,490	0.4%
Rents and Concessions	9,816	0.2%	10,948	0.2%
Intergovernmental	1,183,341	21.6%	1,380,693	26.4%
Charges for Services	229,759	4.2%	257,295	4.9%
Other	62,218	1.1%	25,254	0.5%
<b>Total Revenues</b>	<b>\$5,472,952</b>	<b>100.0%</b>	<b>\$5,227,184</b>	<b>100.0%</b>

Note: Other local taxes includes sales, hotel, utility users, parking, sugar sweetened beverage, stadium admissions, access line, and cannabis taxes (once it takes effect beginning January 1, 2022).

## Business Taxes

Through tax year 2014, businesses in the City were subject to payroll expense and business registration taxes. Proposition E approved by the voters in the November 2012 election changed business registration tax rates and introduced a gross receipts tax which 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 increased 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 applies to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. Proposition E also imposes a 1.4% tax on administrative office business activities measured by a company’s total payroll expense within San Francisco in lieu of the Gross Receipts Tax and increases annual business registration fees to as much as \$35,000 for businesses with over \$200 million in gross receipts. Prior to Proposition E, business registration taxes varied from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability. Proposition E increased the business registration tax rates to between \$75 and \$35,000 annually.

Business tax revenue in fiscal year 2019-20 was \$824.7 million (all funds), representing a decrease of \$94.9 million (10.3%) from fiscal year 2018-19. The fiscal year 2020-21 Final Adopted Budget is \$828.9 million, an increase of \$4.2 million (0.5%) from the fiscal year 2019-20 figures. The fiscal year 2021-22 Final Adopted Budget is \$1,033.4 million, an increase of \$204.5 million (24.7%) from the fiscal year 2020-21 Final Adopted Budget. The vast majority of the City’s business tax is deposited in the General Fund; approximately \$2.0 million is allocated to the Neighborhood Beautification Fund. These figures do not assume gross receipts revenue related to either of the business tax measures approved by voters in 2018 (June Proposition C and November Proposition C), which are special purpose taxes

Revenues from business tax and registration fees follow economic conditions in the City, primarily employment and wage growth. The COVID-19 emergency has significantly affected the business tax revenue base. The unemployment rate in the City rose to 12.6% in April 2020 (compared to 2.9% in January 2020) and remained at 12.5% in June before dropping to 6.4% in December 2020, the most recent data available. At the end of March 2020, weekly initial unemployment claims peaked at about 27,000. Though weekly initial claims fell in the following weeks, since early May 2020, initial claims have been around 5,000 weekly, more than five times higher than the average number of initial claims in the two months before the March 17, 2020 shelter-in-place order. Since March 2020, thousands of businesses have closed temporarily, some permanently.

The Final Adopted Budget assumes underlying economic contraction of 5% in tax year 2020 and growth of 6% in tax year 2021, reflecting a quick recovery of employment lost to public health mandates. The projection also takes into account the Mayor’s policies to provide relief to businesses during the pandemic through: (1) the deferral of business registration taxes owed in fiscal year 2019-20 to fiscal year 2020-21 and (2) the deferral of business tax payments for small businesses throughout the tax period to February 2021. In addition, Proposition F adopted by voters in November 2020 is assumed to generate \$4.0 million of business tax in fiscal year 2020-21 and \$23.0 million in fiscal year 2021-22 as intended. The Final Adopted

Budget, however, does not take into account an ordinance approved by the Board in January 2021 which extends the deadline to (1) pay license fees originally due on March 31, 2020 and March 31, 2021 to November 1, 2021, (2) pay business registration fees originally due on June 1, 2020 to April 30, 2021, and (3) pay and file returns for certain business taxes for the 2020 tax year to April 30, 2021.

Additionally, the sudden and sharp increase in telecommuting creates revenue risk. Approximately half of workers in major tax-paying sectors such as Professional Services, Financial Services, and Information live outside of San Francisco. Extended periods of working at-home during the emergency may affect how much of a business's payroll expense and gross receipts is apportionable to San Francisco. Some of the City's largest private employers have instructed their employees to telecommute whenever possible, as evidenced by BART ridership declining almost 90% from its pre-COVID-19 baseline ridership. Businesses owe payroll tax only on their employees physically working within the City. For certain categories of businesses, the gross receipts tax is also dependent on their San Francisco payroll. Thus, the sharp rise in telecommuting will result in reduced business taxes. Although some San Francisco residents who previously commuted out of the City are now telecommuting from within the City, many of these residents work for employers who do not have a nexus in the City, and thus are not subject to business taxes.

In the medium- to long-term, permanent relocations out of the San Francisco area could have a larger impact on the City's tax base. The Final Adopted Budget assumes that in calendar year 2020, 50% of workers in the Professional Services, Financial Services, and Information sectors who live outside of San Francisco now work from home instead of commuting into the City, and that in calendar year 2021, 25% telecommute. In fiscal year 2020-21, these assumptions about telecommuting reduce payroll tax revenue by 10.2% and gross receipts tax revenue by 7.7%. In fiscal year 2021-22, these assumptions reduce payroll tax and gross receipts tax revenues by 2.9% and 2.2%, respectively. See "CITY BUDGET - Other Budget Updates: Three-Month Budget Status Report and Five-Year Financial Plan" for a summary of the most recent projections.

TABLE B-12

**CITY AND COUNTY OF SAN FRANCISCO**  
**Business Tax Revenues - All Funds**  
**Fiscal Years 2016-17 through 2021-22**  
**(000s)**

Fiscal Year <sup>1</sup>	Revenue	Change	
2016-17	\$702,331	41,405	6.3%
2017-18	899,142	196,811	28.0%
2018-19	919,552	20,410	2.3%
2019-20	824,671	(94,881)	-10.3%
2020-21 <i>budgeted</i> <sup>2</sup>	828,900	4,229	0.5%
2021-22 <i>budgeted</i> <sup>2</sup>	1,033,400	204,500	24.7%

<sup>1</sup> Figures for fiscal years 2016-17 through 2019-20 are actuals. Includes portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax.

<sup>2</sup> Figures for fiscal years 2020-21 and 2021-22 reflect Final Adopted Budget from Oct. 1, 2020.

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 in fiscal year 2019-20 ended at \$281.6 (all funds) million, a decrease of \$132.7 million (32.0%) from fiscal year 2018-19. The Final Adopted Budget for fiscal year 2020-21 reflects hotel tax revenue of \$156.7 million, a decrease of \$125.0 million (44.4%) from fiscal year 2019-20. The fiscal year 2021-22 Final Adopted Budget is \$266.0 million, an increase of \$109.3 million (69.8%) from the fiscal year 2020-21 proposed budget. 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 B-13 includes hotel tax in all funds. The vast majority of the City's hotel tax is allocated to the General Fund, approximately \$5 million of hotel tax is allocated for debt service on hotel tax revenue bonds, and approximately \$28 to \$34 million of hotel tax is allocated for arts and cultural programs.

The significant decline in fiscal year 2020-21 revenue is due to the far-reaching impact of the pandemic on San Francisco's travel and hospitality industries. San Francisco's hotels are, on average, in the higher-priced tiers and rely on business travelers and tourists who arrive by air. Because of the COVID-19 pandemic, air travel is perceived as highly risky, and higher tier hotels are expected to be the slowest class of hotels to recover in this economic climate. Large gatherings and conferences, which normally drive up rates through compression pricing, remain prohibited in the City. As of July 2020, approximately 40% of San Francisco hotels remained closed, and occupancy rates for those that were open averaged 34.1%. Adjusted for room supply, the occupancy rate was 19.3%, an improvement from June's 16.0%, but still a dramatic reduction from July 2019 occupancy of 84.9%. The projected recovery of hotel tax revenue in fiscal year 2021-22 is largely based on the assumption that widespread vaccination uptake will lead to a resumption in large in-person gatherings.

Revenue per Available Room (RevPAR), a measurement of hotel tax revenue growth, is a function of changes in occupancy and average daily room rates (ADR), and generally grew between fiscal years 2011-12 and 2018-19. During the first seven months of fiscal year 2019-20, RevPAR grew by 2.8% on average over the same period prior year. As airlines began suspending flights to and from China in February, RevPAR decreased 10.9%. The decline sharpened with the shelter in place order in March, and RevPAR in the City reached its record low of \$15.89 in April, a 92.7% decrease from the same month prior year. Since then, as the City has slowly eased some restrictions, RevPAR has also increased slightly to \$30.65 in June, still an 86.7% decrease from the same month in 2019. RevPAR is not expected to recover to pre-pandemic levels until fiscal year 2025-26. See "CITY BUDGET - Five-Year Financial Plan" for a summary of the most recent projections.

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TABLE B-13

**CITY AND COUNTY OF SAN FRANCISCO**  
**Transient Occupancy Tax Revenues - All Funds<sup>1</sup>**  
**Fiscal Years 2016-17 through 2021-22**  
**(000s)**

Fiscal Year <sup>2</sup>	Tax Rate	Revenue	Change	
2016-17	14.0%	\$375,291	(17,391)	-4.4%
2017-18	14.0%	385,550	10,259	2.7%
2018-19	14.0%	414,343	28,792	7.5%
2019-20	14.0%	281,615	(132,728)	-32.0%
2020-21 <i>budgeted</i> <sup>3</sup>	14.0%	156,652	(124,963)	-44.4%
2021-22 <i>budgeted</i> <sup>3</sup>	14.0%	265,969	109,317	69.8%

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

<sup>2</sup> Figures for fiscal year 2016-17 through 2019-20 are actuals.

<sup>3</sup> Figures for fiscal years 2020-21 and 2021-22 reflect Final Adopted Budget from Oct. 1, 2020.

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

### Real Property Transfer Tax

Real property transfer tax (RPTT) is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Prior to November 8, 2016, the RPTT 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.

RPTT revenue for fiscal year 2019-20 was \$334.5 million, a \$29.5 million (8.1%) decrease from fiscal year 2018-19 revenue. The fiscal year 2020-21 Final Adopted Budget is \$138.0 million, a decrease of \$196.5 million (58.7%) from fiscal year 2019-20. The fiscal year 2021-22 Final Adopted Budget is \$253.4 million, an increase of \$115.4 million (83.6%) from the fiscal year 2020-21 Final Adopted budget. The entirety of RPTT revenue goes to the General Fund.

The Final Adopted Budget assumes that market uncertainty will result in fewer transfers of commercial properties in fiscal year 2020-21, but the City will return to its long-term average in the following fiscal year. As previously noted, the budget does not assume the passage of Proposition I in November 2020, which would double the transfer tax rates on the sale of properties greater than \$10 million. Proposition I has passed, and future projections will include revenue related to this measure

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

TABLE B-14

**CITY AND COUNTY OF SAN FRANCISCO**  
**Real Property Transfer Tax Receipts - All Funds**  
**Fiscal Years 2016-17 through 2021-22**  
**(000s)**

Fiscal Year <sup>1</sup>	Revenue	Change	
2016-17	\$410,561	\$141,471	52.6%
2017-18	280,416	(130,145)	-31.7%
2018-19	364,044	83,628	29.8%
2019-20	334,535	(29,509)	-8.1%
2020-21 <i>budgeted</i> <sup>2</sup>	138,000	(196,535)	-58.7%
2021-22 <i>budgeted</i> <sup>2</sup>	253,420	115,420	83.6%

<sup>1</sup> Figures for fiscal year 2016-17 through 2019-20 are actuals

<sup>2</sup> Figures for fiscal years 2020-21 and 2021-22 reflect Final Adopted Budget from Oct. 1, 2020.

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 ("Bradley-Burns" portion). The State collects the City's local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City.

The components of San Francisco's 8.5% sales tax rate are shown in Table B-15. In addition to the 1% portion of local sales tax, the State subvenes portions of sales tax back to counties through 2011 realignment (1.0625%), 1991 realignment (0.5%), and public safety sales tax (0.5%). The subventions are discussed in more detail after the local tax section.

TABLE B-15

San Francisco's Sales & Use Tax Rate	
<b>State Sales Tax</b>	<b>6.00%</b>
State General Fund	3.9375%
Local Realignment Fund 2011*	1.0625%
Local Revenue Fund*	0.50%
(to counties for health & welfare)	
Public Safety Fund (to counties & cities)*	0.50%
<b>Local Sales Tax</b>	<b>1.25%</b>
Local Sales Tax (to General Fund)*	1.00%
Local Transportation Tax (TDA)	0.25%
<b>Special District Use Tax</b>	<b>1.25%</b>
SF County Transportation Authority	0.50%
Bay Area Rapid Transit (BART)	0.50%
SF Public Financing Authority (Schools)	0.25%
<b>TOTAL Sales Tax Rate</b>	<b>8.50%</b>

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

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

Local sales tax (the 1% portion) revenue in fiscal year 2019-20 is \$180.2 million, \$33.4 million (15.7%) less than fiscal year 2018-19. The fiscal year 2020-21 Final Adopted Budget is \$183.7 million, an increase of \$3.5 million (1.9%) from fiscal year 2019-20. The fiscal year 2021-22 Final Adopted Budget is \$185.3 million, an increase of \$1.6 million (0.9%) from the fiscal year 2020-21 Final Adopted Budget. The entirety of sales tax revenue is deposited in the General Fund.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy and spending patterns. In recent years, online retailers have contributed significantly to sales tax receipts, offsetting sustained declines in point of sale purchases.

The sales tax budget in fiscal year 2020-21 is driven by anticipated losses at restaurants, hotels, and non-essential retail because of the COVID-19 pandemic. Many San Francisco businesses are closed or operating at significantly reduced capacity, and consumers are spending less in certain categories given fewer opportunities and job loss or insecurity. To support small businesses, the State allowed eligible businesses to defer sales and use tax payments over a period of 12 months. The expiration of the deferral program contributes to slower estimated growth in fiscal year 2021-22.

TABLE B-16

**CITY AND COUNTY OF SAN FRANCISCO**  
**Sales and Use Tax Revenues**  
**Fiscal Years 2016-17 through 2021-22**  
**(000s)**

Fiscal Year <sup>1</sup>	Tax Rate	City Share	Revenue	Change	
2016-17	8.75%	1.00%	\$189,473	(14,645)	-8.7%
2017-18	8.50%	1.00%	192,946	3,473	1.8%
2018-19	8.50%	1.00%	213,625	20,679	10.7%
2019-20	8.50%	1.00%	180,184	(33,441)	-15.7%
2020-21 <i>budgeted</i> <sup>2</sup>	8.50%	1.00%	183,670	3,486	1.9%
2021-22 <i>budgeted</i> <sup>2</sup>	8.50%	1.00%	185,300	1,630	0.9%

<sup>1</sup> Figures for fiscal year 2016-17 through fiscal year 2019-20 are actuals.

<sup>2</sup> Figures for fiscal years 2020-21 and 2021-22 reflect Final Adopted Budget from Oct. 1, 2020.

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

### Other Local Taxes

The City imposes a number of other general purpose taxes:

- **Utility Users Tax (UUT)** - A 7.5% tax on non-residential users of gas, electricity, water, steam and telephone services.
- **Access Line Tax ("ALT")** – A charge of \$3.64 on every telecommunications line, \$27.35 on every trunk line, and \$492.32 on every high capacity line in the City. The charges will increase to \$3.73 on every telecommunications line, \$28.02 on every trunk line, and \$504.40 on every high capacity line in the City in January 2021. The ALT replaced the Emergency Response Fee ("ERF") in 2009. The tax is collected from telephone communications service subscribers by the telephone service supplier.
- **Parking Tax** - A 25% tax for off-street parking spaces. The tax is paid by occupants and remitted monthly to the City by parking facility operators. In accordance with Charter Section 16.110, 80% of parking tax revenues are transferred from the General Fund to the MTA's Enterprise Funds to support public transit.
- **Sugar Sweetened Beverage Tax** – A one cent per ounce tax on the distribution of sugary beverages. This measure was adopted by voters on November 9, 2016 (Prop V) and took effect on January 1, 2018.
- **Stadium Admission Tax** – A tax between \$0.25 and \$1.50 per seat or space in a stadium for any event, with some specific exclusions.

- **Cannabis Tax** – A gross receipts tax of 1% to 5% on marijuana business and permits the City to tax businesses that do not have a physical presence in the City. This measure was adopted by voters in November 2018 (Prop D). The tax was originally slated to go into effect on January 1, 2021, but in December 2021, the Board delayed the imposition of the tax by one year. The cannabis tax will now take effect beginning January 1, 2022.
- **Franchise Tax** – A tax for the use of city streets and rights-of-way on cable TV, electric, natural gas, and steam franchises.

Table B-17 reflects the City’s actual tax receipts for fiscal years 2016-17 through 2019-20 and budgeted receipts for fiscal years 2020-21 through 2021-22.

As with the larger tax revenues described above, the City anticipates these sources will be impacted by the course of the COVID-19 pandemic and pace of economic recovery. Consistent with the other tax revenues, the Final Adopted Budget for fiscal year 2020-21 assumes that the local economy continues to be depressed in the first half of the fiscal year but begins to recover in the second half of the fiscal year. Fiscal year 2021-22 is assumed to rebound, as economic activity is anticipated to grow. See “CITY BUDGET - Five-Year Financial Plan” for a summary of the most recent projections.

**TABLE B-17**

CITY AND COUNTY OF SAN FRANCISCO						
Other Local Taxes						
Fiscal Years 2016-17 through 2021-22						
General Fund						
(000s)						
Tax	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	2019-20 Actuals	2020-21 Budget <sup>1</sup>	2021-22 Budget <sup>1</sup>
Utility Users Tax	\$101,203	\$94,460	\$93,918	\$94,231	\$81,090	\$88,990
Access Line Tax	46,530	51,255	48,058	49,570	48,900	51,990
Parking Tax	84,278	83,484	86,020	69,461	59,350	84,580
Sugar Sweetened Beverage Tax	N/A	7,912	16,098	13,182	14,000	14,000
Stadium Admissions Tax	1,199	1,120	1,215	2,730	2,500	4,400
Cannabis Tax	N/A	N/A	N/A	N/A	4,250	8,500
Franchise Tax	17,130	16,869	15,640	16,028	15,640	15,640

<sup>1</sup> Figures for fiscal years 2020-21 and 2021-22 reflect Final Adopted Budget from Oct. 1, 2020.

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

## INTERGOVERNMENTAL REVENUES

### State Subventions Based on Taxes

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

- **Health and Welfare Realignment**, enacted in 1991, restructured the state-county partnership by giving counties increased responsibilities and dedicated funding to administer certain public health, mental health and social service programs.

- Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers.
- State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City's proportionate share of Statewide sales activity. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above. Disbursements are made to counties based on the county ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year.

Table B-18 reflects the City's actual receipts for fiscal years 2016-17 through 2019-20 and budgeted receipts for fiscal years 2020-21 through 2021-22. As described in the "Impact of the State of California Budget on Local Finances" section above, State-wide sales tax is anticipated to decline and therefore, formula-driven subventions to counties are also expected to decline. The State of California's budget temporarily backfills county realignment revenues in fiscal year 2020-21. The value of this backfill to the City and County of San Francisco is \$28.0 million.

TABLE B-18

CITY AND COUNTY OF SAN FRANCISCO Selected State Subventions - All Funds Fiscal Years 2016-17 through 2021-22 (\$millions)						
Tax	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	2019-20 Actuals	2020-21 Budget <sup>1</sup>	2021-22 Budget <sup>1</sup>
<b>Health and Welfare Realignment</b>						
General Fund	\$192.1	\$197.9	\$217.6	\$219.6	\$190.1	\$197.0
Hospital Fund	66.1	57.3	58.5	54.1	49.2	49.2
<b>Total - Health and Welfare</b>	<b>\$258.2</b>	<b>\$255.2</b>	<b>\$276.1</b>	<b>\$273.7</b>	<b>\$239.4</b>	<b>\$246.2</b>
<b>Backfill Realignment<sup>3</sup></b>						
General Fund					\$22.1	
Non General Fund					6.0	
<b>Total - Backfill Realignment</b>					<b>\$28.0</b>	
Public Safety Realignment (General Fund)	\$35.5	\$37.4	\$39.4	\$41.1	\$36.1	\$33.2
Public Safety Sales Tax (Prop 172) (General Fund)	\$100.4	\$104.8	\$107.6	\$103.9	\$97.1	\$103.6

<sup>1</sup> Figures for fiscal years 2020-21 and 2021-22 reflect Final Adopted Budget from Oct. 1, 2020.

<sup>2</sup> Backfill Realignment is a one-time State funding to fill the shortfall in Health and Welfare Realignment and Public Safety Realignment due to the decrease of sales tax and vehicle license fees.

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

## CITY GENERAL FUND PROGRAMS AND EXPENDITURES

### General Fund Expenditures by Major Service Area

As a consolidated city and county, San Francisco budgets General Fund expenditures in seven major service areas as described in Table B-19 below:

**TABLE B-19**

CITY AND COUNTY OF SAN FRANCISCO Expenditures by Major Service Area Fiscal Years 2016-17 through 2021-22 (000s)						
Major Service Areas	2016-17 Final Budget	2017-18 Final Budget	2018-19 Final Budget	2019-20 Final Budget	2020-21 Original Budget <sup>1</sup>	2021-22 Original Budget <sup>1</sup>
Public Protection	\$1,266,148	\$1,316,870	\$1,390,266	\$1,493,240	\$1,448,004	\$1,419,535
Human Welfare & Neighborhood Development	978,126	1,047,458	1,120,892	1,270,530	1,477,225	1,272,305
Community Health	763,496	832,663	967,113	1,065,051	1,152,275	1,004,399
General Administration & Finance	252,998	259,916	290,274	332,296	363,650	367,768
Culture & Recreation	139,473	142,081	154,056	161,274	158,511	167,908
General City Responsibilities	134,153	114,219	172,028	137,851	219,635	175,806
Public Works, Transportation & Commerce	166,295	238,564	214,928	216,824	186,729	167,017
Total <sup>2</sup>	\$3,700,689	\$3,951,771	\$4,309,557	\$4,677,066	\$5,006,029	\$4,574,738

<sup>1</sup> Figures for fiscal years 2020-21 and 2021-22 reflect Final Adopted Budget from Oct. 1, 2020.

<sup>2</sup> Total may not add due to rounding

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

Public Protection primarily includes the Police Department, the Fire Department and the Sheriff's Office. Human Welfare & Neighborhood Development includes the Department of Human Services' aid assistance, aid payments, and City grant programs. Community Health includes the Public Health Department, which also operates San Francisco General Hospital and Laguna Honda Hospital.

For budgetary purposes, enterprise funds (which are not shown on the table above) are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund, the Gas Tax Fund, the Golf Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. These funds are supported by transfers from the General Fund to the extent their dedicated revenue streams are insufficient to support the desired level of services.

### Voter-Mandated Spending Requirements

The Charter requires funding for voter-mandated spending requirements, which are also referred to as "baselines," "set-asides," or "mandates". The chart below identifies the required and budgeted levels of funding for key mandates. The spending requirements are formula-driven, variously based on projected aggregate General Fund discretionary revenue, property tax revenues, total budgeted spending, staffing levels, or population growth. Table B-20 reflects fiscal year 2020-21 and 2021-22 spending requirements in the Final Adopted Budget. These mandates are either budgeted as transfers out of the General Fund, or allocations of property tax revenue.

If the City's projected deficit exceeds \$200 million, the required growth to the Dignity Fund and Recreation and Park baselines are suspended. The projected deficit in the March update to the Five-Year Financial Plan (released March 2020), exceeded \$200 million. The suspension is reflected in the fiscal year 2020-21 amounts on Table B-20.



TABLE B-20

CITY AND COUNTY OF SAN FRANCISCO  
 Baselines & Set-Asides  
 FY 2020-21 and FY 2021-22  
 (\$millions)

	2020-21 Original Budget <sup>1</sup>	2021-22 Original Budget <sup>1</sup>
<b>Projected General Fund Aggregate Discretionary Revenue (ADR)</b>	<b>\$3,486.8</b>	<b>\$3,905.4</b>
<b>Municipal Transportation Agency (MTA)</b>		
MTA - Municipal Railway Baseline: 6.686% ADR	\$240.7	\$276.7
MTA - Parking & Traffic Baseline: 2.507% ADR	87.4	97.9
MTA - Population Adjustment	55.4	57.6
MTA - 80% Parking Tax In-Lieu	47.5	67.7
<b>Subtotal - MTA</b>	<b>\$431.0</b>	<b>\$499.8</b>
<b>Library Preservation Fund</b>		
Library - Baseline: 2.286% ADR	\$79.7	\$89.3
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	67.4	67.3
<b>Subtotal - Library</b>	<b>\$147.1</b>	<b>\$156.6</b>
<b>Children's Services</b>		
<i>Children's Services Baseline - Requirement: 4.830% ADR</i>	<i>\$168.4</i>	<i>\$188.6</i>
Children's Services Baseline - Eligible Items Budgeted	193.6	208.9
<i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i>	<i>20.2</i>	<i>22.7</i>
Transitional Aged Youth Baseline - Eligible Items Budgeted	30.9	31.0
Public Education Services Baseline: 0.290% ADR	10.1	11.3
NAV	107.8	107.7
<i>Public Education Enrichment Fund: 3.057% ADR</i>	<i>106.6</i>	<i>119.4</i>
1/3 Annual Contribution to Preschool for All	35.5	39.8
2/3 Annual Contribution to SF Unified School District	71.1	79.6
<b>Subtotal - Children's Services</b>	<b>\$449.0</b>	<b>\$478.3</b>
<b>Recreation and Parks</b>		
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	\$67.4	\$67.3
<i>Recreation &amp; Parks Baseline - Requirement</i>	<i>76.2</i>	<i>79.2</i>
Recreation & Parks Baseline - Budgeted	84.0	80.5
<b>Subtotal - Recreation and Parks</b>	<b>\$151.4</b>	<b>\$147.8</b>
<b>Other</b>		
<i>Housing Trust Fund Requirement</i>	<i>\$39.6</i>	<i>\$42.4</i>
Housing Trust Fund Budget	39.6	42.4
Dignity Fund	50.1	53.1
Street Tree Maintenance Fund: 0.5154% ADR	18.0	20.1
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	3.8	3.7
City Services Auditor: 0.2% of Citywide Budget	22.9	21.4
<b>Subtotal - Other</b>	<b>\$134.3</b>	<b>\$140.8</b>
<b>Recently Adopted Expenditure Requirements</b>		
<i>Our City, Our Home Baseline Requirement (Nov 2018 Prop C)</i>	<i>215.0</i>	<i>215.0</i>
Our City, Our Home Budget, Estimated	266.8	279.8
<i>Early Care and Education Baseline Requirement (June 2018 Prop C)</i>	<i>79.7</i>	<i>86.5</i>
Early Care and Education Budget	90.8	98.0
<b>Total Baselines and Set-Asides</b>	<b>\$1,670.3</b>	<b>\$1,801.1</b>

<sup>1</sup> Figures for fiscal years 2020-21 and 2021-22 reflect Final Adopted Budget from Oct. 1, 2020.

## **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 \$5.6 billion in fiscal year 2020-21 (all funds) and \$5.8 billion in fiscal year 2021-22 in the Final Adopted Budget. For the General Fund, the combined salary and benefits budget is \$2.7 billion in fiscal year 2020-21 and \$2.6 billion in fiscal year 2021-22 in the Final Adopted 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 SF Unified School District ("SFUSD"), SFCCD and the San Francisco Superior Court, called Trial Court below, are not City employees.

### **Labor Relations**

The City's budget for fiscal year 2020-21 included 38,267 full-time and part-time 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.

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

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

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

In May 2019, the City negotiated three-year agreements (for fiscal years 2019-20 through 2021-22) with 27 labor unions. This includes the largest unions in the City such as SEIU, IFPTE, Laborers Internationals, Local 261, Consolidated Crafts Coalition, and Municipal Executive Association ("MEA"). For the fiscal year 2019-20, the parties agreed to wage increases of 3% on July 1, 2019 and 1% on December 28, 2019. For fiscal year 2020-21, the parties agreed to a wage increase schedule of 3% on July 1, 2020 and 0.5% on December 26, 2020, with a provision to delay the fiscal year 2020-21 adjustment by six months if the City's deficit for fiscal year 2020-21, as projected in the March 2020 Update to the Five-Year Financial Plan, exceeds \$200 million. Because the March 2020 Update to the Five-Year Financial Plan projected a deficit for fiscal year 2020-21 in excess of \$200 million, the scheduled wage increases as described above were

delayed by approximately six months. For fiscal year 2021-22, the parties agreed to a wage increase schedule of 3% on July 1, 2021 and 0.5% on January 8, 2022, with a provision to delay the fiscal year 2021-22 adjustment by six months if the City's deficit for fiscal year 2021-22, as projected in the March 2021 Update to the Five-Year Financial Plan, exceeds \$200 million.

In September 2020, the City negotiated MOU extensions with labor organizations representing sworn members of Fire and Police departments. These MOUs have been extended two years to now expire on June 30, 2023. The parties agreed to the 3.00% General Wage increase previously deferred until December 26, 2020 to be split and deferred as follows: 1.00% deferred until COB June 30, 2022, 2.00% deferred until COB June 30, 2023. For fiscal year 2021-22, the parties agreed to a wage increase schedule of 3% on July 1, 2021, with a provision to delay the fiscal year 2021-22 adjustment by six months if the City's deficit for fiscal year 2021-22, as projected in the March 2021 Update to the Five-Year Financial Plan, exceeds \$200 million. For fiscal year 2022-23, the parties agreed to a wage increase schedule of 3% on July 1, 2022, with a provision to delay the fiscal year 2022-23 adjustment by six months if the City's deficit for fiscal year 2022-23, as projected in the March 2022 Update to the Five-Year Financial Plan, exceeds \$200 million.

Also, in May 2019, the MTA negotiated three-year agreements (for fiscal years 2019-20 through 2021-22) with the unions that represent Transit Operators, Mechanics, Station Agents, Parking Control Officers and others. The parties agreed to the same wage increase schedule as the City, with the same wage deferral triggers.

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TABLE B-21

**CITY AND COUNTY OF SAN FRANCISCO (All Funds)**  
**Employee Organizations as of October 5, 2020**

<b>Organization</b>	<b>City Budgeted Positions</b>	<b>Expiration Date of MOU</b>
Automotive Machinists, Local 1414	512	30-Jun-22
Bricklayers, Local 3	6	30-Jun-22
Building Inspectors' Association	91	30-Jun-22
Carpenters, Local 22	114	30-Jun-22
Cement Masons, Local 300	43	30-Jun-22
Deputy Probation Officers' Association (DPOA)	133	30-Jun-22
Deputy Sheriffs' Association (DSA)	812	30-Jun-22
District Attorney Investigators' Association (DAIA)	45	30-Jun-22
Electrical Workers, Local 6	968	30-Jun-22
Firefighters' Association, Local 798	1,912	30-Jun-21
Glaziers, Local 718	14	30-Jun-22
Hod Carriers, Local 36	4	30-Jun-22
IATSE, Local 16	29	30-Jun-22
Ironworkers, Local 377	14	30-Jun-22
Laborers, Local 261	1,169	30-Jun-22
Municipal Attorneys' Association (MAA)	476	30-Jun-22
Municipal Executives' Association (MEA) Fire	9	30-Jun-21
Municipal Executives' Association (MEA) Miscellaneous	1,499	30-Jun-22
Municipal Executives' Association (MEA) Police	16	30-Jun-21
Operating Engineers, Local 3 Miscellaneous	67	30-Jun-22
Operating Engineers, Local 3 Supervising Probation	31	30-Jun-22
Painters, SF Workers United	133	30-Jun-22
Pile Drivers, Local 34	27	30-Jun-22
Plumbers, Local 38	358	30-Jun-22
Police Officers' Association (POA)	2,669	30-Jun-21
Professional and Technical Engineers, Local 21	6,541	30-Jun-22
Roofers, Local 40	12	30-Jun-22
SEIU, Local 1021 Misc	12,830	30-Jun-22
SEIU, Local 1021 Nurses	1,736	30-Jun-22
Sheet Metal Workers, Local 104	39	30-Jun-22
Sheriffs' Supervisory and Management Association (MSA)	117	30-Jun-22
Soft Tile Workers, Local 12	4	30-Jun-22
Stationary Engineers, Local 39	687	30-Jun-22
Teamsters, Local 853	187	30-Jun-22
Teamsters, Local 856 Miscellaneous	96	30-Jun-22
Teamsters, Local 856 Supervising Nurses	130	30-Jun-22
TWU, Local 200	425	30-Jun-22
TWU, Local 250-A (9132 Transit Fare Inspectors)	45	30-Jun-22
TWU, Local 250-A (9163 Transit Operator)	2,720	30-Jun-22
TWU, Local 250-A Auto Service Work	145	30-Jun-22
TWU, Local 250-A Miscellaneous	109	30-Jun-22
Union of American Physicians and Dentists (UAPD)	201	30-Jun-22
Unrepresented Employees	90	30-Jun-22
Other	1002	
	<b>38,267</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 Employees' Retirement System ("SFERS" or "Retirement System")**

**The SFERS preliminary fund return for fiscal year 2019-20 is 2.41%. These returns are lower than had been projected when the contribution rate for fiscal year 2020-21 was established, because the COVID-19 Emergency and the ensuing recession have led to stock market volatility. A decline in market value could result in future increases in required pension fund contributions.**

### *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.

The Internal Revenue Service ("IRS") issued a favorable Determination Letter for SFERS in July 2014. 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, 2019 is 44,157, compared to 43,129 at July 1, 2018. Active membership at July 1, 2019 includes 8,911 terminated vested members and 1,044 reciprocal members. Terminated vested members are former employees who have vested rights in future benefits from SFERS. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. Monthly retirement allowances are paid to approximately 30,778 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table B-22 shows various member counts in the total Retirement System (City, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2015 through July 1, 2019. The active to retiree ratio or “support ratio” is an important indicator of sensitivity to investment returns, assumption changes, and other changes to the System. In particular, if the active to retiree ratio falls, it indicates that any losses on inactive liabilities or assets are likely to place a relatively greater burden on active members and employers. The ratio for SFERS has been relatively stable over the last five years. A survey of the City’s peers from the December 2019 Public Plans Database places SFERS’ support ratio at a level in the 50<sup>th</sup> to 75<sup>th</sup> percentile of pension plans comparable to the City’s pension plan.

**TABLE B-22**

**City and County of San Francisco  
Employees' Retirement System  
July 1, 2015 through July 1, 2019**

As of July 1st	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
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
2018	33,946	8,123	1,060	43,129	29,965	1.133
2019	34,202	8,911	1,044	44,157	30,778	1.111

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

Notes: Member counts exclude DROP participants. There are no active DROP members on or after July 1, 2016  
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 December 9, 2020 Retirement Board meeting, the Board adopted all recommended demographic assumptions from the experience study dated August 12, 2020. The most significant adjustment was the update to the new Society of Actuaries public plan mortality tables, Pub-2010, for both general and safety

members. The Board also adopted lower price and wage inflation rates, from 2.75% to 2.50% and from 3.50% to 3.25%, respectively. The new assumptions are first effective for the July 1, 2020 actuarial valuation. The Board had previously voted to lower the assumed long-term investment earnings assumption from 7.50% to 7.40% at its November 2018 meeting, effective for the July 1, 2018 actuarial valuation.

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 2019-20 City employer contributions to the Retirement System were \$701.3 million, which includes \$388.4 million from the General Fund. For fiscal year 2020-21, total City employer contributions to the Retirement System are budgeted at \$739.3 million, which includes \$457.7 million from the General Fund. These budgeted amounts are based upon the fiscal year 2020-21 employer contribution rate of 26.90% (estimated to be 23.5% after the 2011 Proposition C cost-sharing provisions). Employer contribution rates anticipate annual increases in pensionable payroll of 3.5% and total contributions to the Retirement System could continue to climb even as contribution rates decline. As discussed under "City Budget – Five-Year Financial Plan" increases in retirement costs are projected in the City's Five Year Financial Plan.

Table B-23 shows total Retirement System liabilities, assets and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2014-15 through 2018-19. Information is shown for all employers in the Retirement System (City & County, SFUSD, SFCCD and San Francisco Trial Courts). "Actuarial Liability" reflects the actuarial accrued liability of the Retirement System measured for purposes of determining the funding contribution. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The "Market Percent Funded" column is determined by dividing the market value of assets by the actuarial accrued liability. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the actuarial accrued liability. "Employee and Employer Contributions" reflects the sum of mandated employee and employer contributions received by the Retirement System in the fiscal year ended June 30<sup>th</sup> prior to the July 1<sup>st</sup> valuation date.

TABLE B-23

**City and County of San Francisco**  
**Employees' Retirement System**  
**Fiscal Years 2014-2015 through 2018-2019**  
**(Amounts in 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
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
2018	27,335,417	24,557,966	23,866,028	89.8	87.3	983,763	23.46
2019	28,798,581	26,078,649	25,247,549	90.6	87.7	1,026,036	23.31

<sup>1</sup> Employer contribution rates are shown prior to employer/employee cost-sharing provisions of 2011 Proposition C. Employer contribution rates for fiscal years 2019-20 and 2020-21 are 25.19% and 26.90%, respectively.

Sources: SFERS' audited year-end financial statements and required supplemental information.  
SFERS' annual Actuarial Valuation Report dated July 1st. See the Retirement System's website, mysfers.org, under Publications.  
The information on such website is not incorporated herein by reference.

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

As shown in the table above as of July 2019, the Market Percent Funded ratio is higher than the Actuarial Percent Funded ratio. 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.

#### *Risks to City's Retirement Plan*

In its 2019 actuary report, Cheiron identified three primary risks to the System as required by Actuarial Standards of Practice No. 51 (Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions). The material risks identified were as follows: investment risk, interest rate risk, and supplemental COLA risk. Investment risk is the potential for investment returns to be different than expected, while interest rate risk is the potential for longer-term trends to impact economic assumptions such as inflation and wage increases but particularly the discount rate. Supplemental COLA risk is the potential for the cost of future Supplemental COLAs to increase contribution rates. Cheiron noted stress testing the supplemental COLA provision shows that the current funding policy of amortizing new supplemental COLAs over five years manages the risk prudently.

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

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. The City discloses accounting and financial information about the Retirement System under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. In general, the City's funding of its pension obligations is not affected by the GASB 68 reporting of the City's pension liability. Funding requirements are specified in the City Charter and are described in "Funding Practices" above.



Total Pension Liability reported under GASB Statements No. 67 and 68 differs from the Actuarial Liability calculated for funding purposes in several ways, including the following differences. First, Total Pension Liability measured at fiscal year-end is a roll-forward of liabilities calculated at the beginning of the year and is based upon a beginning of year census adjusted for significant events that occurred during the year. Second, Total Pension Liability is based upon a discount rate determined by a blend of the assumed investment return, to the extent the fiduciary net position is available to make payments, and a municipal bond rate, to the extent that the fiduciary net position is unavailable to make payments. There have been no differences between the discount rate and assumed investment return at the last five fiscal year-ends. The third distinct difference is that Total Pension Liability includes a provision for Supplemental COLAs that may be granted in the future, while Actuarial Liability for funding purposes includes only Supplemental COLAs that have already been granted as of the valuation date. Supplemental COLAs do not occur every year as they are only granted after favorable investment experience and only to certain groups of retirees dependent upon the funded status of the pension plan. Supplemental COLAs are capped at 3.5% less any basic COLA. As the majority of retirees have annual basic COLAs capped at 2.0%, a Supplemental COLA when granted typically represents a 1.5% increase in benefit.

Table B-23(a) 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 B-23(a)**

<b>City and County of San Francisco</b> <b>Employees' Retirement System</b> <b>GASB 67/68 Disclosures</b> <b>Fiscal Years 2015-16 through 2019-20</b> <b>(000s)</b>						
As of June 30th	Collective Total Pension Liability (TPL)	Discount Rate	Plan Fiduciary Net Position	Plan Net Position as % of TPL	Collective Net Pension Liability (NPL)	City and County's Proportionate Share of NPL
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
2018	28,840,673	7.50	24,557,966	85.2	4,282,707	4,030,207
2019	30,555,289	7.40	26,078,649	85.3	4,476,640	4,213,807
2020	32,031,018	7.40	26,620,218	83.1	5,410,800	5,107,271

Sources: SFERS fiscal year-end GASB 67/68 Reports as of each June 30.

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

While the increase in NPL between fiscal year-ends 2018 and 2019 is attributable to the decline in discount rate from 7.5% to 7.4%, the increase in NPL at fiscal year-end 2020 is due to the lower than expected investment returns during fiscal year 2019-2020.

## *Asset Management*

The assets of the Retirement System, (the “Fund”) are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships.

Annualized investment return (net of fees and expenses) for the Retirement System for the five years ending June 30, 2019 was 7.57%. For the ten-year and twenty-year periods ending June 30, 2019, annualized investment returns were 10.43% and 7.02% respectively.

The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System’s investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 1145 Market Street, 5<sup>th</sup> Floor, San Francisco, California 94103, or by calling (415) 487-7000. These documents are not incorporated herein by reference.

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

The levels of SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment. 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 appealed the Superior Court’s injunction; however, the injunction was affirmed by the Court of Appeal reserving the power to take action for the City’s voters.

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

#### *Impact on the Retirement System from Changes in the Economic Environment*

As of June 30, 2019, the audited market value of Retirement System assets was \$26.1 billion. As of January 31, 2021, the unaudited value of the System assets was \$30.7 billion. These values represent, as of the date specified, the estimated value of the Retirement System’s portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be lower or higher. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System’s financial statements.

The Retirement System investment portfolio is structured for long-term performance. The Retirement System continually reviews investment and asset allocation policies as part of its regular operations and continues to rely on an investment policy which is consistent with the principles of diversification and the

search for long-term value. Market fluctuations are an expected investment risk for any long-term strategy. Significant market fluctuations are expected to have significant impact on the value of the Retirement System investment portfolio.

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

#### *Other Employee Retirement Benefits*

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Section A8.510 of the Charter requires the City to pay the full amount required by the actuarial valuations. The actual total employer contributions to CalPERS was \$40.8 million in fiscal year 2019-20. In addition to the required amounts, the City elected to pay an additional amount of \$8.4 million in fiscal years 2017-18, 2018-19 and 2019-2020 in order to reduce its unfunded liability. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under “Medical Benefits – Post-Employment Health Care Benefits and GASB 75 Reporting Requirements.”

### **Medical Benefits**

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

Medical and COBRA benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the “City Beneficiaries”) are administered by the San Francisco Health Service System (the “San Francisco Health Service System” or “SFHSS”) pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the SFHSS also administers medical benefits to active and retired employees of SFUSD, SFCCD and the San Francisco Superior Court; however, the City is only required to fund medical benefits for City Beneficiaries.

The San Francisco Health Service System is overseen by the City’s Health Service Board (the “Health Service Board”). The plans (the “SFHSS Medical Plans”) for providing medical care to the City Beneficiaries are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The San Francisco Health Service System oversees a trust fund (the “Health Service System Trust Fund”) established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the City Beneficiaries are funded. The San Francisco Health Service System issues an annual, publicly available, independently-audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained through the SFHSS website at [sfhss.org](http://sfhss.org), by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (628) 652-4646. Audited annual financial statements for prior years are posted to the SFHSS website, however the information available on the SFHSS website is not incorporated in this Official Statement by reference.

Under the City Charter, the Health Service System Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an “Other Post-Employment Benefits Trust Fund”). Thus, GASB Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (“GASB 45”) and GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which apply to OPEB trust funds, do not apply to the San Francisco Health Service System Trust Fund. However, the City has been funding the Retiree Health Care Trust Fund for the purpose of prefunding future OPEB payments as described below.

*Determination of Employer and Employee Contributions for Medical Benefits*

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

Unions representing approximately 93.3% of City employees, negotiate through collective bargaining rather than applying the “average contribution” to determine the amount the City is required to contribute for active employees. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by SFHSS Beneficiaries. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) (“Nonemployee City Beneficiaries”) are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under “– *Post-Employment Health Care Benefits.*”

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### *City Contribution for Retirees*

The City contributes the full employer contribution amount for medical coverage for eligible retirees who were hired on or before January 9, 2009 pursuant to Charter Section A8.428. For retirees who were hired on or after January 10, 2009, the City contributes a portion of the medical coverage costs based on five coverage / employer contribution classifications that reflect certain criteria outlined in the table below.

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

### *Health Care Reform*

The following discussion is based on the current status of the Patient Protection and Affordable Care Act (the “ACA”). Many attempts have been made to completely repeal the ACA, however full repeal has been unsuccessful thus far.

Three ACA taxes impact SFHSS rates for medical coverage. The taxes and the current status are as follow:

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

The Excise Tax on High-cost Employer-sponsored Health Plans (Cadillac Tax) is a 40% excise tax on high-cost coverage health plans. The National Defense Authorization Act for Fiscal Year 2020 repealed the Cadillac tax, effective January 1, 2020.

- **Health Insurance Tax (“HIT”)**

The ACA also imposed a tax on health insurance providers, which was passed on to employer sponsored fully-insured plans in the form of higher premiums. The HIT was in effect in 2020 and substantially impacted rates. The tax was repealed effective January 1, 2021 also by the National Defense Authorization Act for Fiscal Year 2020.

- **Medical Device Excise Tax**

The ACA’s medical device excise tax imposes a 2.3 percent tax on sales of medical devices (except certain devices sold at retail). The tax was repealed effective January 1, 2020.

- **Patient-Centered Outcomes Research Institute (PCORI) Fee**

Congress revived and extended the PCORI fee, which had expired in 2019. The PCORI fee, adopted in the ACA, is paid by issuers of health insurance policies and plan sponsors of self-insured health plans to help fund the Patient-Centered Outcomes Research Institute. The fee is based on the average number of lives covered under the policy or plan. The fee will now apply to policy or plan years ending on or after October 1, 2012, and before October 1, 2029.

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

For fiscal year 2019-20, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$822.5 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$697.0 million; approximately \$196.5 million of this \$697.0 million amount was for health care benefits for approximately 23,201 retired City employees and their eligible dependents and approximately \$500.5 million was for benefits for approximately 32,956 active City employees and their eligible dependents.

The 2021 aggregate (employee and employer) cost of medical benefits offered by SFHSS to the City increased by 3.85%, which is below national trends of 5.5% to 6%. This can be attributed 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. The 2021 aggregate cost of benefits offered by SFHSS to the City increased 3.61% which is also less than the national trends.

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

Eligibility of former City employees for retiree health care benefits is governed by the Charter. In general, employees hired before January 10, 2009 and a spouse or dependent are potentially eligible for health benefits following retirement at age 50 and completion of five years of City service. Proposition B, passed by San Francisco voters on June 3, 2008, tightened post-retirement health benefit eligibility rules for employees hired on or after January 10, 2009, and generally requires payments by these employees equal to 2% of their salary, with the City contributing an additional 1%, into a Retiree Health Care Trust Fund.

Under Proposition C, passed by San Francisco voters in November of 2011, employees hired on or before January 9, 2009, were required to contribute 0.25% of compensation into the Retiree Health Care Trust Fund beginning in fiscal year 2016-17. This contribution increased to 0.50% in fiscal year 2017-18, 0.75% in fiscal year 2018-19, and reached the maximum contribution of 1.00% in fiscal year 2019-20. These contributions are matched by the City on a one-to-one basis.

Unlike employee pension contributions that are made to individual accounts, contributions to the Retiree Health Care Trust Fund are non-refundable, even if an employee separates from the City and does not receive retiree health care from the City.

Proposition A, passed by San Francisco voters on November 5, 2013, restricted the City's ability to withdraw funds from the Retiree Health Care Trust Fund. The restrictions allow payments from the fund only when certain conditions are met. The balance in the Retiree Health Care Trust Fund as of June 30, 2019 is approximately \$366.6 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 75.

#### *GASB 75 Reporting Requirements*

In June 2015, GASB issued 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 implemented the provisions of GASB 75 in its audited financial statements for Fiscal Year 2017-18. According to GASB's Summary of GASB 75, GASB 75 requires recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, and new note disclosures and required supplementary information to enhance decision-usefulness and accountability.

#### *City's Estimated Liability*

The City is required by GASB 75 to prepare a new actuarial study of its postemployment benefits obligation at least once every two years. As of the measurement date of June 30, 2019 (issued November 2020), used in the most recent actuarial valuation report updated June 30, 2019, the retiree health care fiduciary plan net position as a percentage of the total OPEB liability was 8.6%. This reflects the net position of the Retiree Health Care Trust Fund in the amount of \$366.6 million divided by the total OPEB liability of \$4.3 billion. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$3.76 billion and the ratio of the Net OPEB liability to the covered payroll was 104.0%.

While GASB 75 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB liability. Five-year trend information is displayed in Table B-24, which reflects the annual OPEB expense and the City's charter mandated payments on a percentage basis. For example, for fiscal year 2019-20 the annual OPEB expense was \$330.6 million, and the City paid \$236.0 million, which includes “pay-as-you-go” benefit payments and contributions to the Retiree Health Care Trust Fund.



TABLE B-24

**CITY AND COUNTY OF SAN FRANCISCO**  
**Five-year Trend**  
**Fiscal Years 2015-16 to 2019-20**  
**(000s)**

Fiscal Year	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2015-16	326,133	51.8%	2,147,434
2016-17	421,402	43.6%	2,384,938
2017-18	355,186	57.4%	3,717,209 <sup>1</sup>
2018-19	320,331	68.2%	3,600,967
2019-20	330,673	76.8%	3,915,815

<sup>1</sup> Starting in FY2017-18, the liability amount reflects what is referred to as Net OPEB Liability due to the implementation of GASB Statement No. 75.

### Total City Employee Benefits Costs

Table B-25 provides historical and budget information for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. Historically, approximately 50% of health benefit costs are paid from the General Fund. For all fiscal years shown, a “pay-as-you-go” approach was used by the City for health care benefits.

Table B-25 below provides a summary of the City’s employee benefit actual costs for fiscal years 2016-17 through 2019-20 and budgeted costs for fiscal years 2020-21 through 2021-22.

TABLE B-25

**CITY AND COUNTY OF SAN FRANCISCO**  
**Employee Benefit Costs, All Funds**  
**Fiscal Years 2016-17 through 2021-22**  
**(000s)**

	2016-17 Actual <sup>1</sup>	2017-18 Actual <sup>1</sup>	2018-19 Actual <sup>1</sup>	2019-20 Actual <sup>1</sup>	2020-21 Budget <sup>4</sup>	2021-22 Budget <sup>4</sup>
SFERS and PERS Retirement Contributions	\$554,956	\$621,055	\$650,011	\$751,952	\$785,106	\$803,986
Social Security & Medicare	196,914	\$212,782	\$219,176	\$228,477	\$231,962	\$233,802
Health - Medical + Dental, active employees <sup>2</sup>	459,772	\$501,831	\$522,006	\$547,874	\$547,396	\$576,005
Health - Retiree Medical <sup>2</sup>	165,822	\$178,378	\$186,677	\$196,641	\$218,896	\$232,047
Other Benefits <sup>3</sup>	21,388	\$44,564	\$26,452	\$28,272	\$31,742	\$37,642
Total Benefit Costs	\$1,398,852	\$1,558,609	\$1,604,322	\$1,753,215	\$1,815,103	\$1,883,482

<sup>1</sup> Fiscal year 2016-17 through fiscal year 2019-20 figures are 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> Reflects Final Adopted Budget for 2020-21 and 2021-22.

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.

### *Investment Portfolio*

As of January 31, 2021, the City’s surplus investment fund consisted of the investments classified in Table B-26 and had the investment maturity distribution presented in Table B-27.

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TABLE B-26

**City and County of San Francisco**  
**Investment Portfolio**  
**Pooled Funds**  
**As of January 31, 2021**

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$8,148,860,000	\$8,164,115,059	\$8,171,572,241
Federal Agencies	2,811,910,000	2,811,847,765	2,845,162,537
State and Local Obligations	56,736,414	56,407,741	56,961,680
Public Time Deposits	40,000,000	40,000,000	40,000,000
Negotiable Certificates of Deposit	200,000,000	200,000,000	200,144,122
Money Market Funds	1,084,937,298	1,084,937,298	1,084,937,298
Supranationals	287,135,000	285,906,887	288,255,836
<b>Total</b>	<b>\$12,629,578,712</b>	<b>\$12,643,214,750</b>	<b>\$12,687,033,714</b>

January Earned Income Yield: 0.600%

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

TABLE B-27

**City and County of San Francisco**  
**Investment Maturity Distribution**  
**Pooled Funds**  
**As of January 31, 2021**

<u>Maturity in Months</u>			<u>Par Value</u>	<u>Percentage</u>
0	to	1	2,397,937,298	18.99%
1	to	2	1,971,800,000	15.61%
2	to	3	878,000,000	6.95%
3	to	4	1,146,436,414	9.08%
4	to	5	1,620,000,000	12.83%
5	to	6	862,135,000	6.83%
6	to	12	2,697,510,000	21.36%
12	to	24	790,265,000	6.26%
24	to	36	100,000,000	0.79%
36	to	48	45,495,000	0.36%
48	to	60	120,000,000	0.95%
			<b>\$12,629,578,712</b>	<b>100.00%</b>

Weighted Average Maturity: 170 Days

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

### *Further Information*

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

## **CAPITAL FINANCING AND BONDS**

### **Capital Plan**

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which established a new capital planning process for the City. The legislation requires that the City develop and adopt a 10-year capital expenditure plan for City-owned facilities and infrastructure. It also created the Capital Planning Committee ("CPC") and the Capital Planning Program ("CPP"). The CPC makes recommendations to the Mayor and Board of Supervisors on the City's capital expenditures and plans. The CPC reviews and submits the Capital Plan, Capital Budget, and issuances of long-term debt for approval. The CPC is chaired by the City Administrator and includes the President of the Board of Supervisors, the Mayor's Budget Director, the Controller, the City Planning Director, the Director of Public Works, the Airport Director, the Executive Director of the Municipal Transportation Agency, the General Manager of the Public Utilities Commission, the General Manager of the Recreation and Parks Department, and the Executive Director of the Port of San Francisco. To help inform CPC recommendations, the CPP staff, under the direction of the City Administrator, review and prioritize funding needs; project and coordinate funding sources and uses; and provide policy analysis and reports on interagency capital planning.

The City Administrator, in conjunction with the CPC, is directed to develop and submit a 10-year capital plan every other fiscal year for approval by the Board of Supervisors. The Capital Plan is a fiscally constrained long-term finance strategy that prioritizes projects based on a set of funding principles. It provides an assessment of the City's infrastructure and other funding needs over 10 years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five-Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal years 2020-2029 Capital Plan ("Adopted Capital Plan") was approved by the CPC on April 17, 2019 and was adopted by the Board of Supervisors on April 30, 2019. The Adopted Capital Plan contains \$39.1 billion in capital investments over the coming decade for all City departments, including \$5.1 billion in projects for General Fund-supported departments. The Adopted Capital Plan proposes \$2.2 billion for General Fund pay-as-you-go capital projects over the next 10 years. The amount for General Fund pay-as-you-go capital projects is 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 critical seismic projects and relocation of staff from seismically vulnerable facilities; upgrades to public health, police, and fire facilities; transportation and utility system improvements; improvements to homeless service sites; street and right-of-way improvements; the removal of barriers to accessibility; and park improvements, among other capital projects. \$3.5 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations, subject to planning policy constraints. The balance is expected to be funded by federal and State funds, the General Fund and other sources.

In addition to the City General Fund-supported capital spending, the Adopted Capital Plan recommends \$20.3 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, the Sewer System Improvement Program, and building adequate facilities to support the City's growing transit fleet, among others. Approximately \$10.2 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 \$4.9 billion in capital needs including enhancements are deferred from the plan's horizon.

The Proposed Capital Plan for fiscal years 2022-2031 ("Proposed Capital Plan") has been submitted to the Mayor and the Board of Supervisors for consideration and passage by May 1, 2021. The Proposed Capital Plan contains \$38.0 billion in capital investments over the coming decade for all City departments, including \$4.6 billion in projects for General Fund-supported departments. The Proposed Capital Plan proposes \$1.2 billion for General Fund pay-as-you-go capital projects over the next 10 years, which is \$1 billion lower than the Adopted Capital Plan funding level due to budget impacts in the coming years resulting from COVID-19.

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

### **Tax-Supported Debt Service – City General Obligation Bonds**

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds" or "GO bonds") can only be authorized with a two-thirds approval of the voters. As of March 1, 2021, the City had approximately \$2.5 billion aggregate principal amount of GO bonds outstanding. In addition to the City's general obligation bonds, BART, SFUSD and SFCCD also have outstanding general obligation as shown in Table B-33.

Table B-28 shows the annual amount of debt service payable on the City's outstanding GO bonds.

TABLE B-28

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds Debt Service**  
**As of March 1, 2021 <sup>1 2</sup>**

Fiscal Year	Principal	Interest	Annual Debt Service
2020-21 <sup>3</sup>	\$204,820,457	\$99,195,792	\$304,016,249
2021-22	156,008,401	93,451,096	249,459,497
2022-23	159,660,251	86,145,128	245,805,379
2023-24	162,641,206	78,578,034	241,219,240
2024-25	164,746,476	70,865,550	235,612,026
2025-26	157,566,279	63,162,014	220,728,292
2026-27	163,975,840	56,192,014	220,167,854
2027-28	169,829,035	49,268,290	219,097,326
2028-29	171,296,751	42,438,940	213,735,691
2029-30	168,735,095	35,402,102	204,137,196
2030-31	131,841,950	28,620,518	160,462,469
2031-32	136,385,000	23,766,524	160,151,524
2032-33	102,910,000	19,009,227	121,919,227
2033-34	79,690,000	15,340,598	95,030,598
2034-35	72,235,000	12,603,279	84,838,279
2035-36	56,440,000	10,164,103	66,604,103
2036-37	45,165,000	8,284,174	53,449,174
2037-38	35,590,000	6,808,496	42,398,496
2038-39	16,310,000	5,641,128	21,951,128
2039-40	15,110,000	5,176,115	20,286,115
2040-41	8,520,000	4,739,543	13,259,543
2041-42	8,835,000	4,424,941	13,259,941
2042-43	9,155,000	4,098,469	13,253,469
2043-44	9,500,000	3,759,924	13,259,924
2044-45	9,845,000	3,408,363	13,253,363
2045-46	4,840,000	3,043,784	7,883,784
2046-47	5,005,000	2,880,246	7,885,246
2047-48	5,170,000	2,710,945	7,880,945
2048-49	5,345,000	2,535,881	7,880,881
2049-50	5,530,000	2,354,712	7,884,712
2050-51	5,725,000	2,159,925	7,884,925
2051-52	5,935,000	1,950,338	7,885,338
2052-53	6,155,000	1,732,790	7,887,790
2053-54	6,380,000	1,506,973	7,886,973
2054-55	6,610,000	1,272,671	7,882,671
2055-56	6,855,000	1,029,667	7,884,667
2056-57	7,110,000	777,438	7,887,438
2057-58	7,370,000	515,551	7,885,551
2058-59	3,895,000	243,790	4,138,790
2059-60	4,010,000	123,668	4,133,668
<b>TOTAL <sup>4</sup></b>	<b>\$2,502,746,740</b>	<b>\$855,382,740</b>	<b>\$3,358,129,482</b>

<sup>1</sup> This table includes the City's General Obligation Bonds shown in Table A-33 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> Net of payment of principal and interest on the Series 2020D-2 Bonds, all of which came due December 15, 2020.

<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.

## **Authorized but Unissued City GO Bonds**

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

In November 1992, voters approved Proposition A ("1992 Proposition A") which authorized the issuance of up to \$350.0 million in GO bonds to support San Francisco's Seismic Safety Loan Program ("SSLP"), which provides loans for the seismic strengthening of privately-owned unreinforced masonry affordable housing, market-rate residential, commercial and institutional buildings. Between 1994 and 2015, the City issued \$89.3 million of bonds under the original 1992 Proposition A authorization. In November 2016, voters approved Proposition C ("2016 Proposition C"), which amended the 1992 Proposition A authorization (together, the "1992A/2016A Propositions") to broaden the scope of the remaining \$260.7 million authorization by adding the eligibility to finance the acquisition, improvement, and rehabilitation to convert at-risk multi-unit residential buildings to affordable housing, as well as the needed seismic, fire, health, and safety upgrades and other major rehabilitation for habitability, and related costs. In 2019 and 2020, the City issued \$175.0 million of bonds across two series under the 1992A/2016A Propositions. Currently \$85.7 million remains authorized and unissued.

In November 2014, voters approved Proposition A ("2014 Transportation Proposition"), which authorized the issuance of up to \$500.0 million in general obligation bonds for the construction, acquisition and improvement of certain transportation and transit related improvements and other related costs. The City issued \$377.2 million over three series of bonds in 2015, 2018, and 2020, leaving approximately \$122.8 million authorized and unissued.

In November 2018, voters approved Proposition A ("2018 Embarcadero Seawall Improvement Proposition"), authorizing the issuance of up to \$425.0 million in general obligation bonds for repair and improvement projects along the City's Embarcadero and Seawall to protect the waterfront, BART and Muni, buildings, historic piers, and roads from earthquakes, flooding, and sea level rise. On June 2, 2020, the City closed the first series of bonds in the par amount of \$49.7 million, leaving \$375.3 million authorized and unissued.

In November 2019, voters approved Proposition A ("2019 Affordable Housing Proposition"), which authorized the issuance of up to \$600.0 million in general obligation bonds to finance the construction, development, acquisition, and preservation of affordable housing for certain vulnerable San Francisco residents; to assist in the acquisition, rehabilitation, and preservation of existing affordable housing to prevent the displacement of residents; to repair and reconstruct distressed and dilapidated public housing developments and their underlying infrastructure; to assist the City's middle-income residents or workers in obtaining affordable rental or home ownership opportunities including down payment assistance and support for new construction of affordable housing for SFUSD and City College of San Francisco employees; and to pay related costs. In October 2020, the Board of Supervisors approved the issuance of a first series of bonds under this authorization in an amount not to exceed \$260.0 million. The bonds are expected to be issued in March 2021.

In March 2020, voters approved Proposition B ("2020 Earthquake Safety and Emergency Response Proposition") which authorized the issuance of up to \$628.5 million in general obligation bonds to aid fire, earthquake and emergency response by improving, constructing, and/or replacing: deteriorating cisterns, pipes, and tunnels, and related facilities to ensure firefighters a reliable water supply for fires and disasters; neighborhood fire and police stations and supporting facilities; the City's 911 Call Center; and other disaster response and public safety facilities, and to pay related costs. In January 2021, the Board of

Supervisors approved the issuance of a first series of bonds under this authorization in an amount not to exceed \$85.0 million. The bonds are expected to be issued in March 2021.

In November 2020, voters approved Proposition A (“2020 Health and Recovery Bond”), which authorized the issuance of up to \$487.5 million in general obligation bonds to fund permanent investments in transitional supportive housing facilities, shelters, and/or facilities that serve individuals experiencing homelessness, mental health challenges, or substance use; improve the safety and quality of parks; and improve the safety and condition of streets and other public rights of way. As of March 1, 2021, 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 (“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. In November of 2011, the Board of Supervisors adopted and the Mayor approved, Resolution No. 448-11 (“2011 Resolution,” and together with the 2004 Resolution, the “Refunding Resolutions”). The 2011 Resolution authorized the issuance \$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. In March of 2020, the Board of Supervisors adopted and the Mayor approved, Resolution No. 097-20 (“2020 Resolution,” and together with the 2004 Resolution and 2011 Resolution, the “Refunding Resolutions”). The 2020 Resolution authorized the issuance \$1.483 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 B-29 below.

TABLE B-29

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Refunding Bonds**  
**As of March 1, 2021**

Series Name	Date Issued	Principal Amount Issued	Amount Outstanding
2011-R1	November 2011	\$339,475,000	\$120,760,000 <sup>1</sup>
2015-R1	February 2015	293,910,000	220,830,000 <sup>2</sup>
2020-R1	May 2020	195,250,000	195,250,000 <sup>3</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.

<sup>3</sup> Series 2008-R1 Bonds were refunded by the 2020-R1 Bonds in May 2020.

Table B-30 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 March 1, 2021, the City had authorized and unissued general obligation bond authority of approximately \$2.3 billion.



TABLE B-30

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds**  
**As of March 1, 2021<sup>1</sup>**

Bond Authorization Name	Election Date	Authorized Amount	Series	Bonds Issued	Bonds Outstanding	Authorized & Unissued
Seismic Safety Loan Program	11/3/92	\$350,000,000	1994A	\$35,000,000	-	2
			2007A	\$30,315,450	\$17,151,740	
			2015A	\$24,000,000	-	
Reauthorization to Repurpose for Affordable Housing	11/8/16		2019A	\$72,420,000	\$71,525,000	1
			2020C	\$102,580,000	\$102,580,000	\$85,684,550
Clean & Safe Neighborhood Parks	2/5/08	\$185,000,000	2008B	\$42,520,000	-	
			2010B	\$24,785,000	-	
			2010D	\$35,645,000	\$32,910,000	
			2012B	\$73,355,000	-	
			2016A	\$8,695,000	\$6,855,000	
San Francisco General Hospital & Trauma Center Earthquake Safety	11/4/08	\$887,400,000	2009A	\$131,650,000	-	
			2010A	\$120,890,000	-	
			2010C	\$173,805,000	\$160,465,000	
			2012D	\$251,100,000	\$139,315,000	
			2014A	\$209,955,000	\$145,960,000	
Earthquake Safety and Emergency Response Bond	6/8/10	\$412,300,000	2010E	\$79,520,000	-	
			2012A	\$183,330,000	-	
			2012E	\$38,265,000	\$26,755,000	
			2013B	\$31,020,000	\$15,860,000	
			2014C	\$54,950,000	\$38,175,000	
			2016C	\$25,215,000	\$20,450,000	
Road Repaving & Street Safety	11/8/11	\$248,000,000	2012C	\$74,295,000	-	
			2013C	\$129,560,000	\$66,195,000	
			2016E	\$44,145,000	\$35,795,000	
Clean & Safe Neighborhood Parks	11/6/12	\$195,000,000	2013A	\$71,970,000	\$36,785,000	
			2016B	\$43,220,000	\$22,255,000	
			2018A	\$76,710,000	\$43,145,000	
			2019B	\$3,100,000	-	
Earthquake Safety and Emergency Response Bond	6/3/14	\$400,000,000	2014D	\$100,670,000	\$69,920,000	
			2016D	\$109,595,000	\$68,985,000	
			2018C	\$189,735,000	\$132,715,000	
Transportation and Road Improvement	11/4/14	\$500,000,000	2015B	\$67,005,000	\$39,985,000	
			2018B	\$174,445,000	\$98,115,000	
			2020B	\$135,765,000	\$135,765,000	
Affordable Housing Bond	11/3/15	\$310,000,000	2016F	\$75,130,000	\$46,130,000	
			2018D	\$142,145,000	\$98,120,000	
			2019C	\$92,725,000	\$25,225,000	
Public Health and Safety Bond	6/7/16	\$350,000,000	2017A	\$173,120,000	\$112,175,000	
			2018E	\$49,955,000	\$35,195,000	
			2020D-1	\$111,925,000	\$111,925,000	
			2020D-2	\$15,000,000	-	
Embarcadero Seawall Earthquake Safety	11/6/18	\$425,000,000	2020A	\$49,675,000	\$9,475,000	\$375,325,000
Affordable Housing Bond	11/5/19	\$600,000,000				\$600,000,000
Earthquake Safety and Emergency Response Bond	3/3/20	\$628,500,000				\$628,500,000
Health and Recovery Bond	11/4/20	\$487,500,000				\$487,500,000
SUBTOTAL		\$5,978,700,000		\$3,678,905,450	\$1,965,906,740	\$2,299,794,550
<b>General Obligation Refunding Bonds</b>				<b>Bonds Issued</b>	<b>Bonds Outstanding</b>	
Series 2011-R1	11/9/12			\$339,475,000	\$120,760,000	
Series 2015-R1	2/25/15			\$293,910,000	\$220,830,000	
Series 2020-R1	5/7/20			\$195,250,000	\$195,250,000	
SUBTOTAL				\$828,635,000	\$536,840,000	
<b>TOTALS</b>		<b>\$5,978,700,000</b>		<b>\$4,507,540,450</b>	<b>\$2,502,746,740</b>	<b>\$2,299,794,550</b>

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

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

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

### **General Fund Lease Obligations**

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

Table B-31 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding long-term lease revenue bonds and certificates of participation as of March 1, 2021.

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TABLE B-31

**CITY AND COUNTY OF SAN FRANCISCO**  
**Lease Revenue Bonds and Certificates of Participation**  
**As of March 1, 2021<sup>1</sup>**

Fiscal Year <sup>2</sup>	Principal	Interest <sup>3</sup>	Annual Payment Obligation
2020-21 <sup>4</sup>	\$41,710,000	\$26,917,503	\$68,627,503
2021-22	57,450,000	63,502,975	120,952,975
2022-23	61,915,000	59,596,644	121,511,644
2023-24	64,900,000	56,684,668	121,584,668
2024-25	66,200,000	53,603,887	119,803,887
2025-26	67,610,000	50,504,966	118,114,966
2026-27	70,820,000	47,263,427	118,083,427
2027-28	65,765,000	44,053,307	109,818,307
2028-29	70,760,000	40,882,160	111,642,160
2029-30	71,370,000	37,754,063	109,124,063
2030-31	66,675,000	34,920,514	101,595,514
2031-32	59,625,000	32,379,816	92,004,816
2032-33	60,560,000	30,127,441	90,687,441
2033-34	62,850,000	27,680,760	90,530,760
2034-35	55,815,000	25,353,447	81,168,447
2035-36	55,880,000	22,944,643	78,824,643
2036-37	55,370,000	20,494,029	75,864,029
2037-38	57,615,000	18,059,264	75,674,264
2038-39	59,945,000	15,524,156	75,469,156
2039-40	62,385,000	12,882,072	75,267,072
2040-41	64,915,000	10,131,868	75,046,868
2041-42	56,000,000	7,430,811	63,430,811
2042-43	20,990,000	5,247,200	26,237,200
2043-44	19,855,000	4,388,600	24,243,600
2044-45	20,650,000	3,594,400	24,244,400
2045-46	13,695,000	2,768,400	16,463,400
2046-47	14,245,000	2,220,600	16,465,600
2047-48	13,220,000	1,650,800	14,870,800
2048-49	13,750,000	1,122,000	14,872,000
2049-50	14,300,000	572,000	14,872,000
<b>TOTAL<sup>5</sup></b>	<b>\$1,486,840,000</b>	<b>\$760,256,421</b>	<b>\$2,247,096,421</b>

<sup>1</sup> Excludes the 833 Bryant lease, commercial paper and the following privately placed lease purchase financings (with current outstanding amounts):

SFGH Emergency Backup Generators Project (\$10,086,565)

Gsmart Citywide Emergency Radio Replacement Project (\$21,185,295)

<sup>2</sup> For the Series 2018A (Refunding Open Space LRBs), reflects 7/1 payments to be paid in the current fiscal year, as budgeted.

<sup>3</sup> Totals reflect rounding to nearest dollar.

<sup>4</sup> Excludes payments made to date in current fiscal year.

<sup>5</sup> For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 3.50%. These bonds are in variable rate mode.

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

## **Voter-Approved Lease Revenue Bonds**

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

In 1987, voters approved Proposition 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.

In 1990, voters approved Proposition C ("1990 Proposition C"), which amended the Charter to authorize the City to lease- purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. 1990 Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of January 15, 2021, the total authorized and unissued amount for such financings was \$82.3 million.

In 1994, voters approved Proposition B ("1994 Proposition B"), which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of 1994 Proposition B lease revenue bonds, respectively, leaving \$14.1 million in remaining authorization. There is no current plan to issue additional series of bonds under 1994 Proposition B.

In 2000, voters approved Proposition C ("2000 Proposition C"), which extended a two- and one-half cent per \$100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). 2000 Proposition C also authorized the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. In August 2018 the City issued refunding lease revenue bonds, which are currently outstanding in the principal amount of \$29.1 million to refund Series 2006 and 2007 Open Space Fund lease revenue bonds.

In 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continued the two- and one-half cent per \$100.0 in assessed valuation property tax set-aside and established a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorized the issuance of revenue bonds or other evidences of indebtedness. In August 2018 the City issued refunding lease revenue bonds, which are currently outstanding in the principal amount of \$12.2 million, to refund Series 2009A Branch Library Improvement Project lease revenue bonds.

Table B-32 below lists the City's outstanding certificates of participation and voter-authorized lease revenue bonds.

TABLE B-32\*

**CITY AND COUNTY OF SAN FRANCISCO**  
**Outstanding Certificates of Participation and Lease Revenue Bonds**  
**As of March 1, 2021**

<b>Issue Name</b>	<b>Final Maturity</b>	<b>Original Par</b>	<b>Outstanding Principal</b>
<b>CERTIFICATES OF PARTICIPATION</b>			
Series 2009C (525 Golden Gate Avenue)	2022	\$38,120,000	\$8,535,000
Series 2009D - Taxable BABs (525 Golden Gate Avenue)	2041	129,550,000	129,550,000
Refunding Series 2011A (Moscone Center South)	2024	23,105,000	9,420,000
Series 2012A (Multiple Capital Improvement Projects)	2036	42,835,000	32,580,000
Series 2013B - Non-AMT (Port Facilities Project)	2038	4,830,000	4,830,000
Series 2013C - AMT (Port Facilities Project)	2043	32,870,000	22,685,000
Refunding Series 2014-R1 (Courthouse Project)	2021	13,615,000	2,230,000
Refunding Series 2014-R2 (Juevenile Hall Project)	2034	33,605,000	26,030,000
Series 2015A (War Memorial Veterans Building)	2045	112,100,000	112,100,000
Series 2015B - Taxable (War Memorial Veterans Building)	2024	22,225,000	7,935,000
Refunding Series 2015-R1 (City Office Buildings - Multiple Properties)	2040	123,600,000	108,765,000
Series 2016A (War Memorial Veterans Building)	2032	16,125,000	12,540,000
Series 2017A - Taxable (Hope SF)	2047	28,320,000	26,445,000
Series 2017B (Moscone Convention Center Expansion Project)	2042	412,355,000	392,255,000
Series 2019A (49 South Van Ness Project)	2050	247,810,000	247,810,000
Refunding Series 2019-R1 (Multiple Capital Improvement Projects)	2035	116,460,000	107,005,000
Refunding Series 2020-R1 (Multiple Capital Improvement Projects)	2033	70,640,000	70,640,000
Series 2020 (Animal Care & Control Project)	2041	47,075,000	47,075,000
<b>Subtotal Certificates of Participation</b>		<b>\$1,515,240,000</b>	<b>\$1,368,430,000</b>
<b>LEASE PURCHASE FINANCING</b>			
2010 Lease Purchase Financing (SFGH Emergency Backup Generators)	2025	\$22,549,489	\$10,086,565
2016 Lease Purchase Financing (Public Safety Radio Replacement Project)	2026	34,184,136	21,185,295
<b>Subtotal Lease Revenue Bonds</b>		<b>\$56,733,625</b>	<b>\$31,271,861</b>
<b>FINANCE CORPORATION LEASE REVENUE BONDS</b>			
Refunding Series 2008-1 (Moscone Center Expansion Project) - Variable	2030	\$72,670,000	\$36,100,000
Refunding Series 2008-2 (Moscone Center Expansion Project) - Variable	2030	72,670,000	36,100,000
Refunding Series 2010-R1 (Emergency Communications System)	2024	22,280,000	6,060,000
Refunding Series 2018A (Open Space Fund - Various Park Projects)	2029	34,950,000	29,090,000
Refunding Series 2018B (Branch Library Improvement Program)	2028	13,355,000	11,060,000
<b>Subtotal Lease Revenue Bonds</b>		<b>\$215,925,000</b>	<b>\$118,410,000</b>
<b>Total General Fund Obligations</b>		<b>\$1,787,898,625</b>	<b>\$1,518,111,861</b>

\*Excludes California HFA Revenue Bonds (San Francisco Supportive Housing - 833 Bryant Apartments) (\$26,985,000)

## **Board Authorized and Unissued Long-Term Certificates of Participation**

*Treasure Island Improvement Project:* In October of 2013, the Board authorized, and the Mayor approved the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation to finance the cost of additions and improvements to the utility infrastructure at Treasure Island. At this time there is not an expected timeline for the issuance these certificates.

*Housing Trust Fund Project:* In April 2016, the Board authorized and the Mayor approved the issuance of not to exceed \$95.0 million of City and County of San Francisco Certificates of Participation (Affordable Housing Projects) to provide funds to assist in the development, acquisition, construction or rehabilitation of affordable rental housing projects. The City anticipates issuing the certificates in multiple series, with the first issuance in fiscal year 2021-22.

*Hall of Justice Relocation Projects:* In October 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$94.6 million of City and County of San Francisco Certificates of Participation (Multiple Capital Projects) to (i) finance or refinance the site acquisition of 814-20 Bryant Street and 470 6<sup>th</sup> Street and related construction, acquisitions, and improvement costs; and (ii) finance or refinance the acquisition of 1828 Egbert Avenue and related construction, acquisitions, and improvement costs. The City anticipates issuing the certificates in fiscal year 2020-21.

Also in October 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$62.0 million of City and County of San Francisco Certificates of Participation (Multiple Capital Projects) to finance or refinance tenant improvements involving the construction, acquisition, improvement, renovation, and retrofitting of City-owned properties as needed for the Hall of Justice Improvement Project enabling staff and offices to be consolidated in acquired City-owned properties. The City anticipates issuing a portion of the certificates in fiscal year 2020-21 and the remainder in fiscal year 2021-22.

*HOPE SF Project:* In December 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$83.6 million of City and County of San Francisco Certificates of Participation to finance or refinance certain capital improvements, including but not limited to certain properties generally known as Hunters View, Sunnysdale, and Potrero Terrace and Annex housing developments. The City anticipates issuing the certificates in fiscal year 2022-23.

*Department of Public Health Facilities Improvements:* In November 2020, the Board authorized and the Mayor approved the issuance of not to exceed \$157.0 million of City and County of San Francisco Certificates of Participation to finance projects for the Department of Public Health, including but not limited to certain projects generally known as the Homeless Services Center, Laguna Honda Hospital Wings Reuse Project, AITC Immunization and Travel Clinic Relocation, and San Francisco General Hospital Chiller and Cooling Tower Replacement Project. The City anticipates issuing the certificates in fiscal year 2022-23.

## Commercial Paper Program

In March 2009, the Board authorized and the Mayor approved a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "Original CP Program"). In July of 2013, the Board authorized, and the Mayor approved an additional \$100.0 million of Lease Revenue Commercial Paper Certificates of Participation, Series 3 and 3-T and Series 4 and 4-T (the "Second CP Program" and together with the Original CP Program, the "City CP Program") that increased the total authorization of the City CP Program to \$250.0 million. Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project.

The Series 1 and 1-T and Series 2 and 2-T CP notes are secured by credit facilities from: (i) State Street Bank and Trust Company (with a maximum principal amount of \$75 million) and (ii) U.S. Bank National Association (with a maximum principal amount of \$75 million). These credit facilities expire in May 2021. The Series 3 and 3-T and 4 and 4-T are secured by a \$100 million letter of credit issued by State Street Bank and Trust Company expiring in February 2022.

As of March 1, 2021, the outstanding principal amount of CP Notes is \$111.65 million. The weighted average interest rate for the outstanding CP Notes is approximately 0.12%. The projects with Board Authorized and Unissued Certificates of Participation currently utilizing the CP Program include Housing Trust Fund, and the Hall of Justice Relocation Project. Also utilizing the CP Program is the San Francisco General Hospital and Trauma Project which is financing the costs of the acquisition of furniture, fixtures and equipment ("SFGH FF&E"). The following is a summary of the outstanding liability by project associated with the CP Notes outstanding.

<b>Project</b>	<b>CP Notes Liability as of 3/1/2021</b>
Housing Trust Fund	\$18,741,878
Hall of Justice Relocation	\$83,023,122
SFGH FF&E	\$9,882,000
<b>TOTAL</b>	<b>\$111,647,000</b>

## Overlapping Debt

able B-33 shows bonded debt and long-term obligations as of March 1, 2021 sold in the public capital markets, except for those financings otherwise noted in the table, by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

TABLE B-33

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Direct and Overlapping Debt and Long-Term Obligations**  
**As of March 1, 2021**

<u>2020-21 Assessed Valuation</u> (includes unitary utility valuation):	\$302,011,940,399 <sup>1</sup>
<b><u>GENERAL OBLIGATION BONDED DEBT</u></b>	
San Francisco City and County	\$2,502,746,741
San Francisco Unified School District	1,055,950,000
San Francisco Community College District	492,235,000
<b>TOTAL GENERAL OBLIGATION BONDS</b>	<u>\$4,050,931,741</u>
<b><u>LEASE OBLIGATIONS BONDS</u></b>	
San Francisco City and County	<u>\$1,508,025,296</u>
<b>LONG-TERM OBLIGATIONS</b>	<u>\$1,508,025,296</u> <sup>2</sup>
<b>TOTAL COMBINED DIRECT DEBT</b>	\$5,558,957,037
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT</u></b>	
Bay Area Rapid Transit District General Obligation Bond (34.606%) <sup>2</sup>	\$652,971,389 <sup>3</sup>
San Francisco Community Facilities District No. 4	10,600,000
San Francisco Community Facilities District No. 6	119,807,107
San Francisco Community Facilities District No. 7	32,280,000
San Francisco Community Facilities District No. 2009-1, Improvement Areas 1 and 2	2,587,770
San Francisco Community Facilities District No. 2014-1 Transbay Transit Center	472,840,000
San Francisco Community Facilities District No. 2016-1 Treasure Island, Improvement Area No. 1	17,135,000
City of San Francisco Assessment District No. 95-1	360,000
ABAG Community Facilities District No. 2004-1 Seismic Safety Improvements	9,195,000
ABAG Community Facilities District No. 2006-1 San Francisco Rincon Hill	4,970,000
ABAG Community Facilities District No. 2006-2 San Francisco Mint Plaza	2,840,000
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>	<u>\$1,325,586,266</u>
<b><u>OVERLAPPING TAX INCREMENT DEBT:</u></b>	
Successor Agency to the San Francisco Redevelopment Agency	\$738,895,372
Transbay Joint Powers Authority	<u>264,585,000</u>
<b>TOTAL OVERLAPPING INCREMENT DEBT</b>	<u>\$1,003,480,372</u>
<b>TOTAL DIRECT AND OVERLAPPING BONDED DEBT</b>	\$7,888,023,675 <sup>4</sup>
<b><u>Ratios to 2020-21 Assessed Valuation (\$302,011,940,399)</u></b>	<b><u>Actual Ratio</u></b>
Direct General Obligation Bonded Debt (\$4,050,931,741)	1.34% <sup>5</sup>
Combined Direct Debt (\$5,558,957,037)	1.84%
Total Direct and Overlapping Bonded Debt	2.61%
<b><u>Ratio to 2020-21 Redevelopment Incremental Valuation (\$37,591,667,028)</u></b>	
Total Overlapping Tax Increment Debt	2.67%

<sup>1</sup> Includes \$602,779,710 homeowner's exemption for FY20-21.

<sup>2</sup> Excludes 833 Bryant lease and privately placed SFGH Emergency Backup Generators Project, outstanding in the principal amount of \$10,086,565 as of 1/1/21.

<sup>3</sup> Reflects 2020-21 ratio.

<sup>4</sup> Excludes tax and revenue anticipation notes, enterprise revenue bonds and airport improvement corporation bonds

<sup>5</sup> The Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City. The City's general obligation debt as a percentage of FY20-21 AV is 0.80%.

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



## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

### **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.

## **LEGAL MATTERS AND RISK MANAGEMENT**

### **Pending Litigation**

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

### **Ongoing Investigations**

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

to help him build a personal vacation home while those contractors were also engaging in business with the City. Mr. Nuru resigned from employment with the City two weeks after his arrest. On February 4, 2020, the City Attorney and Controller announced a joint investigation that was underway, stemming from federal criminal charges filed against Mr. Nuru and Mr. Bovis.

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

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

On June 29, 2020, the Controller released its preliminary assessment of Citywide procurement practices, with an emphasis on the Public Works Department. The report is subject to public comment and review and could be revised in the future. The preliminary assessment focused on City laws, practices and policies and made recommendations to make improvements on such City laws and policies to improve transparency, reduce the risk of loss and abuse in City contracting in the future. The Controller expects to issue additional reports in the future. Reviews of the City internal controls will be released in a subsequent report. Finally, the City Attorney investigation continues with respect to the review certain contracts and payments made to outside vendors. To date, the City Attorney's investigation has led to the release of four city employees (including the Director of Public Works and the Director of Building Inspections, as described above) or officials from their City positions.

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

On November 30, 2020, Harlan L. Kelly, Jr., the General Manager of the San Francisco Public Utilities Commission ("PUC"), was charged in a federal criminal complaint with one count of honest services wire fraud. The complaint alleges that Mr. Kelly engaged in a long-running bribery scheme and corrupt partnership with Walter Wong, a San Francisco construction company executive and permit expediting

consultant, who ran or controlled multiple entities doing business with the City. The complaint further alleges that as part of the scheme, Mr. Wong provided items of value to Mr. Kelly in exchange for official acts by Mr. Kelly that benefited or attempted to benefit Mr. Wong's business ventures. Earlier criminal charges filed against Walter Wong alleged that Mr. Wong conspired with multiple City officials, including former Public Works Director Mohammed Nuru, in a conspiracy and money laundering scheme. Mr. Wong pled guilty in July of this year and is cooperating with the ongoing federal investigation.

Mr. Kelly resigned on December 1, 2020 and the PUC's Commission acted on his resignation on December 8, 2020. Until the PUC's Commission nominates and the Mayor appoints a new General Manager, Michael Carlin (PUC Deputy General Manager) is serving as the Acting General Manager for the PUC.

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

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

The criminal investigation by the Federal Bureau of Investigation and the United States Attorney's office is ongoing. The City Attorney, together with the City's Controller, continues to undertake an internal investigation of City contracting and policies and procedures arising from the federal charges.

### **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.



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**APPENDIX C**

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

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**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 or 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 at 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.

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE<sup>†</sup>

The following is a summary of certain of the definitions and terms of the Master Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture and the Sixth Supplemental Indenture. This summary is not intended to be comprehensive and investors are advised to refer to the actual executed documents for the complete terms of the documents summarized below. The Master Indenture, the Fourth Supplemental Indenture and the Fifth Supplemental Indenture are on file with the Trustee. Following delivery of the Series 2021C Bonds, the Sixth Supplemental Indenture will be on file with the Trustee.

### DEFINITIONS

The following is a summary of certain of the defined terms from the Indenture.

“Accreted Value” shall mean, as of any date of calculation, with respect to any Capital Appreciation Bond, the initial principal amount thereof plus the interest accumulated, compounded and unpaid thereon as of such date of calculation if a compounding date, or if such calculation date is other than a compounding date, the most recently past compounding date.

“Act” shall mean the Charter of the City and County of San Francisco, as supplemented and amended, and all enactments of the Board adopted pursuant thereto, including Ordinance No. 57-12 adopted by the Board of the City on April 17, 2012 and signed by Mayor Edwin M. Lee on April 19, 2012, and codified as Chapter 43, Article XIII, Sections 43.13.1 through 43.13.8 of the San Francisco Administrative Code.

“Amortized Bonds” shall mean a Series of Bonds (i) subject, pursuant to their terms, to optional or mandatory tender for purchase prior to maturity by or on behalf of the SFMTA or a Credit Provider or (ii) that have a Principal Amount equal to or greater than 25% of the total Principal Amount of such Series of Bonds due on a Principal Payment Date.

“Annual Debt Service” shall mean in any Fiscal Year (i) the amount scheduled to become due and payable on the Outstanding Bonds or any one or more Series thereof in any Fiscal Year as (a) interest, plus (b) Principal Amount at maturity, plus (c) mandatory sinking fund redemptions; (ii) Swap Payments scheduled to be paid under an Interest Rate Swap and (iii) other Parity Obligations and Repayment Obligations. For purposes of calculating Annual Debt Service, the following assumptions shall be used:

(i) All Principal Amount payments and mandatory sinking fund redemptions shall be made as and when the same shall become due;

(ii) Outstanding Variable Rate Bonds shall be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the average of the actual rates on such Variable Rate Bonds for each day during the 365 consecutive days (or any lesser period such Bonds have been outstanding) ending on the last day of the month next preceding the date of computation, or at the effective fixed annual rate thereon as a result of an Interest Rate Swap payable on a parity to the Variable Rate Bonds to which it relates (in which case, the scheduled amount due under such Variable Rate Bonds and the related Interest Rate Swap shall be deemed to be the fixed annual rate under the Interest Rate Swap);

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<sup>†</sup> The SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE appearing in the Preliminary Official Statement contained references to the supplemental indentures relating to the SFMTA’s Series 2012 Bonds, Series 2013 Bonds and Series 2014 Bonds. All of such bonds were refunded by the SFMTA’s Series 2021AB Bonds which were issued on February 23, 2021 and are no longer secured under the Indenture but are secured solely by amounts deposited in an irrevocable escrow fund in accordance with the defeasance provisions of the Indenture. Therefore, all such references have been removed from this SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.

(iii) Variable Rate Bonds proposed to be issued shall be deemed to bear interest at a fixed annual rate equal to the estimated initial rate or rates thereon, as set forth in a certificate of the Authorized SFMTA Representative prior to the date of delivery of such Bonds, or at the effective fixed annual rate thereon as a result of an Interest Rate Swap payable on a parity to the Variable Rate Bonds to which it relates (in which case, the scheduled amount due under such variable rate Bonds and the related Interest Rate Swap shall be deemed to be the fixed annual rate under the Interest Rate Swap);

(iv) If any Interest Rate Swap is in effect pursuant to which the SFMTA pays Swap Payments at a variable rate, and such Interest Rate Swap is payable on a parity with the fixed rate Bonds to which it relates, amounts payable under such Interest Rate Swap shall be included in the calculation of Annual Debt Service and calculated by the same method as variable rate interest pursuant to paragraphs (ii) and (iii) above, and the Annual Debt Service on such Bonds shall be adjusted to reflect the fixed rate to be received under such Interest Rate Swap;

(v) If any Bonds are Paired Obligations, the interest rate on such Bonds shall be the resulting fixed interest rate to be paid by the SFMTA with respect to such Paired Obligations;

(vi) Amortized Bonds shall be deemed to be amortized on a level debt service basis over twenty (20) years from the date of issuance or remarketing of such Series of Bonds at the then current Index Rate;

(vii) Capitalized interest on any Bonds and accrued interest paid on the date of initial delivery of any Series of Bonds shall be excluded from the calculation of Annual Debt Service if cash and/or Permitted Investments have been irrevocably deposited with and are held by the Trustee or other fiduciary for the Owners of such Bonds sufficient to pay such interest;

(viii) Repayment Obligations proposed to be entered into which are secured by Pledged Revenues on a parity with the Bonds as provided in the Indenture shall be deemed payable to the extent such Repayment Obligations are drawn upon and remain outstanding, and in such event, the amounts scheduled to be due under the Repayment Obligation shall be taken into account as Annual Debt Service;

(ix) the interest rate on Tax Credit Bonds shall be deemed to be reduced by the expected amount of Refundable Credit;

(x) other Parity Obligations shall be treated as Bonds for the purpose of this definition as appropriate.

“Authenticating Agent” shall mean, with respect to any Series of Bonds, each person or entity, if any, designated as such by the SFMTA in the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

“Authorized SFMTA Representative” shall mean the Director of Transportation or the Chief Financial Officer of the SFMTA, or the respective successors to the powers and duties thereof, or such other person as may be designated to act on behalf of the SFMTA by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the SFMTA by the Director of Transportation or Chief Financial Officer and of the SFMTA, or their respective successors.

“Board of Supervisors” shall mean the Board of Supervisors of the City and County of San Francisco, as duly elected, appointed and qualified from time to time in accordance with the provisions of the Charter.

“Bond Counsel” shall mean an attorney or firm of attorneys of national recognition selected or employed by the SFMTA with knowledge and experience in the field of municipal finance.

“Bonds” shall mean the revenue bonds issued from time to time pursuant to the Indenture.

“Business Day” shall mean, unless otherwise specified by Supplemental Indenture, any day of the week other than Saturday, Sunday or a day which shall be, in the State of California, the State of New York or in the jurisdiction in which the Corporate Trust Office of the Trustee or the principal office of the Registrar is located, a legal holiday or a day on which banking institutions are authorized or obligated by law or executive order to close.

“Capital Appreciation Bonds” shall mean Bonds the interest on which is compounded and accumulated at the rate or rates and on the date or dates set forth in the Supplemental Indenture authorizing the issuance thereof and which is payable only upon redemption and/or on the maturity date thereof.

“Charter” shall mean the Charter of the City and County of San Francisco, as supplemented and amended, and any new or successor Charter.

“City” shall mean the City and County of San Francisco, a chartered city and county and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

“Code” shall mean the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations, rulings and procedures proposed or promulgated thereunder or under the Internal Revenue Code of 1954, as amended.

“Corporate Trust Office” shall mean the office of the Trustee at which its corporate trust business is conducted designated in writing to the SFMTA, which initially is located in San Francisco, California; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the designated office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Credit Facility” shall mean a letter of credit, line of credit, standby purchase agreement, municipal bond insurance policy, surety bond or other financial instrument which obligates a third party to pay or provide funds for the payment of the Principal Amount or purchase price of and/or interest on any Bonds and which is designated as a Credit Facility in a Supplemental Indenture.

“Credit Provider” shall mean the person or entity obligated to make a payment or payments with respect to any Bonds under a Credit Facility.

“Debt Service Fund” shall mean the Debt Service Fund established pursuant to the Indenture.

“Delivery Costs” shall mean all items of expense directly or indirectly payable by or reimbursable to the SFMTA relating to the authorization, issuance, sale and delivery of the Bonds, including, but not limited to, printing expenses, filing and recording fees, fees and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, bond insurance premiums or other fees in connection with credit enhancement or other credit facilities obtained in connection with Bonds, rating agency fees and any other cost, charge or fee in connection with the original issuance of Bonds.

“Delivery Costs Accounts” shall mean, collectively, the Delivery Costs Accounts established pursuant to the Indenture.

“Enterprise Account” shall mean the Enterprise Account established pursuant to the Indenture. The Enterprise Account may be held as an account within the Municipal Transportation Fund created pursuant to Section 8A.105 of the Charter and any successor to such fund; provided that all transfers to the Transportation Fund from the City’s General Fund shall not be deposited or held in the Enterprise Account and shall be deposited and held in the SFMTA General Fund Transfer Account and any other moneys in the Transportation Fund that do not constitute Pledged Revenues shall not be deposited or held in the Enterprise Account and shall be held separate and apart from the Enterprise Account in a separate account or accounts. The Enterprise Account may include and/or consist of one or more accounts of the SFMTA then in existence or created from time to time as necessary or desirable for accounting and operational purposes.

“Event of Default” shall mean any one or more of those events described as events of default under the Indenture.

“Fifth Supplemental Indenture” shall mean the Fifth Supplement to Indenture of Trust, dated as of February 1, 2021, by and between the SFMTA and the Trustee.

“Fiscal Year” shall mean the one-year period beginning on July 1 of each year and ending on June 30 of the succeeding calendar year, or such other one-year period as the SFMTA shall designate as its Fiscal Year.

“Fitch” shall mean Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by an Authorized SFMTA Representative.

“Fourth Supplemental Indenture” shall mean the Fourth Supplement to Indenture of Trust, dated as of June 1, 2017, by and between the SFMTA and the Trustee.

“Fund” or “Account” shall mean any fund or account established pursuant to the Indenture.

“Government Certificates” shall mean evidences of ownership of proportionate interests in future principal or interest payments of Government Obligations, including depository receipts thereof. Investments in such proportionate interests must be limited to circumstances wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian, or any person claiming through the custodian, or any person to whom the custodian may be obligated.

“Government Obligations” shall mean direct and general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

“Holder,” “Bondholder,” “Owner” and “Bondowner” shall mean the person or persons in whose name any Bond or Bonds are registered on the records maintained by the Registrar.

“Indenture” shall mean the Indenture of Trust, dated as of July 1, 2012, by and between the SFMTA and the Trustee, as the same have been previously amended and supplemented, including as amended and supplemented by the Fourth Supplemental Indenture, the Fifth Supplemental Indenture and the Sixth Supplemental Indenture and as the same may be amended or supplemented pursuant to the terms thereof.

“Independent Auditor” shall mean a firm or firms of independent certified public accountants with knowledge and experience in the field of governmental accounting and auditing selected or employed by the SFMTA.

“Index Rate” shall mean the rate equal to the SIFMA Municipal Swap Index, or if such index ceases to be published, a comparable index published by the SIFMA or its successor or, if no comparable index then exists, eighty percent (80%) of the interest rate on actively traded ten (10) year United States Treasury Obligations.

“Insolvent” shall be used to describe the Trustee, any Paying Agent, Authenticating Agent, Registrar, other agent appointed under the Indenture or any Credit Provider, if (a) such person shall have instituted proceedings to be adjudicated a bankrupt or insolvent, shall have consented to the institution of bankruptcy or insolvency proceedings against it, shall have filed a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall have consented to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator or other similar official of itself or of any substantial part of its property, or shall fail to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or shall consent to the entry of an order for relief under the federal Bankruptcy Code or shall make an assignment for the benefit of creditors or shall admit in writing its inability to pay its debts

generally as they become due; or (b) a decree or order by a court having jurisdiction in the premises adjudging such person as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such person under the federal Bankruptcy Code or any other similar applicable federal or state law or for relief under the federal Bankruptcy Code after an involuntary petition has been filed against such person, or appointing a receiver, liquidator, assignee, trustee or sequestrator or other similar official of such person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, shall have been entered and shall have continued unstayed and in effect for a period of 90 consecutive days.

“Interest Payment Date” shall mean, with respect to any Series of Bonds, each date specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof for the payment of interest on such Bonds.

“Interest Rate Swap” shall mean an agreement between the SFMTA and a Swap Counter Party related to Bonds of one or more Series whereby a variable rate cash flow (which may be subject to an interest rate cap) on a principal or notional amount is exchanged for a fixed rate of return on an equal principal or notional amount.

“Master Indenture” shall mean the Indenture of Trust, dated as of July 1, 2012, by and between the SFMTA and the Trustee.

“Maximum Annual Debt Service” shall mean the maximum amount of Annual Debt Service in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the Bonds.

“Moody’s” shall mean Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by an Authorized SFMTA Representative.

“Opinion of Bond Counsel” shall mean a written opinion of Bond Counsel.

“Opinion of Counsel” shall mean a written opinion of an attorney or firm of attorneys acceptable to the Trustee and the SFMTA, and who (except as otherwise expressly provided in the Indenture) may be either counsel for the SFMTA or for the Trustee.

“Outstanding” when used with reference to a Series of Bonds shall mean, as of any date of determination, all Bonds of such Series which have been executed and delivered under the Indenture except: (a) Bonds cancelled by the Trustee or delivered to the Trustee for cancellation; (b) Bonds which are deemed paid and no longer Outstanding as provided in the Indenture or in any Supplemental Indenture authorizing the issuance thereof; (c) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of the Indenture or of any Supplemental Indenture authorizing the issuance thereof; and (d) for purposes of any consent or other action to be taken under the Indenture by the Holders of a specified percentage of Principal Amount of Bonds of a Series or all Series, Bonds held by or for the account of the SFMTA.

“Paired Obligations” shall mean any one or more Series (or portion thereof) of Bonds, designated as Paired Obligations in a Supplemental Indenture or a certificate executed by an Authorized SFMTA Representative, which are simultaneously issued, executed or delivered and (i) the principal or notional amount of which, as applicable, is of equal amount and (ii) the interest rates on which, taken together, result in an irrevocably fixed rate obligation of the SFMTA for the term of such Bonds.

“Parity Obligations” shall mean the Bonds and any evidences of indebtedness for borrowed money issued from time to time by the SFMTA under the Indenture or under a Supplemental Indenture pursuant to Article II of the Indenture, including but not limited to bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein or loans from financial institutions or governmental agencies. Bonds may also include, for the purposes of any particular provision of the Indenture as provided in a Supplemental Indenture, any other obligation, including but not limited to Repayment Obligations and other contractual obligations, entered into by the SFMTA pursuant to the terms of the Indenture with a lien on Pledged Revenues on a parity with other Outstanding Bonds.



“Paying Agent” shall mean, with respect to any Series of Bonds, each person or entity, if any, designated as such by the SFMTA under the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

“Payment Date” shall mean, with respect to any Series of Bonds, each Interest Payment Date and Principal Payment Date.

“Permitted Investments” shall mean and include any of the following, if and to the extent the same are at the time legal for the investment of the SFMTA’s money (provided that the Trustee shall be entitled to rely upon any investment directions from the SFMTA as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California and are Permitted Investments):

- (a) Government Obligations and Government Certificates.
- (b) Obligations issued or guaranteed by any of the following:
  - Export-Import Bank of the United States;
  - Farmers Home Administration;
  - Federal Farm Credit System; Federal Financing Bank;
  - Federal Home Loan Bank System;
  - Federal Home Loan Mortgage Corporation;
  - Federal Housing Administration;
  - Federal National Mortgage Association;
  - Government National Mortgage Association;
  - Private Export Funding Corporation;
  - Resolution Funding Corporation;
  - Student Loan Marketing Association; and
  - any other instrumentality or agency of the United States.
- (c) Prerefunded municipal obligations rated at the time of purchase of such investment in the highest rating category by the Rating Agencies then rating the Bonds and meeting the following conditions:
  - (i) such obligations are: (A) not subject to redemption prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;
  - (ii) such obligations are secured by Government Obligations or Government Certificates that may be applied only to interest, principal and premium payments of such obligations;
  - (iii) the principal of and interest on such Government Obligations or Government Certificates (plus any cash in the escrow fund with respect to such prerefunded obligations) are sufficient to meet the liabilities of the obligations; the Government Obligations or Government Certificates serving as security for the obligations have been irrevocably deposited with and are held by an escrow agent or trustee; and
  - (iv) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.
- (d) Direct and general long-term obligations of any State of the United States of America or the District of Columbia (a “State”) to the payment of which the full faith and credit of such State is pledged and that are rated at the time of purchase of the investment in either of the two highest rating categories by the Rating Agencies then rating the Bonds.
- (e) Direct and general short-term obligations of any State to the payment of which the full faith and credit of such State is pledged and that are rated at the time of purchase of the investment in the highest rating category by the Rating Agencies then rating the Bonds.

(f) Interest-bearing demand or time deposits or overnight bank deposits with, or banker's acceptances from, state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC"). Such deposits must be at least one of the following: (i) continuously and fully insured by FDIC; (ii) if they have a maturity of one year or less, with or issued by banks that are rated in one of the two highest short term rating categories by the Rating Agencies then rating the Bonds; (iii) if they have a maturity longer than one year, with or issued by banks that are rated at the time of purchase of the investment in one of the two highest rating categories by the Rating Agencies then rating the Bonds; or (iv) fully secured by Government Obligations and Government Certificates. Such Government Obligations and Government Certificates must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations and Government Certificates must be held by a third party (who shall not be the provider of the collateral), or by any Federal Reserve Bank or depository, as custodian for the institution issuing the deposits or interests. Such third party must have a perfected first lien in the Government Obligations and Government Certificates serving as collateral, and such collateral must be free from all other third party liens.

(g) Long-term or medium-term corporate debt guaranteed by any corporation that is rated at the time of purchase of the investment in one of the two highest rating categories by the Rating Agencies then rating the Bonds.

(h) Repurchase agreements, including those of the Trustee or any of its affiliates, longer than one year with financial institutions such as banks or trust companies organized under State or federal law, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated at the time of purchase of the investment "AA" or better by the Rating Agencies then rating the Bonds. The repurchase agreement must be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition.

(i) Prime commercial paper of a corporation, finance company or banking institution rated at the time of purchase of the investment in the highest short-term rating category by the Rating Agencies then rating the Bonds.

(j) State or public agency or municipality obligations rated at the time of purchase of the investment in the highest credit rating category by the Rating Agencies then rating the Bonds.

(k) Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, as amended, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that has been rated in the highest rating category by the Rating Agencies then rating the Bonds.

(l) Money market mutual accounts of any state or federal bank, or bank whose holding parent company is, rated in the top two short-term or long-term rating categories by the Rating Agencies then rating the Bonds, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.

(m) Investment agreements the issuer of which is rated at the time of purchase of the investment "AA" or better by the Rating Agencies then rating the Bonds.

(n) The City and County of San Francisco Treasurer's Investment Pool.

(o) Any other debt or fixed income security specified by an Authorized SFMTA Representative and rated at the time of purchase of the investment in the highest short-term rating category or one of the three highest long-term rating categories by the Rating Agencies then rating the Bonds.

“Principal Amount” shall mean, as of any date of calculation, (a) with respect to any Capital Appreciation Bond, the Accreted Value thereof, and (b) with respect to any other Bonds, the stated principal amount thereof.

“Principal Payment Date” shall mean, with respect to any Series of Bonds, each date specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof for the payment of the Principal Amount of such Bonds either at maturity or upon prior redemption from mandatory sinking fund payments.

“Project Accounts” shall mean, collectively, the Project Accounts established pursuant to the Indenture.

“Project Costs” shall mean costs and expenses incurred or to be incurred by the SFMTA in connection with the SFMTA’s projects, or otherwise permitted under the Code.

“Qualified Self-Insurance” shall mean either (a) a program of self-insurance, or (b) insurance maintained with a fund, company or association in which the SFMTA shall have a material interest and of which the SFMTA shall have control, either singly or with others, and in each case which meets the requirements of the Indenture.

“Rating Agency” shall mean Moody’s, Standard & Poor’s and/or Fitch and any other rating agency designated by the SFMTA.

“Record Date” shall mean, with respect to any Series of Bonds, each date, if any, specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof as a Record Date.

“Refundable Credit” shall mean, with respect to a Series of Bonds that are Tax Credit Bonds, the amounts which are payable by the Federal government to the SFMTA.

“Registrar” shall mean, with respect to any Series of Bonds, each person or entity, if any, designated as such by the SFMTA in the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

“Repayment Obligation” shall mean an obligation under a written agreement between the SFMTA and a Credit Provider to reimburse the Credit Provider for amounts paid under or pursuant to a Credit Facility for the payment of the Principal Amount or purchase price of and/or interest on any Bonds.

“Reserve Fund” shall mean the Reserve Fund established pursuant to the Indenture.

“Reserve Requirement” shall mean, as to each Series of Bonds and as of any calculation date, the amount provided in the Supplemental Indenture providing for the issuance of such Series of Bonds.

“Responsible Officer” when used with respect to the Trustee, means any officer or employee within the Corporate Trust Office of the Trustee (or any successor group of the Trustee) having direct responsibility for the administration of the Indenture and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

“SFMTA” shall mean the San Francisco Municipal Transportation Agency as duly constituted from time to time under the Charter, and all commissions, agencies or public bodies which shall succeed to the powers, duties and obligations of the SFMTA.

“SFMTA General Fund Transfer Account” shall mean the SFMTA General Fund Transfer Account required to be created pursuant to the Indenture. The SFMTA General Fund Transfer Account may be held as an account within the Municipal Transportation Fund created pursuant to Section 8A.105 of the Charter and any successor to such fund; provided that such Account shall be held separate and apart from the Enterprise Account.

“Series of Bonds” or “Bonds of a Series” or “Series” shall mean a series of Bonds issued pursuant to the Indenture.

“Series 2017 Bonds” shall mean the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2017 issued pursuant to the terms of the Indenture and the Fourth Supplemental Indenture.

“Series 2017 Debt Service Account” shall mean the account within the Debt Service Fund created pursuant to the Fourth Supplemental Indenture.

“Series 2021 Bonds” shall mean the Series 2021A Bonds, the Series 2021B Bonds and the Series 2021C Bonds.

“Series 2021A Bonds” shall mean the San Francisco Municipal Transportation Agency Refunding Revenue Bonds, Series 2021A (Federally Taxable) issued pursuant to the terms of the Indenture and the Fifth Supplemental Indenture.

“Series 2021B Bonds” shall mean the San Francisco Municipal Transportation Agency Refunding Revenue Bonds, Series 2021B (Tax-Exempt) issued pursuant to the terms of the Indenture and the Fifth Supplemental Indenture.

“Series 2021C Bonds” shall mean the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2021C (Green Bonds) issued pursuant to the terms of the Indenture and the Sixth Supplemental Indenture.

“Series 2021A Debt Service Account” means the account of that name within the Debt Service Fund created pursuant to the Fifth Supplemental Indenture.

“Series 2021B Debt Service Account” means the account of that name within the Debt Service Fund created pursuant to the Fifth Supplemental Indenture.

“Series 2021C Debt Service Account” means the account of that name within the Debt Service Fund created pursuant to the Sixth Supplemental Indenture.

“Sixth Supplemental Indenture” shall mean the Sixth Supplement to Indenture of Trust, dated as of March 1, 2016, by and between the SFMTA and the Trustee.

“Special Facility” shall mean any existing or planned facility, structure, equipment or other property, real or personal, which is under the jurisdiction of the SFMTA or a part of any facility or structure which is under the jurisdiction of the SFMTA and which is designated as a Special Facility pursuant to the Indenture.

“Special Facility Bonds” shall mean any revenue bonds, notes, bond anticipation notes, commercial paper or other evidences of indebtedness for borrowed money issued by, or certificates of participation executed on behalf of, the SFMTA to finance a Special Facility, the principal, premium, if any, and interest with respect to which are payable from and secured by the Special Facility Revenue derived from such Special Facility, and not from or by Pledged Revenues.

“Special Facility Revenue” shall mean the revenue earned by the SFMTA from or with respect to a Special Facility and which is designated as such by the SFMTA, including but not limited to contractual payments to the SFMTA under a loan agreement, lease agreement or other written agreement with respect to the Special Facility by and between the SFMTA and the person, firm, corporation or other entity, either public or private, as shall operate, occupy or otherwise use the Special Facility.

“Standard & Poor’s” shall mean Standard & Poor’s Rating Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by an Authorized SFMTA Representative.

“Subordinate Bonds” shall mean any evidences of indebtedness for borrowed money issued from time to time by the SFMTA pursuant to the Indenture, including but not limited to, bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein.

“Supplemental Indenture” shall mean an indenture supplementing or amending the provisions of the Indenture which is adopted by the SFMTA pursuant to the Indenture.

“Swap Counter Party” shall mean a member of the International Swap Dealers Association rated (either directly or by means of guaranty or credit enhancement) in one of the three top rating categories by both Rating Agencies.

“Swap Payments” shall mean as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Swap Counter Party by the SFMTA or the Trustee, on behalf of the SFMTA.

“Swap Receipts” shall mean as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the SFMTA or the Trustee for the account of the SFMTA by the Swap Counter Party.

“Tax Certificate” shall mean a certificate executed by an Authorized SFMTA Representative on behalf of the SFMTA with respect to any Series of Bonds relating to the federal tax aspects of the use of the proceeds of such Bonds and other related matters.

“Tax Credit Bonds” shall mean a Series of Bonds that are subject to Section 54AA of the Code pursuant to an irrevocable election of the SFMTA or similar tax credit bonds.

“Transportation System” means the transportation system of the City over which the SFMTA has jurisdiction pursuant to the Charter and includes the City’s public transit, paratransit, street and traffic management and improvements, including parking meters and fines, bicycle and pedestrian safety and enhancement programs, on and off-street parking improvements and programs, including the parking garages owned or overseen by the SFMTA, the regulation of taxis and commercial vehicles within the City and any other revenue producing activities of the SFMTA.

“Treasurer” shall mean the Treasurer of the City, and any successor to his or her duties under the Indenture.

“Trustee” shall mean U.S. Bank National Association, and any successor to its duties under the Indenture.

“Variable Rate Bonds” shall mean any Bonds the interest rate on which is not fixed to maturity as of the date of calculation.

## **THE MASTER INDENTURE**

The following is a summary of certain provisions of the Master Indenture.

### **Funds**

*Creation of Funds and Accounts.* The Enterprise Account is created under the Indenture and shall be held by the SFMTA or the Treasurer on behalf of the SFMTA. The Indenture also creates a Debt Service Fund and a Reserve Fund to be held by the Trustee in trust for the benefit of the Bondholders. The SFMTA may create such other Funds or Accounts for the allocation and application of Pledged Revenues or other moneys as it shall deem necessary or desirable. Any Fund or Account held by the SFMTA pursuant to the terms of the Master Indenture may include and/or consist of one or more accounts of the SFMTA then in existence or created from time to time as necessary or desirable for accounting and operational purposes.

*Debt Service Fund.* The SFMTA shall establish with the Trustee a separate account or accounts in the Debt Service Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Debt Service Fund and the accounts therein shall be held in trust by the Trustee and applied to pay Principal Amount and purchase price of and

interest and redemption premium on such Bonds, in the amounts, at the times and in the manner set forth in the Indenture and in the Supplemental Indentures with respect thereto; provided, however, that each Supplemental Indenture shall require to the extent practicable that amounts be accumulated in the applicable accounts in the Debt Service Fund so that moneys sufficient to make any regularly scheduled payment of Principal Amount of or interest on the Bonds are on deposit therein at least one (1) Business Day prior thereto. Moneys in the accounts in the Debt Service Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indentures with respect thereto.

If and to the extent provided for in any Supplemental Indenture authorizing the issuance of a Series of Bonds, Swap Payments may be paid directly out of, and Swap Receipts paid directly into, the account or accounts in the Debt Service Fund established with respect to such Series of Bonds.

*Reserve Fund.* The Reserve Fund or an account therein shall be funded in an amount at least equal to the Reserve Requirement established for each Series of Bonds (provided that a Series of Bonds may be issued that is not supported by the Reserve Fund and that has no Reserve Requirement). The SFMTA may by Supplemental Indenture establish a separate Account or Accounts in the Reserve Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Reserve Fund and the accounts therein shall be held in trust by the Trustee for the benefit and security of the Holders of the Bonds to which such accounts are pledged, and shall not be available to pay or secure the payment of any other Bonds. Each account in the Reserve Fund shall be funded and replenished in the amounts, at the times and in the manner provided in the Indenture or in the Supplemental Indentures with respect thereto. Moneys in the respective Accounts in the Reserve Fund shall be applied to pay and secure the payment of such Bonds as provided in the Indenture or in the Supplemental Indenture with respect thereto. Moneys in an Account in the Reserve Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indenture with respect thereto. No reserve is being funded for the Series 2017 Bonds.

The Reserve Requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank if the obligations insured by such insurer or issued by such bank, as the case may be, initially have ratings at the time of issuance of such policy or surety bond or letter of credit in one of the two highest rating categories of the Rating Agencies then rating the Bonds.

*Investment of Moneys.* Moneys in all Funds and Accounts held by the Trustee shall be invested as soon as practicable upon receipt in Permitted Investments as directed in writing by an Authorized SFMTA Representative; provided, that (i) pursuant to such written direction, the maturity date or the date on which such Permitted Investments may be redeemed at the option of the holder thereof shall coincide as nearly as practicable with (but in no event shall be later than) the date or dates on which moneys in the Funds or Accounts for which the investments were made will be required for the purposes thereof, and (ii) in the absence of direction from an Authorized SFMTA Representative, the Trustee shall invest moneys in the Permitted Investments described in clause (l) of the definition thereof or such other Permitted Investment identified in writing by an Authorized SFMTA Representative. Anything in the Indenture to the contrary notwithstanding, moneys in all Funds and Accounts held by the Treasurer shall be invested in Permitted Investments in accordance with the policies and procedures of the Treasurer in effect from time to time.

Investment of amounts in any Fund or Account shall be made in the name of such Fund or Account.

Amounts credited to a Fund or Account may be invested, together with amounts credited to one or more other Funds or Accounts, in the same Permitted Investment; provided, however, that (i) each such investment complies in all respects with the provisions of the Indenture as they apply to each Fund or Account for which the joint investment is made, and (ii) separate records are maintained for each Fund and Account and such investments are accurately reflected therein.

The Trustee may make any investment permitted by the Indenture through or with its own commercial banking or investment departments, unless otherwise directed by the SFMTA, provided, however, that the details of such transactions and relationships and all fees charged or received by the Trustee in such transactions shall be disclosed to the SFMTA.

Except as otherwise specifically provided in the Indenture, in computing the amount in any Fund or Account, Permitted Investments purchased as an investment of moneys therein shall be valued at the current market value thereof or at the redemption price thereof, if then redeemable at the option of the holder, in either event inclusive of accrued interest.

Any transfer to or deposit in any Fund or Account required by the Indenture may be satisfied by transferring or depositing an investment with a market value equal to the required transfer or deposit in lieu of transferring or depositing cash.

Earnings in any Fund or Account shall remain on deposit in such Fund or Account unless otherwise provided in the Indenture or in a written direction of an Authorized SFMTA Representative.

Except as otherwise specifically set forth in the Indenture, upon request of an Authorized SFMTA Representative, the Trustee shall deliver any investment earnings on any Funds or Accounts held by the Trustee to the SFMTA.

### **General Covenants of the SFMTA**

#### *Payment of Principal and Interest; Negative Pledge.*

(a) The SFMTA covenants and agrees that it promptly will pay or cause to be paid the Principal Amount and purchase price of, premium, if any, and interest on each Bond issued under the Indenture at the place, on the dates and in the manner provided in the Indenture, in any applicable Supplemental Indenture and in said Bond according to the terms thereof but solely from the sources pledged to such payment or from such other sources or revenue as may lawfully be used for such payment.

(b) The SFMTA covenants and agrees that it will not create any pledge of, lien on, security interest in or encumbrance upon, or permit the creation of any pledge of, lien on, security interest in or encumbrance upon, Pledged Revenues except as provided in the Indenture for the benefit of the Bonds or other Parity Obligations or except for a pledge, lien, security interest or encumbrance subordinate to the pledge, lien and security interest provided in therein for the benefit of the Bonds.

(c) The SFMTA covenants that it shall not issue, or cooperate with the issuance of, any bonds or other obligations secured by Pledged Revenues prior to the Bonds so long as any Bonds remain Outstanding under the Indenture.

#### *Covenant to Adopt Balanced Budget and Maintain Adequate Pledged Revenues.*

(a) The SFMTA covenants and agrees that it will (i) adopt for each Fiscal Year or every two Fiscal Years a budget that is balanced in accordance with Section 8A.106 of the Charter and that provides for payment of Annual Debt Service in such Fiscal Year and (ii) manage its operations and set charges (including but not limited to fares, rates and fees) for the Transportation System so that Pledged Revenues in each Fiscal Year (and available fund balances held by the SFMTA or the Trustee) will be at least equal to Annual Debt Service, payments due on Subordinate Bonds and payment of all costs reasonably necessary to operate the Transportation System in such Fiscal Year (but not including costs that have been funded from other sources not constituting Pledged Revenues or that may reasonably be deferred).

(b) The SFMTA covenants that if it is unable to comply with subsection (a) above, the SFMTA will review the SFMTA's operations and its schedule of fares, rates, fees and charges and prepare a plan with reasonable measures to comply with subsection (a). The SFMTA shall take such plan into account for future budgets and management.

*Operation and Maintenance of Transportation Operations.* The SFMTA covenants that it will operate and maintain its operations and the Transportation System as a revenue producing enterprise in accordance with law, including but not limited to the Act. The SFMTA will make such repairs to its facilities and equipment as shall be required to enable it to perform its covenants contained in the Indenture.

The SFMTA will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon its facilities or equipment or upon any part thereof, or upon the revenue from the operation thereof, when the same shall become due, as well as any lawful claim for labor, materials or supplies which, if unpaid, might by law become a lien or charge upon its facilities or equipment or such revenue, or which might materially impair the security of the Bonds. Notwithstanding the foregoing, the SFMTA need not pay or discharge any tax, assessment or other governmental charge, or claim for labor, materials or supplies, if and so long as the SFMTA shall contest the validity or application thereof in good faith.

The SFMTA will continuously operate its facilities and equipment and the Transportation System so that all lawful orders of any governmental agency or authority having jurisdiction in the premises shall be complied with, but the SFMTA shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith.

*Maintenance of Powers; Retention of Assets.* The SFMTA covenants that it will use its reasonable efforts to maintain the powers, functions, duties and obligations now reposed in it pursuant to law, and will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to materially, adversely impact the payment of the Bonds or any other obligation secured under the Indenture or the performance or observance of any of the covenants therein contained.

The SFMTA covenants that it will not dispose of assets necessary to operate the Transportation System in the manner and at the levels of activity required to enable it to perform its covenants contained in the Indenture.

The SFMTA covenants that it shall not apply Pledged Revenues or any other revenue of the SFMTA for other than SFMTA purposes as provided in the Charter.

*Insurance.* Subject in each case to the condition that insurance is obtainable at reasonable rates from responsible insurers and upon reasonable terms and conditions:

(a) The SFMTA shall procure or provide and maintain, at all times while any of the Bonds shall be outstanding, insurance or Qualified Self-Insurance on its facilities and equipment and with respect to its operations and the Transportation System against such risks as are usually insured by other transportation agencies which are similar in their operations to the SFMTA. Such insurance or Qualified Self-Insurance shall be in an adequate amount as to the risk insured against as determined by the SFMTA. The SFMTA need not carry insurance or Qualified Self-Insurance against losses caused by land movement, including but not limited to seismic activity.

(b) Any Qualified Self-Insurance shall be established in accordance with applicable law; shall include reserves or reinsurance in amounts which the SFMTA determines to be adequate to protect against risks assumed under such Qualified Self-Insurance, including without limitation any potential retained liability in the event of the termination of such Qualified Self-Insurance.

(c) The proceeds of any material claim on insurance shall be applied solely for SFMTA purposes. Further, the proceeds of any casualty insurance shall, within a reasonable period of time, be applied to (1) replace the SFMTA facilities which were damaged or destroyed, (2) provide additional revenue-producing SFMTA facilities, (3) redeem Bonds and other Parity Obligations or (4) create an escrow fund pledged to pay specified Bonds (and other Parity Obligations) and thereby cause such Bonds to be deemed to be paid as provided in Article X of the Indenture.

*Financial Records and Statements.* The SFMTA shall maintain proper books and records in which full and correct entries shall be made in accordance with generally accepted accounting principles, of all its business and affairs. The SFMTA shall have an annual audit made by an Independent Auditor and shall on or before 270 days after the end of each of its Fiscal Years furnish to the Trustee copies of the audited financial statements of the SFMTA for such Fiscal Year.

All such books and records pertaining to the SFMTA shall be open and available for inspection upon reasonable notice during regular business hours to the Trustee or the representatives thereof duly authorized in writing.



*Tax Covenants.* Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the SFMTA covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The SFMTA will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

(b) Arbitrage. The SFMTA will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The SFMTA will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The SFMTA will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(e) Miscellaneous. The SFMTA will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

(f) Taxable Bonds and Tax Credit Bonds. Notwithstanding the foregoing, the SFMTA may issue a Series of Bonds that are intentionally not exempt from taxation and may issue Series of Bonds that are Tax Credit Bonds.

*Eminent Domain.* If SFMTA facilities or equipment are taken by eminent domain proceedings or conveyance in lieu thereof, the SFMTA shall create within the Enterprise Account a special account and credit the net proceeds received as a result of such taking or conveyance to such account and shall within a reasonable period of time, not to exceed three years after the receipt of such amounts, use such proceeds to (1) replace the SFMTA facilities which were taken or conveyed, (2) provide additional revenue-producing SFMTA facilities, (3) redeem Bonds and other Parity Obligations or (4) create an escrow fund pledged to pay specified Bonds (and other Parity Obligations) and thereby cause such Bonds to be deemed to be paid as provided in the Indenture.

## **Default and Remedies**

*Events of Default.* Each of the following is declared an “Event of Default” under the Indenture:

(a) if payment of any installment of interest on any Bond shall not be made in full when the same becomes due and payable;

(b) if payment of the Principal Amount of any Bond shall not be made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;

(c) if payment of the purchase price of any Bond tendered for optional or mandatory purchase in accordance with the provisions of the Supplemental Indenture providing for the issuance of such Bond shall not be made in full when due;

(d) if the SFMTA shall fail to observe or perform any other covenant or agreement on its part under the Indenture for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the SFMTA by the Trustee, or to the SFMTA and the Trustee by the Owners of at least 25% in aggregate Principal Amount of Bonds then Outstanding; provided, however, that if the breach of covenant or agreement is one which cannot be completely remedied within the 60 days after written notice has been given, it shall not be an Event of Default as long as the SFMTA has taken active steps within the 60 days after written

notice has been given to remedy the failure and is diligently pursuing such remedy (in the case of a failure to comply with the covenant under the Indenture to adopt a balanced budget, active steps by the SFMTA to remedy the failure include steps to comply with the covenant under the Indenture to prepare a plan with reasonable measures to adopt a balanced budget and diligent pursuit of such remedy includes compliance with the covenant to maintain a balanced budget in the next Fiscal Year);

(e) if either the SFMTA or the City shall institute proceedings to be adjudicated a bankrupt or insolvent, or shall consent to the institution of bankruptcy or insolvency proceedings against it, or shall file a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the SFMTA or of any substantial part of its property, or shall fail to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or shall consent to entry of an order for relief under the federal Bankruptcy Code, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due;

(f) The occurrence of any other Event of Default with respect to other Parity Obligations as provided in a Supplemental Indenture.

*Acceleration.*

(i) In each and every such case of the continuance of an Event of Default under the Indenture, the Trustee may, and upon the written request of the Credit Provider or Providers as provided in any Supplemental Indenture or the Holders of not less than fifty-one percent (51%) in aggregate Principal Amount of the Bonds then Outstanding shall, by notice in writing to the SFMTA, declare the Principal Amount of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon such declaration of the same, payment of the Principal Amount of all of the Bonds then Outstanding, and the interest accrued thereon, shall be and shall become immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

(ii) Promptly after any acceleration of the Bonds, the Trustee shall cause a notice thereof to be mailed, first class, postage prepaid, to all Holders of Bonds and, if provided by a Supplemental Indenture, to one or more Credit Providers. Failure to mail any such notice, or any defect in any notice so mailed, shall not affect such acceleration.

(iii) Notwithstanding paragraph (i) above, if at any time after the Principal Amount of the Bonds shall have become due and payable pursuant to an acceleration thereof, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, (i) sufficient moneys (other than moneys drawn by the Trustee under any Credit Facility) shall have accumulated in the Debt Service Fund to pay the Principal Amount of all matured Bonds of each Series and all arrears of interest, if any, upon all such Bonds then Outstanding (except the Principal Amount of any such Bonds not then due and payable by their terms and the interest accrued on such Bonds since the last Interest Payment Date), (ii) the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the SFMTA under the Indenture shall have been paid or moneys sufficient to pay the same shall have been deposited with the Trustee, and (iii) every other default known to the Trustee in the observance or performance of any covenant, condition, agreement or provision contained in the Bonds of each Series or in the Indenture (other than a default in the payment of the Principal Amount of such Bonds then due and payable only because of a declaration under the Indenture) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee shall, by a notice in writing to the SFMTA, rescind and annul such acceleration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

*Remedies and Enforcement of Remedies.* Subject to the provisions of Supplement Indentures regarding the rights of any Credit Providers, the occurrence and continuance of an Event of Default, the Trustee may, or upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate Principal Amount of the Bonds together with indemnification of the Trustee to its satisfaction therefor shall, proceed forthwith to protect and enforce

its rights and the rights of the Bondholders under the Indenture and under the Act and such Bonds by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Actions to recover money or damages due and owing;
- (ii) Actions to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds; and
- (iii) Enforcement of any other right of such Bondholders conferred by law, including the Act, or by the Indenture, including without limitation by suit, action, injunction, mandamus or other proceedings to enforce and compel the performance by the SFMTA of actions required by the Act or the Indenture, including the fixing, charging and collection of fees or other charges and the application of Pledged Revenues and amounts in the Enterprise Account to the payment of Bonds.

Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

*Application of Moneys After Default.* During the continuance of an Event of Default, all moneys held and received by the Trustee with respect to the Bonds pursuant to any right given or action taken under the provisions of the Indenture, after payment of the costs and expenses of the proceedings which result in the collection of such moneys and of the fees, expenses and advances incurred or made by the Trustee with respect to such Event of Default and any outstanding fees and expenses of the Trustee be applied as follows; provided, however, that any proceeds of a Credit Facility, if any, and amounts held in the Debt Service Fund and the Reserve Fund pledged to a particular Series of Bonds shall be applied solely to pay Principal Amount, premium, if any, purchase price, if any, of or interest, as applicable, on the related Series of Bonds:

*First:* To the payment to the persons entitled thereto of all installments of interest then due on such Bonds in the order of maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

*Second:* To the payment to the persons entitled thereto of the unpaid Principal Amounts and premium, if any, of any such Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), whether at maturity, upon tender or purchase or acceleration or by proceedings for redemption or otherwise, in the order of their due dates as provided in the Indenture and in the Supplemental Indenture under which they were issued, and if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the Principal Amounts due on such date, to the persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Trustee after a default, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine in accordance with the Indenture, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee shall give such notice as it may deem appropriate in accordance with the Indenture of the deposit with it of any such moneys, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever the Principal Amount, premium, if any, purchase price, if any, and interest thereon of all Bonds of a Series have been paid under the provisions of the Indenture and all expenses and charges of the Trustee have been paid, and each Credit Provider, if any, has been reimbursed for all amounts drawn under the applicable Credit Facility, if any, and used to pay Principal Amount, premium, if any, purchase price, if any, and interest on the Bonds and no Repayment Obligation shall be outstanding, any balance remaining shall be paid first to such Credit Provider to the extent any other amounts are then owing to such Credit Provider under the applicable agreement, and then to the SFMTA or as a court of competent jurisdiction may direct.

*Remedies Not Exclusive.* No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Bondholders or any Credit Provider is intended to be exclusive of any other remedy but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute, including the Act, on or after the date of the Indenture.

*Remedies Vested in Trustee.* All rights of action (including the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Trustee may be brought in its name as the Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the provisions of the Indenture, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Bonds.

*Control of Proceedings.* If an Event of Default shall have occurred and be continuing, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of the Bonds of one or more Series then Outstanding shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken with respect to funds or assets solely securing such one or more Series in connection with the enforcement of the terms and conditions of the Indenture; provided, that such direction is in accordance with law and the provisions of the Indenture (including indemnity to the Trustee as provided in the Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders of such Series of Bonds not joining in such direction; and provided further, that nothing therein shall impair the right of the Trustee in its discretion to take any other action thereunder which it may deem proper and in accordance with the Indenture and which is not inconsistent with such direction by Bondholders.

If an Event of Default with respect shall have occurred and be continuing, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of all Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee to direct the method and place of conducting any proceeding to be taken with respect to Pledged Revenues or other assets securing all Bonds in connection with the enforcement of the terms and conditions under the Indenture, provided, that such direction is in accordance with law and the provisions of the Indenture (including indemnity to the Trustee as provided in the Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders not joining in such direction; and provided further, that nothing thereunder shall impair the right of the Trustee in its discretion to take any other action thereunder which it may deem proper in accordance with the Indenture and which is not inconsistent with such direction by Bondholders.

*Individual Bondholder Action Restricted.*

(a) No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof or for the execution of any trust under the Indenture or for any remedy under the Indenture unless:

(i) an Event of Default has occurred with respect to such Series (A) under subsection (a), (b), or (c) of the definition of an Event of Default of which the Trustee is deemed to have notice, or (B) under subsection (d), (e) or (f) of the definition of Event of Default as to which the Trustee has actual knowledge, or (C) as to which the Trustee has been notified in writing by the SFMTA, or (D) as to which the SFMTA and the Trustee have been notified in writing by the Holders of at least twenty-five percent (25%) in aggregate Principal Amount of the Bonds then Outstanding;

(ii) the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of Bonds then Outstanding have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; and

(iii) such Bondholders shall have offered the Trustee indemnity as provided in the Indenture; and

(iv) the Trustee shall have failed or refused to exercise the powers therein granted or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

(b) No one or more Holders of Bonds of any Series shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right under the Indenture except in the manner therein provided and for the equal benefit of the Holders of all Bonds then Outstanding.

(c) Nothing contained in the Indenture shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on such Bond on or after the due date thereof, or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the Indenture on the moneys, funds and properties pledged under the Indenture for the equal and ratable benefit of all Holders of Bonds.

*Termination of Proceedings.* In case any proceeding taken by the Trustee on account of an Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or to the Bondholders, then the SFMTA, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture, and all rights, remedies and powers of the Trustee and the Bondholders shall continue as if no such proceeding had been taken.

*Waiver of Event of Default.*

(a) No delay or omission of the Trustee, of any Holder of the Bonds or, if provided by the Indenture or by Supplemental Indenture, any Credit Provider, to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or, an acquiescence therein. Every power and remedy given by the Indenture to the Trustee, the Holders of the Bonds and, if provided thereby or by Supplemental Indenture, any Credit Provider, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Trustee, with the consent of any Credit Provider if required by Supplemental Indenture (provided, however, that such Credit Provider's consent may be required only in connection with an Event of Default on a Series of Bonds with respect to which such Credit Provider is providing a Credit Facility), may waive any Event of Default with respect to the Bonds that, in its opinion, shall have been remedied at any time, regardless of whether any suit, action or proceeding has been instituted, before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Indenture, or before the completion of the enforcement of any other remedy under the Indenture.

(c) Notwithstanding anything contained in the Indenture to the contrary, the Trustee, upon the written request of (i) the Credit Provider, if any, if required by Supplemental Indenture, or (ii) Holders of at least fifty-one percent (51%) of the aggregate Principal Amount of Bonds then Outstanding, with the consent of the applicable Credit Provider, if any, if provided for thereby or by Supplemental Indenture, shall waive any such Event of Default under the Indenture and its consequences; provided, however, that a default in the payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on any such Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds then Outstanding of such Series to which such Event of Default applies and any consent of the applicable Credit Provider, if any, if provided for by the Indenture or by Supplemental Indenture.

In case of any waiver by the Trustee of an Event of Default under the Indenture, the SFMTA, the Trustee, the Bondholders and, if required by Supplemental Indenture, the Credit Provider, if any, shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with the Indenture.

### *Notice of Default.*

(a) Promptly, but in any event within 30 days after the occurrence of an Event of Default of which the Trustee is deemed to have notice pursuant to the Indenture, the Trustee shall, unless such Event of Default shall have theretofore been cured, give written notice thereof by first class mail to each Holder of registered Bonds then Outstanding, provided that, except in the case of a default in the payment of Principal Amounts, sinking fund installments, purchase price or the redemption price of or interest on any of the Bonds, the Trustee may withhold such notice to such Holders if, in its sole judgment in accordance with the Indenture, it determines that the withholding of such notice is in the best interests of the Holders of the Bonds.

(b) The Trustee shall promptly notify the SFMTA, the Treasurer, the Registrar and any Credit Provider, if required by the Indenture or by a Supplemental Indenture, of the occurrence of an Event of Default of which the Trustee is deemed to have notice pursuant to the Indenture.

*Limitations on Remedies.* It is the purpose and intention of the Indenture to provide rights and remedies to the Trustee and Bondholders which lawfully may be granted under the provisions of the Act, but should any right or remedy therein granted be held to be unlawful, the Trustee and the Bondholders shall be entitled as above set forth to every other right and remedy provided therein and by law.

*Credit Providers to Control Remedies.* While a Credit Facility (other than a Credit Facility on deposit in the Reserve Fund) with respect to any Bonds is in effect, notwithstanding anything else in the Indenture to the contrary, a Supplemental Indenture may provide that so long as the Credit Provider is not Insolvent and is not in default under its Credit Facility, no right, power or remedy under the Indenture with respect to such Bonds may be pursued without the prior written consent of such Credit Provider. The Supplemental Indenture may further provide that the Credit Provider shall have the right to direct the Trustee to pursue any right, power or remedy available under the Indenture with respect to any assets available under the Indenture which secure no Bonds other than the Bonds secured by such Credit Facility.

*Limitation on SFMTA's Obligation.* The Owners of the Bonds issued under the Indenture expressly understand and agree by their acceptance of the Bonds, that nothing contained in the Indenture shall be deemed to require the SFMTA to advance any moneys derived from the levy or collection of taxes by the City for the payment of the Principal Amount of, purchase price, if any, premium, if any, or interest on the Bonds. Neither the credit nor the taxing power of the City is pledged for the payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on the Bonds, and the general fund of the City is not liable for the payment of the Bonds or the interest thereon. The Owners of the Bonds cannot compel the exercise of the taxing power by the City or the SFMTA or the forfeiture of its property or the property of the SFMTA.

The principal of and interest on the Bonds and any premiums upon the redemption of any thereof are not a debt of the SFMTA nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or on any of its income, receipts or revenue except the Pledged Revenues and other funds that may be legally applied, pledged or otherwise made available to their payment as provided under the Indenture.

Neither the SFMTA nor any officer thereof shall be liable or obligated for the payment of the Principal Amount, premium, if any, purchase price, if any, of or interest on the Bonds or for any payment agreed to be made or contemplated to be made pursuant to any of the terms of the Indenture, save and except solely and exclusively from Pledged Revenues and the other moneys pledged thereto pursuant to the Indenture or any Supplemental Indenture authorizing the issuance thereof. Nothing contained in the Indenture shall prevent the SFMTA from making advances of its funds howsoever derived to any of the uses and purposes in the Indenture mentioned, provided such funds are derived from any source legally available for such purpose and may be used by the SFMTA for such purpose without incurring indebtedness.

### **The Trustee**

Upon the occurrence and continuance of an Event of Default under the Indenture, the Trustee shall have a right to payment prior to the Bonds as to all property and funds held by it (other than the Rebate Fund) for any reasonable amount owing to it or any predecessor Trustee pursuant to the Indenture and the rights of the Trustee to

reasonable compensation for its services and to payment or reimbursement for its reasonable costs or expenses shall have priority over the Bonds in respect of all property or funds held or collected by the Trustee as such and other funds held in trust by the Trustee for the benefit of the Holders of particular Bonds; provided, however, that neither the Trustee nor any predecessor Trustee shall have any lien or claim for payment of any such compensation, reimbursement or other amounts against moneys paid under any Credit Facility or proceeds of a remarketing. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

### **Supplemental Indentures**

*Supplemental Indentures Not Requiring Consent of Bondholders.* The SFMTA may adopt, without the consent of or notice to any of the Holders, one or more Supplemental Indentures for one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Indenture;
- (b) to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provisions with respect to matters or questions arising thereunder that shall not have a material adverse effect on the interests of the Holders;
- (c) to grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;
- (d) to secure additional revenue or provide additional security or reserves for payment of any Bonds;
- (e) to preserve the excludability of interest on any Bonds from gross income for purposes of federal income taxes, or to change the tax covenants set forth in the Indenture, pursuant to an Opinion of Bond Counsel that such action will not affect adversely such excludability;
- (f) to provide for the issuance of, and to set the terms and conditions of, each additional Series of Bonds under the Indenture or other Parity Obligations, including covenants and provisions with respect thereto which do not violate the terms of the Indenture;
- (g) to add requirements the compliance with which is required by a Rating Agency in connection with issuing a rating with respect to any Series of Bonds;
- (h) to confirm, as further assurance, any interest of the Trustee in and to the Pledged Revenues or in and to the Funds and Accounts held by the Trustee or in and to any other moneys, securities or funds of the SFMTA provided pursuant to the Indenture;
- (i) to comply with the requirements of the Trust Indenture Act of 1939, as amended, to the extent applicable;
- (j) to provide for uncertificated Bonds or for the issuance of coupon or bearer Bonds;
- (k) to accommodate the use of a Credit Facility for specific Bonds or a Series;
- (l) to make any other change or addition to the Indenture which, in the Opinion of Bond Counsel, shall not have a material adverse effect on the interests of the Holders.

*Supplemental Indentures Requiring Consent of Bondholders.* (a) Other than Supplemental Indentures referred to above and subject to the terms, provisions and limitations contained in the Indenture, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of the Outstanding Bonds of all Series affected by such amendment may consent to or approve, which consent to or approval shall be in writing, the execution by the SFMTA of such Supplemental Indentures as shall be deemed necessary and desirable by the SFMTA for the purpose of

modifying, altering, amending, adding to or rescinding any of the terms or provisions with respect to such Series contained in the Indenture; provided, however, nothing in the Indenture shall permit or be construed as permitting a Supplemental Indenture which would:

(i) extend the stated maturity of or time or change the currency for paying the Principal Amount or purchase price of, premium, if any, or interest on any Bond or reduce the Principal Amount or purchase price of or the redemption premium or rate of interest payable on any Bond without the consent of the Holder of such Bond;

(ii) except as expressly permitted by the Indenture, prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority; or

(iii) permit the creation of a lien not expressly permitted by the Indenture upon or pledge of the Pledged Revenues ranking prior to or on a parity with the lien of the Indenture or reduce the aggregate Principal Amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplemental Indenture, without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the SFMTA shall propose the adoption of a Supplemental Indenture pursuant to Bondholder consent, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed adoption of such Supplemental Indenture to be mailed by first class mail, postage prepaid, to all Holders of Bonds of any affected Series then outstanding at their addresses as they appear on the registration books provided for in the Indenture. The Trustee, however, shall not be subject to any liability to any Bondholder by reason of its failure to mail, or the failure of such Bondholder to receive, the notice required, and any such failure shall not affect the validity of such Supplemental Indenture when consented to and approved as provided. Such notice shall set forth briefly the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the office of the Trustee for inspection by all Bondholders.

(c) If within such period, not exceeding one year, as shall be prescribed by the SFMTA, following the first giving of a notice as provided in subsection (b) above, the Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate Principal Amount of Bonds specified in subsection (a) above for the Supplemental Indenture in question which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee may accept such Supplemental Indenture in substantially such form, without liability or responsibility to any Holder of any Bond, regardless of whether such Holder shall have consented thereto.

(d) Any such consent shall be binding upon the Holder of the Bond giving such consent and upon any subsequent Holder of such Bond and of any Bond issued in exchange therefor (regardless of whether such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bond giving such consent or by a subsequent Holder thereof by filing with the Trustee, prior to the acceptance by the Trustee of such Supplemental Indenture, such revocation. At any time after the Holders of the required Principal Amount of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the SFMTA a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(e) If the Holders of the required Principal Amount of the Bonds Outstanding shall have consented to and approved the adoption by the SFMTA of such Supplemental Indenture as provided, no Holder of any Bond shall have any right to object to the adoption thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof or to enjoin or restrain the Trustee or the SFMTA from adopting the same or taking any action pursuant to the provisions thereof.



## **Satisfaction, Discharge and Defeasance**

*Discharge.* If payment of all Principal Amount of, premium, if any, and interest on a Series of Bonds in accordance with their terms and as provided in the Indenture is made, or is provided, and if all other sums payable by the SFMTA under the Indenture with respect to such Series of Bonds shall be paid or provided for, then the pledge, lien, and security interests granted thereby shall cease with respect to such Series; provided, however, that the rebate provisions, if any, of the Indenture or of the related Supplemental Indenture shall survive so long as there is any amount due to the federal government pursuant to the provisions of the Indenture or of such Supplemental Indenture. Thereupon, upon the request of the SFMTA, and upon receipt by the Trustee of an Opinion of Counsel stating that all conditions precedent to the satisfaction and discharge as provided above of the lien of the Indenture have been satisfied with respect to such Series of Bonds, the Trustee shall execute and deliver proper instruments acknowledging such satisfaction and discharging the lien of the Indenture with respect to such Series of Bonds. If the lien thereof has been discharged with respect to all Series of Bonds, the Trustee shall transfer all property held by it thereunder, other than moneys or obligations held by the Trustee for payment of amounts due or to become due on the Bonds, to the SFMTA or such other person as may be entitled thereto as their respective interests may appear. Such satisfaction and discharge shall be without prejudice to the rights of the Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection with the Indenture.

The SFMTA may at any time surrender to the Trustee for cancellation any Bonds previously authenticated and delivered which the SFMTA at its option may have acquired in any manner whatsoever and such Bond upon such surrender and cancellation shall be deemed to be paid and retired.

*Defeasance.* Payment of any Bonds may be provided for by the deposit with the Trustee of moneys, noncallable Governmental Obligations, noncallable Government Certificates or prerefunded municipal obligations described in paragraph (c) of the definition of Permitted Investments in the Indenture, or any combination thereof. The moneys and the maturing principal and interest income on such Government Obligations, Government Certificates or prerefunded municipal obligations, if any, must be sufficient and available without reinvestment to pay when due the Principal Amount, whether at maturity or upon fixed redemption dates, or purchase price of and premium, if any, and interest on such Bonds. The moneys, Government Obligations, Government Certificates and prerefunded municipal obligations shall be held by the Trustee irrevocably in trust for the Holders of such Bonds solely for the purpose of paying the Principal Amount or purchase price or redemption price of, including premium, if any, and interest on such Bonds as the same shall mature or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Trustee to give notice of redemption and to notify all Owners of affected Bonds that the deposit required by the Indenture has been made and that such Bonds are deemed to be paid in accordance with the Indenture and stating the applicable maturity date or redemption date and redemption price.

The Trustee shall receive a verification report from an Independent Auditor as to the sufficiency of moneys and investments to provide for payment of any Bonds in the case of a defeasance thereof.

Bonds, the payment of which has been provided for in accordance with the Indenture, shall no longer be deemed Outstanding thereunder. The obligation of the SFMTA in respect of such Bonds shall nevertheless continue but the Holders thereof shall thereafter be entitled to payment only from the moneys, Government Obligations, Government Certificates and prerefunded municipal obligations deposited with the Trustee to provide for the payment of such Bonds.

No Bond may be so provided for if, as a result thereof or of any other action in connection with which the provision for payment of such Bond is made, the interest payable on any Bond with respect to which an Opinion of Bond Counsel has been rendered that such interest is excluded from gross income for federal income tax purposes is made subject to federal income taxes. The Trustee shall receive and may rely upon an Opinion of Bond Counsel to the effect that the provisions of this paragraph will not be breached by so providing for the payment of any Bonds.

*Payment of Bonds After Discharge.* Notwithstanding the discharge of the lien as provided in the Indenture, the Trustee nevertheless shall retain such rights, powers and duties under the Indenture as may be necessary and convenient for the payment of amounts due or to become due on the Bonds, including without limitation pursuant to any mandatory sinking fund redemptions, and the registration, transfer, exchange and replacement of Bonds as

provided therein. Nevertheless, any moneys held by the Trustee or any Paying Agent for the payment of the Principal Amount of, premium, if any, or interest on any Bond remaining unclaimed for one (1) years after such payment has become due and payable, or such other period provided by law, whether at maturity or upon proceedings for redemption, shall be disposed of pursuant to the provisions of the Indenture. After discharge of the lien thereof, but prior to payment of such amounts to Holders or as provided pursuant to the Indenture, the Trustee shall invest such amounts in Government Obligations or prerefunded municipal obligations described in the definition of Permitted Investments in the Indenture for the benefit of the SFMTA.

#### **FOURTH SUPPLEMENT TO INDENTURE OF TRUST**

The following is a summary of certain provisions of the Fourth Supplemental Indenture.

*Establishment of Series 2017 Debt Service Account.* The SFMTA shall transfer Pledged Revenues to the Trustee for deposit in the Debt Service Fund as provided in the Indenture and the Fourth Supplemental Indenture; provided, that the Series 2017 Debt Service Account is created in the Debt Service Fund held by the Trustee with respect to the Series 2017 Bonds; provided further, however, that to the extent that deposits have been made in any of the accounts referred to below from the proceeds of the sale of the Series 2017 Bonds or otherwise, the deposits below need not be made.

*Series 2017 Debt Service Account.* On or before the Business Day prior to each Series 2017 Payment Date, the Trustee shall transfer from the Debt Service Fund to the Series 2017 Debt Service Account within the Debt Service Fund, the interest and Principal Amount to become due on such Series 2017 Bonds on such Series 2017 Payment Date; provided that the SFMTA need not transfer any moneys at such time as the balance in said Series 2017 Debt Service Account shall be equal to the aggregate amount of interest and Principal Amount becoming due and payable on the then Outstanding Series 2017 Bonds on such Series 2017 Payment Date. The obligation to make the foregoing transfers shall be on a parity with the obligation to fund the Series 2012A Debt Service Account, the Series 2012B Debt Service Account, the Series 2013 Debt Service Account, the Series 2014 Debt Service Account and any debt service accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

#### **FIFTH SUPPLEMENT TO INDENTURE OF TRUST**

The following is a summary of certain provisions of the Fifth Supplemental Indenture.

*Establishment of Series 2021A Debt Service Account and Series 2021B Debt Service Account.* The SFMTA shall transfer Pledged Revenues to the Trustee for deposit in the Debt Service Fund as provided in the Master Indenture and the Fifth Supplemental Indenture; provided, that the Series 2021A Debt Service Account and the Series 2021B Debt Service Account are created in the Debt Service Fund held by the Trustee with respect to the Series 2021A Bonds and the Series 2021B Bonds; provided further, however, that to the extent that deposits have been made in any of the accounts referred to below from the proceeds of the sale of the Series 2021A Bonds or Series 2021B Bonds, respectively, or otherwise, the deposits below need not be made.

*Operation of Series 2021A Debt Service Account and Series 2021B Debt Service Account.* On or before the Business Day prior to each Series 2021 Payment Date, the Trustee shall transfer from the Debt Service Fund to the Series 2021A Debt Service Account and Series 2021B Debt Service Account within the Debt Service Fund (which accounts are created under the Fifth Supplemental Indenture), the interest and Principal Amount to become due on such Series 2021A Bonds and the Series 2021B Bonds on such Series 2021 Payment Date; provided that the SFMTA need not transfer any moneys at such time as the balance in said Series 2021A Debt Service Account and said Series 2021B Debt Service Account shall be equal to the aggregate amount of interest and Principal Amount becoming due and payable on the then Outstanding Series 2021A Bonds and Series 2021B Bonds, respectively, on such Series 2021 Payment Date. The obligation to make the foregoing transfers shall be on a parity with the obligation to fund any interest accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may

hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

## **SIXTH SUPPLEMENT TO INDENTURE OF TRUST**

The following is a summary of certain provisions of the Sixth Supplemental Indenture.

*Establishment of Series 2021C Debt Service Account.* The SFMTA shall transfer Pledged Revenues to the Trustee for deposit in the Debt Service Fund as provided in the Master Indenture and the Sixth Supplemental Indenture; provided, that the Series 2021C Debt Service Account is created in the Debt Service Fund held by the Trustee with respect to the Series 2021C Bonds; provided further, however, that to the extent that deposits have been made in any of the accounts referred to below from the proceeds of the sale of the Series 2021C Bonds or otherwise, the deposits below need not be made.

*Operation of Series 2021C Debt Service Account.* On or before the Business Day prior to each Series 2021 Payment Date, the Trustee shall transfer from the Debt Service Fund to the Series 2021C Debt Service Account within the Debt Service Fund (which account is created under the Sixth Supplemental Indenture), the interest and Principal Amount to become due on such Series 2021C Bonds on such Series 2021 Payment Date; provided that the SFMTA need not transfer any moneys at such time as the balance in said Series 2021C Debt Service Account shall be equal to the aggregate amount of interest and Principal Amount becoming due and payable on the then Outstanding Series 2021C Bonds on such Series 2021 Payment Date. The obligation to make the foregoing transfers shall be on a parity with the obligation to fund any interest accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**\$104,285,000**  
**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**  
**Revenue Bonds, Series 2021C**  
**(Green Bonds)**

[Closing Date]

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the San Francisco Municipal Transportation Agency (the “SFMTA”) pursuant to Section 8A.102(b)(13) of the Charter, an Indenture of Trust, dated as of July 1, 2012 (as amended, the “Master Indenture”), between the SFMTA and U.S. Bank National Association (the “Trustee”), as successor in interest to The Bank of New York Mellon Trust Company, N.A., as trustee, a Sixth Supplement to Indenture of Trust, dated as of March 1, 2021 (the “Sixth Supplemental Indenture” and, together with the Master Indenture, the “Indenture”), between the SFMTA and the Trustee, Ordinance No. 57-12 of the Board of Supervisors adopted on April 19, 2012, Resolution No. 60-21 of the Board of Supervisors adopted on February 9, 2021 and signed by the Mayor on February 18, 2021, Resolution No. 201215-110 of the Board of Directors of the SFMTA (the “Board”) adopted on December 15, 2020, and Resolution No. 210119-017 of the Board adopted on January 19, 2021, in connection with the issuance of the above-captioned bonds (collectively, the “Bonds”). The SFMTA covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the SFMTA 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.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

“**Financial Obligation**” shall mean, for purposes of the Listed Events set out in Section 5(a)(15) and (16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“**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) 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 Underwriters**” shall mean any of the original underwriters or purchasers of the Bonds required to comply with the Rule in connection with the 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 SFMTA shall, or shall cause the Dissemination Agent to, not later than March 31 after the end of the SFMTA’s Fiscal Year (which is June 30), commencing with the report for Fiscal Year 2020-21 (which is due not later than March 31, 2022), 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 SFMTA, the SFMTA 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 SFMTA are not available by the date required above for the filing of the Annual Report, the SFMTA shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the SFMTA’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) If the SFMTA is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the SFMTA 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 SFMTA), file a report with the SFMTA certifying the date that the Annual Report was provided to the MSRB pursuant to this Disclosure Certificate.

**SECTION 4. Content of Annual Reports.** The SFMTA’s Annual Report shall contain or incorporate by reference the following information:

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

(b) an update of the information contained in the following tables in the Official Statement, dated February 25, 2021:

1. TABLE 2 – HISTORICAL FIXED ROUTE RIDERSHIP BY MODE;
2. TABLE 6 – SFMTA HISTORICAL OPERATING REVENUES AND EXPENSES;
3. TABLE 7 – PLEDGED REVENUES;
4. TABLE 9 – FARE REVENUE, RIDERSHIP AND AVERAGE FARES PER PASSENGER; and
5. TABLE 17 – SFMTA OPEB ALLOCATIONS AND CONTRIBUTIONS.

In addition, if the City and County of San Francisco (the “City”) is no longer obligated, pursuant to a continuing disclosure undertaking, to file its audited financial statements with the MSRB, the Annual Report shall indicate where the City’s audited financial statements are available.

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 SFMTA 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 SFMTA shall clearly identify each such other document so included by reference.

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

(a) The SFMTA shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of Holders, if material;
8. Unscheduled or contingent Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the SFMTA and/or the City;
13. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
14. 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 SFMTA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
15. Incurrence of a Financial Obligation of the SFMTA, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the SFMTA, any of which affect Holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the SFMTA, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subparagraph (12), 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 SFMTA 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).

(c) Upon the occurrence of a Listed Event described in Section 5(a), the SFMTA 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 Section 5(a)(8) 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 Indenture.

(d) The SFMTA intends to comply with the Listed Events described in Section 5(a)(15) and (16), and the definition of “Financial Obligation” in Section 2, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

**SECTION 6. Termination of Reporting Obligation.** The SFMTA’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

**SECTION 7. Dissemination Agent.** The SFMTA may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent 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 SFMTA may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 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 of the City and County of San Francisco (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 SFMTA 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 SFMTA. 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 SFMTA 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 SFMTA 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 SFMTA 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. Default.** In the event of a failure of the SFMTA to comply with any provision of this Disclosure Certificate, any Participating Underwriters, Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the SFMTA 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. The sole remedy under this Disclosure Certificate in the event of any failure of the SFMTA 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 SFMTA, 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.

Dated as of the date first set forth above.

SAN FRANCISCO MUNICIPAL TRANSPORTATION  
AGENCY

By: \_\_\_\_\_  
Director of Transportation

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 Issuer: San Francisco Municipal Transportation Agency

Name of Issue: San Francisco Municipal Transportation Agency Revenue Bonds,  
Series 2021C

Date of Issuance: March 11, 2021

NOTICE IS HEREBY GIVEN that the SFMTA 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 San Francisco Municipal Transportation Agency, dated the Date of Issuance. The SFMTA anticipates that the Annual Report will be filed by \_\_\_\_\_.

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

SAN FRANCISCO MUNICIPAL TRANSPORTATION  
AGENCY

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

## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of The Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Series 2021C Bonds, payment of principal, interest and other payments on the Series 2021C Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series 2021C Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the SFMTA nor the Trustee take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal with respect to the Series 2021C Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2021C Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2021C 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.*

The Depository Trust Company, New York, NY, will act as securities depository for the Series 2021C Bonds. The Series 2021C Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2021C Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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).

Purchases of Series 2021C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2021C Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2021C Bond (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2021C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not

receive certificates representing their ownership interests in Series 2021C Bonds, except in the event that use of the book-entry system for the Series 2021C Bonds is discontinued.

To facilitate subsequent transfers, all Series 2021C Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2021C Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2021C Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2021C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2021C Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2021C Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the SFMTA 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 Series 2021C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2021C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the SFMTA or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the SFMTA, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the SFMTA or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2021C Bonds at any time by giving reasonable notice to the SFMTA or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2021C Bond certificates are required to be printed and delivered.

**The SFMTA may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2021C Bond certificates will be printed and delivered to DTC.**

## **APPENDIX G**

### **PROPOSED FORM OF LEGAL OPINIONS OF CO-BOND COUNSEL**

[Closing Date]

San Francisco Municipal Transportation Authority  
San Francisco, California

Re: San Francisco Municipal Transportation Agency Revenue Bonds,  
Series 2021C (Green Bonds)

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance by the San Francisco Municipal Transportation Agency (the “SFMTA”) of \$104,285,000 aggregate principal amount of San Francisco Municipal Transportation Agency Revenue Bonds, Series 2021C (Green Bonds) (the “Bonds”).

The Bonds are being issued pursuant to the laws of the State of California and Section 8A.102(b)(13) of the Charter and the Administrative Code of the City and County of San Francisco (the “City”), Ordinance No. 57-12 of the Board of Supervisors of the City adopted on April 19, 2012 (the “Ordinance”), Resolution No. 201215-110 duly adopted by the SFMTA on December 15, 2020 and Resolution No. 210119-017 duly adopted by the SFMTA on January 19, 2021 (collectively, the “SFMTA Resolutions”), Resolution No. 60-21, duly adopted by the Board of Supervisors of the City on February 9, 2021 and signed by Mayor London N. Breed on February 18, 2021 (the “City Resolution”) and the Indenture of Trust, dated as of July 1, 2012, by and between the SFMTA and U.S. Bank National Association, as trustee (the “Trustee”), as previously amended and supplemented, including as amended and supplemented by a Sixth Supplement to Indenture of Trust dated as of March 1, 2021 (collectively, the “Indenture”), providing for the issuance of the Bonds. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Indenture.

As Co-Bond Counsel, we have examined copies certified to us as being true and complete copies of the Ordinance, the SFMTA Resolutions, the City Resolution, the Indenture, the Tax Exemption Certificate of the SFMTA dated the date hereof (the “Tax Certificate”), opinions of counsel to the SFMTA, the City, the Trustee, and others, certificates of the SFMTA, the Trustee, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the SFMTA. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any

indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the SFMTA.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the SFMTA. The Indenture creates a valid pledge to secure the payment of the principal of and interest on the Bonds, of the Pledged Revenues and certain other amounts held by the Trustee pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and upon the terms and conditions set forth in the Indenture.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Bonds is exempt from present State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Respectfully Submitted,

## **APPENDIX H**

### **S&P GREEN TRANSACTION EVALUATION REPORT**

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## Green Transaction Evaluation

# San Francisco Municipal Transportation Agency Proposed Series C 2021 Green Bond

### Transaction Overview

The San Francisco Municipal Transportation Agency (SFMTA) is responsible for the management of all ground transportation in the city of San Francisco, including the Municipal Railway (Muni) and bus public transit, as well as bicycling, paratransit, parking, traffic, walking, and taxis. SFMTA plans to issue \$123 million in early 2021, with final maturity in 2051. Net proceeds of the bonds will be used to finance the (i) procurement of a communications-based train control system to improve network speed and efficiency; (ii) reconstruction of mixed-flow traffic lanes to improve transit speed; (iii) renovation of the 1200 15th Street facility, including engineering, design, and construction per green building standards; and (iv) costs of issuance of the bonds. Approximately 81% of the proceeds fall within the scope of the S&P Green Transaction Evaluation.

<b>Entity:</b>	San Francisco Municipal Transportation Agency
<b>Subsector:</b>	N.A.
<b>Location (HQ):</b>	United States
<b>Financing value:</b>	\$123 million
<b>Amount evaluated:</b>	81%
<b>Evaluation date:</b>	Feb. 16, 2021
<b>Contact:</b>	Henrik Cotran +415-515-4458 henrik.cotran@spglobal.com

### Green Transaction Evaluation Overview

#### Transaction's transparency

- Use of proceeds reporting
- Reporting comprehensiveness

60

#### Transaction's governance

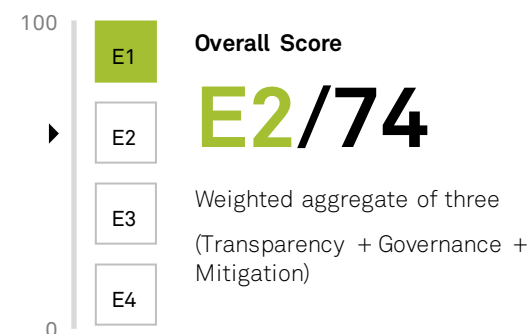
- Management of proceeds
- Impact assessment structure

74

#### Mitigation

Sector	→ Net benefit ranking	→ Hierarchy adjustments
Green Transport	Urban rail systems: Overground Electric Rapid transit	Carbon
Green Buildings	New Build: General	

79





## Project Description

The agency will use the proceeds of the bond to finance several projects intended to improve the efficiency and environmental footprint of the municipal transportation network. These projects are a part of a multi-year San Francisco transit capacity expansion program.

The first project (\$41 mil.) is the design and procurement of a new communications-based train control system for the above- and below-ground light rail network. This will reduce congestion and slowdowns in the system and allow for future network expansion. The second allocation (\$35 mil.) is for constructing transit and streetscape improvements along a major city thoroughfare to speed vehicle transit times and reduce congestion. The third project (\$20 mil.) is a renovation of SFMTA's facility at 1200 15<sup>th</sup> Street in San Francisco and will consist of reconstruction of the aging building to expand its capacity to house transportation workers. Construction will follow the LEED Gold green building guidelines, per city building requirements.

Also included in the 2021C issuance are funds (\$22 mil.) to replace outdated parking meters with 5G-connected units. While the issuer considers this project to be part of its green bond issuance as it helps the city implement demand-response pricing for parking, we deem this project to be outside the scope of our Green Transaction Evaluation framework.

## Scoring summary

This transaction achieves an overall Green Transaction Evaluation score of E2/74, which is the second-strongest score on our scale of E1 (highest) to E4 (lowest). The score reflects the weighted average of the transaction's strong Mitigation score (79) and solid Governance (74) and Transparency (60) assessments. In our view, the expected investments in mass transit systems and infrastructure will serve to accelerate San Francisco's shift to more energy-efficient and lower-emissions forms of transportation. The governance of the transaction benefits from the SFMTA being a pure-play entity with the purpose of increasing transportation efficiency and reducing associated environmental impacts. However, limited evidence of the use of green bond best practices--including detailed reporting of environmental impacts at the project level and independent verification of expenditures and impacts--constrain the Governance and Transparency scores.

## Rationale

- The strong Mitigation score (79) reflects our view that the projects will directly improve the efficiency of transportation in San Francisco and reduce associated greenhouse gas (GHG) emissions. The projects will fund all-electric transportation upgrades and investments, reducing reliance on transportation modes that rely on fossil fuels in a city with very high population density. The green facility renovation project benefits from improved carbon and water performance during the building's lifetime, but provides relatively lower GHG reductions than other comparable projects in different regions given the already fairly low carbon intensity of buildings in California generally. The Mitigation score (79) also reflects our view that these projects enable significant decarbonization in sectors that are already aligned with a green economy and are thereby placed in the second-highest tier of our carbon hierarchy, and provides uplift to the net benefit score.
- The above-average Governance score (74) reflects our view that SFMTA is a pure-play entity with the purpose of increasing transportation efficiency and reducing associated environmental impacts. Plan Bay Area has quantitative carbon emissions reductions, sustainable mode shift, and resilience targets for 2035 and 2050, which the SFMTA will help implement through its capital plan and operations. The San Francisco Transit-First policy, outlined in the City Charter, requires all city departments to promote sustainable means of transportation including public transit. The agency utilizes environmental criteria and impact estimates in capital planning, although the agency has not made public detailed, project-specific environmental criteria for the projects financed by the 2021C issuance.
- Additionally, SFMTA has strong internal financial controls and requirements to meet environmental regulations as it receives local, state, and federal funding. Green bond proceeds will be held in a separate account and expenditures are publicly reported to the Bond Oversight Committee on a quarterly basis. We note that the agency does not utilize third-party verification for the allocation of proceeds.

- Our Transparency score (60) reflects that the agency's Bond Oversight Committee discloses use of proceeds at the individual project level in detailed quarterly reports, and in annual progress reports on the status of financed projects. Regarding transparency of environmental impacts, SFMTA tracks project performance metrics including environmental impacts internally and discloses them at the aggregate agency and regional transportation-system level. SFMTA has not published project-specific environmental criteria for some financed projects, and it does not obtain third-party audit or assurance of expenditures or environmental impacts.

## Key Strengths And Weaknesses

We believe SFMTA's investments in light rail systems, road, and building infrastructure as outlined would contribute positively to reducing San Francisco's environmental impacts and associated carbon emissions. Prior to the COVID-19 pandemic, the SFMTA had an average weekday ridership of 715,000, including approximately 158,000 passengers on the Muni Metro light rail network, among the busiest networks in the country. San Francisco's high population density enhances the project's overall positive impact as it enables transport modal shifts to San Francisco's large population. The agency's prioritization of electrified mass transit and green buildings aligns with the city's and state's broader climate-related goals. These include San Francisco's Ordinance 81-08 to reduce greenhouse gas emissions 80% below 1990 levels by 2050, its Transit First Policy to reduce the use of individual automobiles, and the SB862 program to invest in the city's light rail fleet. The agency powers the electric portion of its fleet with 100% hydropower-derived electricity and has committed to fully electrify the fleet by 2024.

The agency's focus on green projects underscores its approach to bond proceed allocations. Financed projects are meant to increase transit capacity and reduce transit travel times, driving substantial modal shift away from personal vehicles; the agency has a performance target of shifting 80% of all transportation to sustainable modes by 2030. The agency considers new parking meters as part of the 2021C issuance a green investment because the meters are designed to improve auto traffic flow and reduce vehicle idling times as drivers search for parking spots. This project type is not currently in scope for our Green Transaction Evaluation and is therefore excluded from our analysis.

SFMTA benefits from strong internal financial controls for capital expenditures including bond-financed projects and compliance with relevant environmental regulations for its financed projects. The net proceeds of the financing will be credited to a separate bank account and expenditures are reported at a project-level on a quarterly basis.

SFMTA's internal planning and decision-making has positive characteristics, including use of data and agency-wide environmental goals and projections to select and prioritize projects.

We note that this is SFMTA's first green bond issuance and agency efforts to establish impact disclosure standards were delayed due to COVID-19; management is considering including such disclosures for green bond proceeds in quarterly reports at a future date. Some disclosures of environmental impacts are publicly available in aggregate. For example, SFMTA has agency-level reporting of environmental key performance indicators on its website, including carbon emissions, energy consumption, and modal usage. Additionally, projections of the environmental impact of some SFMTA-wide initiatives are available in various public locations, although they are not aggregated for bondholders. The agency does not disclose the methodology used to calculate expected environmental impacts or have data third-party verified.

Sector-Level Scores

Sector	Location	Technology	Use of proceeds (mil. xxx)	Use of proceeds treatment	Net benefit ranking
Green Transport	San Francisco, CA	Urban rail systems: Overground	41	Estimated	100
Green Transport	San Francisco, CA	Electric rapid transit	35	Estimated	20
Green Buildings	San Francisco, CA	New build: General	20	Estimated	12
			96		

# Carbon

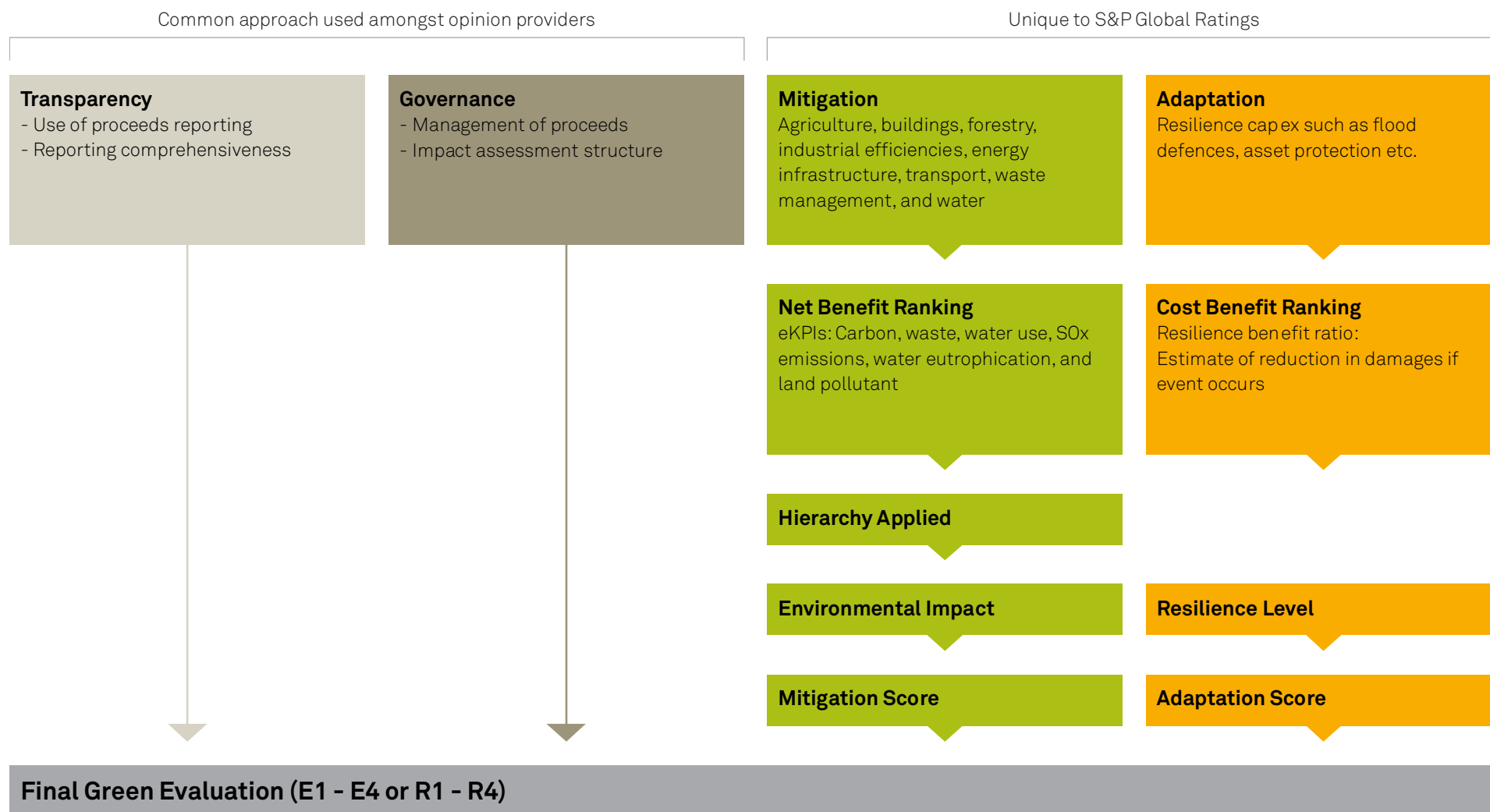
## Green Transaction Evaluation Process



## Our Green Transaction Evaluation Approach

Weighted aggregate of three:

$$\text{Transparency} + \text{Governance} + \text{Mitigation or Adaptation} = \text{Green Evaluation}$$



eKPI--Environmental Key Performance Indicator.

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