New Issue — Book Entry Only

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

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, under existing statutes, regulations, rulings and court decisions, and subject to the matters described in "TAX MATTERS" herein, interest on the Series 2017 Bonds is excluded from the gross income of the owners thereof for federal income tax purposes and is not included in the federal alternative minimum tax for individuals or, except as described herein, corporations. It is also the opinion of Co-Bond Counsel that under existing law interest on the Series 2017 Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein, including a discussion of the federal alternative minimum tax consequences for corporations.

SFMTA Municipal Transportation Agency

$177,830,000
SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY REVENUE BONDS, SERIES 2017

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

The San Francisco Municipal Transportation Agency Revenue Bonds, Series 2017 (the "Series 2017 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 (the "Charter"), 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 supplemented by the Fourth Supplement to Indenture of Trust dated as of June 1, 2017 (collectively, the "Indenture") between the SFMTA and the Trustee. The Series 2017 Bonds are being issued to (i) finance a portion of the costs of various capital projects for the SFMTA as described herein, and (ii) pay a portion of the costs of issuance of the Series 2017 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Interest on the Series 2017 Bonds will be payable on September 1, 2017 and on each September 1 and March 1 thereafter until their respective stated maturity dates. The Series 2017 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 and interest on the Series 2017 Bonds will be made. Individual purchases of the Series 2017 Bonds will be made in book entry form only, in denominations of $5,000 or any integral multiple thereof. Beneficial Owners of the Series 2017 Bonds will not receive physical delivery of bond certificates. Payment of principal of the Series 2017 Bonds at maturity, as shown in the Maturity Schedule set forth on the inside cover, and interest when due will be payable by the Trustee, as paying agent, to DTC. DTC will remit such principal and interest payments to its participants, which will be responsible for remittance to the Beneficial Owners of the Series 2017 Bonds. See Appendix F – "DTC AND THE BOOK ENTRY ONLY SYSTEM" herein.

The Series 2017 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 to the punctual payment of principal of, premium, if any, and interest on the all outstanding parity revenue bonds issued under the Indenture, including the Series 2017 Bonds (collectively, the "Bonds"), subject to the flow of funds contained in the Indenture. The Series 2017 Bonds will not be secured by any reserve account.

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 SERIES 2017 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE SFMTA SECURED BY AND PAYABLE SOLELY FROM PLEDGED REVENUES (AS DEFINED HEREIN) 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 OR INTEREST ON THE SERIES 2017 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 OR INTEREST ON THE SERIES 2017 BONDS, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2017 BONDS. THE SERIES 2017 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.

MATURITY SCHEDULE
(See inside cover)

The Series 2017 Bonds were sold by competitive sale on May 24, 2017, pursuant to the terms of an Official Notice of Sale, dated May 16, 2017. See "SALE OF THE SERIES 2017 BONDS" herein.

The Series 2017 Bonds are offered when, as, and if issued by the SFMTA and accepted by the purchasers, subject to approval of legality by Norton Rose Fulbright US LLP, Los Angeles, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co Bond Counsel. Certain legal matters will be passed upon for the SFMTA by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel to the SFMTA, and the City Attorney of the City and County of San Francisco. It is expected that the Series 2017 Bonds will be available for delivery in book entry form through the facilities of DTC on or about June 7, 2017.

Date: May 24, 2017

Disclaimer

This document provides general information about the San Francisco Municipal Transportation Agency (SFMTA) and its outstanding bonds, notes or other obligations. The information is provided for quick reference only. It is not a summary or a compilation of all information relevant to any particular financial transactions, bonds, notes or other obligations. It does not purport to include every item that may be relevant, nor does it purport to present full and fair disclosure with respect to any financial transactions, bonds, notes or other obligations related to the SFMTA within the meaning of applicable securities laws and regulations.

The information presented in this document speaks only as of the date it was posted or, if such information is dated, as of its dated date. The SFMTA does not undertake continuously to update materials posted in this document. Developments may occur after the dated date or posted date of such information that could render it inaccurate or unreliable.

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MATURITY SCHEDULE

Series 2017 Bonds

(Base CUSIP† Number: 797686)

$142,570,000 Serial Bonds

Maturity (March 1)	Principal Amount	Interest Rate	Price or Yield**	CUSIP† Suffix
2018	$4,735,000	5.00%	0.720%	DG4
2019	3,040,000	5.00	0.800	DH2
2020	3,190,000	5.00	0.900	DJ8
2021	3,350,000	5.00	1.010	DK5
2022	3,520,000	5.00	1.160	DL3
2023	3,695,000	5.00	1.300	DM1
2024	3,880,000	5.00	1.450	DN9
2025	4,070,000	5.00	1.630	DP4
2026	4,275,000	5.00	1.790	DQ2
2027	4,490,000	5.00	1.920	DR0
2028	4,715,000	5.00	2.060(c)	DS8
2029	4,950,000	5.00	2.200(c)	DT6
2030	5,195,000	5.00	2.320(c)	DU3
2031	5,455,000	5.00	2.400(c)	DV1
2032	5,730,000	3.00	100.000	DW9
2033	5,900,000	3.00	99.000	DX7
2034	6,080,000	3.00	98.000	DY5
2035	6,260,000	3.00	97.000	DZ2
2036	6,450,000	4.00	3.140(c)	EA6
2037	6,705,000	3.25	98.750	EB4
2038	6,925,000	3.25	98.250	EC2
2039	7,150,000	4.00	3.280(c)	ED0
2040	7,435,000	3.25	97.250	EE8
2041	7,675,000	4.00	3.300(c)	EF5
2042	7,985,000	4.00	3.310(c)	EG3
2047	9,715,000	3.50	98.750	EJ7

$35,260,000 4.00% Term Bonds Due March 1, 2046 Yield** – 3.390%(c) CUSIP† Number: 797686 EH1

† 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 initial purchaser take any responsibility for the accuracy of such CUSIP numbers.

** Reoffering prices and yields have been provided by the initial purchaser. See "SALE OF THE SERIES 2017 BONDS" herein.

(c) Yield calculated to the first optional redemption date of March 1, 2027 at par.

No dealer, broker, salesperson or other person has been authorized by the SFMTA to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the SFMTA. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2017 Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein other than that provided by the 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 2017 Bonds. Any other website referred to in this Official Statement is not incorporated herein by such reference.

This Official Statement is not to be construed as a contract with the initial purchaser of the Series 2017 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The issuance and sale of the Series 2017 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.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2017 BONDS, THE INITIAL PURCHASER 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 INITIAL PURCHASER.

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

BOARD OF DIRECTORS

Cheryl Brinkman, *Chairman*
Malcolm Heinicke, *Vice-Chairman*
Gwyneth Borden, *Director*
Lee Hsu, *Director*
Joél Ramos, *Director*
Cristina Rubke, *Director*
Art Torres, *Director*

SFMTA STAFF

Edward Reiskin, *Director of Transportation*
Sonali Bose, *Chief Financial Officer*
John H. Haley, *Director, Transit*
Siew-Chin Yeong, Director, *Capital Programs & Construction*
Tom Maguire, *Director, Sustainable Streets*

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

London Breed, *Board President*, *District 5*
Sandra Lee Fewer, *District 1*
Mark Farrell, *District 2*
Aaron Peskin, *District 3*
Katy Tang, *District 4*
Jane Kim, *District 6*
Norman Yee, *District 7*
Jeff Sheehy, *District 8*
Hillary Ronen, *District 9*
Malia Cohen, *District 10*
Ahsha Safai, *District 11*

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

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

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San Francisco, California

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San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

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OFFICIAL STATEMENT

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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 $177,830,000 aggregate principal amount of its San Francisco Municipal Transportation Agency Revenue Bonds, Series 2017 (the "Series 2017 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 THE LEGAL DOCUMENTS – 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. The 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. On November 4, 2014, voters in the City approved Proposition A and Proposition B. Proposition A authorizes the City to issue up to $500 million in general obligation bonds the proceeds of which may be applied to finance transportation-related projects. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Obligation Bonds." Proposition B amends the Charter to provide for annual increases in certain amounts transferred to the SFMTA by the City from its General

Fund. Such increases will be proportional to increases in the population of the City, provided that in years in which population has not increased, no adjustments shall be made. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers."

The SFMTA promotes the safe and efficient movement of people and goods throughout the City through many programs. It manages the City's public transportation system ("Muni"), including its motor buses, trolley buses, light rail vehicles, historic streetcars, and cable cars. The SFMTA also oversees the management and operation of 38 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 2017 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 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 Fourth Supplement to Indenture of Trust dated as of June 1, 2017 between the SFMTA and the Trustee (the "Fourth Supplemental Indenture" and, together with the Master Indenture, the "Indenture"), Ordinance No. 57-12 of the Board of Supervisors adopted on April 19, 2012, Resolution No. 231-16 of the Board of Supervisors adopted on June 7, 2016 and signed by the Mayor on June 17, 2016, and Resolution No. 16-044 of the Board of Directors of the SFMTA (the "Board") adopted on April 5, 2016. The Series 2017 Bonds together with the SFMTA's Revenue Bonds, Series 2012A and Series 2012B (the "Series 2012 Bonds"), the SFMTA's Revenue Bonds Series 2013 (the "Series 2013 Bonds"), the SFMTA's Revenue Bonds Series 2014 (the "Series 2014 Bonds") and any other bonds issued in the future pursuant to the Indenture are referred to collectively in this Official Statement as the "Bonds."

Purpose

The Series 2017 Bonds are being issued (i) to finance a portion of the costs of various capital projects for the SFMTA, such as the projects described herein, and (ii) to pay a portion of the costs of issuance of the Series 2017 Bonds. See "SERIES 2017 PROJECTS" and "ESTIMATED SOURCES AND USES OF FUNDS" herein for a further description of the expected application of proceeds of the Series 2017 Bonds.

Security and Sources of Payment for the Bonds

The Series 2017 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 and interest on the Bonds, which consist of all outstanding parity revenue bonds issued under the Indenture, including the Series 2017 Bonds, subject to the flow of funds contained in the Indenture. See "– Other Obligations Secured by Pledged Revenues."

The Series 2017 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 or interest on the Series 2017 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 and interest on the Series 2017 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 2017 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 and interest on the Series 2017 Bonds. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers."

The SFMTA is not obligated to pay the principal of or interest on the Series 2017 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 or interest on the Series 2017 Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of or interest on the Series 2017 Bonds. The Series 2017 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 2017 Bonds will not be secured by any reserve account. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – No Reserve Account for the Series 2017 Bonds.”

Pursuant to the Indenture, the SFMTA is permitted to issue additional Bonds and to enter into additional obligations secured by Pledged Revenues on a parity with the payment of principal of 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” and “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY” 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 2017 Bonds.

Other Obligations Secured by Pledged Revenues

The Series 2017 Bonds are payable from Pledged Revenues under the Indenture on a parity with the SFMTA’s Revenue Bonds, Series 2012A, Series 2012B, Series 2013 and Series 2014, outstanding in the aggregate principal amounts of $20,885,000, $25,835,000, $65,015,000 and $66,460,000, respectively.

On September 10, 2013, the SFMTA obtained an irrevocable, direct pay letter of credit issued by State Street Bank and Trust Company (“State Street”) that supports the SFMTA’s issuance of up to $100 million of subordinate commercial paper notes (the “CP Notes”), the proceeds of which are expected to be used to pay for costs of projects pending the receipt of grant proceeds (see “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program – Current Projects – Central Subway Project) and/or to finance state of good repair projects. The CP Notes, and the SFMTA’s obligation to reimburse State Street for draws under the letter of credit to pay the principal of and interest on the CP Notes, are secured by a pledge of Pledged Revenues that is junior and subordinate to the pledge securing the Bonds. The SFMTA currently does not have any CP Notes outstanding. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Commercial Paper Program.”

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 2017 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 2017 Bonds, the Indenture, the security and sources of payment for the Series 2017 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 2017 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 2017 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. 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.

TERMS OF THE SERIES 2017 BONDS

General

The Series 2017 Bonds will be executed and delivered only as one fully-registered Series 2017 Bond for each maturity shown on the inside cover hereof. The Series 2017 Bonds will be delivered only in denominations of $5,000 or an integral multiple thereof and interest on the Series 2017 Bonds shall be payable on each

March 1 and September 1, commencing September 1, 2017, so long as any Series 2017 Bonds are outstanding (each an "Interest Payment Date"). Interest on the Series 2017 Bonds shall be computed on the basis of a 360 day year comprised of twelve 30 day months. Interest on the Series 2017 Bonds will accrue from the date of delivery thereof at the rates per annum set forth on the inside cover of this Official Statement. The principal of the Series 2017 Bonds will be payable, subject to redemption, as described below, on the dates and in the principal amounts set forth on the inside cover of this Official Statement.

Form and Registration

The Series 2017 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 2017 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 2017 Bonds. So long as Cede & Co. is the registered owner of the Series 2017 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 2017 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 2017 Bonds.

So long as Cede & Co. is the registered owner of the Series 2017 Bonds, all payments of principal and interest on the Series 2017 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 2017 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 the Series 2017 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 2017 Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Series 2017 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 Provisions

Optional Redemption. The Series 2017 Bonds maturing on or before March 1, 2027 are not subject to optional redemption prior to maturity. The Series 2017 Bonds maturing on or after March 1, 2028 are subject to optional redemption prior to maturity on or after March 1, 2027 at the sole option of the SFMTA, as a whole or in part, on any date (from such maturities as are selected by the SFMTA and by lot within a maturity if less than all of the Series 2017 Bonds of such maturity are selected for redemption), from any source of available funds, at redemption prices equal to the principal amount thereof plus accrued but unpaid interest thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption of Series 2017 Bonds. The Series 2017 Bonds maturing on March 1, 2046 are subject to redemption prior to their stated maturity date, in part, by lot, from mandatory sinking fund payments, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereof, on March 1 in each of the years in the following amounts:

Mandatory Sinking Fund Payment Date (March 1)	Sinking Fund Payment
2043	$8,305,000
2044	8,635,000
2045	8,980,000
2046†	9,340,000

† Maturity

Notice of Redemption. The Trustee is required to send a Notice of redemption to the Owners of any Series 2017 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 2017 Bond to be redeemed, to the Holder of such Series 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 Bonds. Whenever provision is made in the Indenture for the redemption of the Series 2017 Bonds (other than from the Sinking Fund Installments) and less than all of the Outstanding Series 2017 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 2017 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 2017 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 2017 Bonds selected for redemption will cease to accrue, and all such Series 2017 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 2017 Bonds. The SFMTA may at any time purchase Series 2017 Bonds and such Series 2017 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 2017 Bonds in lieu of redemption, including sinking fund redemption, and such purchase shall be a credit to any obligation to redeem such Series 2017 Bonds and in the case of Series 2017 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 2017 Bonds purchased by or on behalf of the SFMTA shall be conditioned upon delivery of an Opinion of Bond Counsel.

ESTIMATED SOURCES AND USES OF FUNDS

Proceeds of the Series 2017 Bonds, and other available amounts, are expected to be applied approximately as set forth below:

Sources:	
Bond Principal	$177,830,000.00
Net Original Issue Premium	14,293,603.70
Total Sources of Funds	$192,123,603.70
Uses:	
Deposit to Series 2017 Project Costs Account	$190,000,000.00
Costs of Issuance[1]	1,037,062.40
Underwriter's Discount	1,086,541.30
Total Uses of Funds	$192,123,603.70

[1] Including amounts for rating agency fees, fees for legal services, fees for financial advisors, Trustee's fees and expenses, printing costs, and other costs relating to the issuance of the Series 2017 Bonds.

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DEBT SERVICE SCHEDULE

Set forth below are the estimated annual principal, interest and total debt service requirements for the Series 2012 Bonds, the Series 2013 Bonds, the Series 2014 Bonds and the Series 2017 Bonds:

Fiscal Year Ending June 30	Series 2012 Bonds, Series 2013 Bonds and Series 2014 Bonds[1]	Series 2017 Bonds		Total Debt Service[1]
		Principal	Interest	
2017	$16,628,994	–	–	$16,628,994
2018	16,231,494	$4,735,000	$5,318,528	26,285,021
2019	15,355,344	3,040,000	7,015,788	25,411,131
2020	15,373,894	3,190,000	6,863,788	25,427,681
2021	13,462,844	3,350,000	6,704,288	23,517,131
2022	13,464,244	3,520,000	6,536,788	23,521,031
2023	13,281,994	3,695,000	6,360,788	23,337,781
2024	13,279,494	3,880,000	6,176,038	23,335,531
2025	13,286,744	4,070,000	5,982,038	23,338,781
2026	13,280,294	4,275,000	5,778,538	23,333,831
2027	13,282,294	4,490,000	5,564,788	23,337,081
2028	13,281,556	4,715,000	5,340,288	23,336,844
2029	13,282,294	4,950,000	5,104,538	23,336,831
2030	13,282,156	5,195,000	4,857,038	23,334,194
2031	13,284,056	5,455,000	4,597,288	23,336,344
2032	13,279,475	5,730,000	4,324,538	23,334,013
2033	13,283,100	5,900,000	4,152,638	23,335,738
2034	7,306,350	6,080,000	3,975,638	17,361,988
2035	7,303,750	6,260,000	3,793,238	17,356,988
2036	7,305,750	6,450,000	3,605,438	17,361,188
2037	7,306,000	6,705,000	3,347,438	17,358,438
2038	7,304,000	6,925,000	3,129,525	17,358,525
2039	7,304,250	7,150,000	2,904,463	17,358,713
2040	7,301,000	7,435,000	2,618,463	17,354,463
2041	7,298,750	7,675,000	2,376,825	17,350,575
2042	7,306,750	7,985,000	2,069,825	17,361,575
2043	4,503,750	8,305,000	1,750,425	14,559,175
2044	4,504,500	8,635,000	1,418,225	14,557,725
2045	–	8,980,000	1,072,825	10,052,825
2046	–	9,340,000	713,625	10,053,625
2047	–	9,715,000	340,025	10,055,025
TOTAL[1]	$311,365,119	$177,830,000	$123,793,665	$612,988,784

(1) Totals may not add due to rounding.

SERIES 2017 PROJECTS

The SFMTA expects to apply a portion of the proceeds of the Series 2017 Bonds to finance the planning, design, acquisition, construction, reconstruction, rehabilitation or improvement of certain projects briefly described below (the "Series 2017 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 5 year Capital Improvement Plan, for some or all of the Series 2017 Projects. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program."

Series 2017 Projects. The SFMTA currently anticipates that the Series 2017 Bonds will fund the following Series 2017 Projects:

(i) **Muni Light Rail Vehicle (LRV) Procurement**. The SFMTA plans to replace the existing light rail vehicles for the Muni system and acquire new vehicles to provide for growth in service.

(ii) **Van Ness Bus Rapid Transit Project / Improvement Project**. This project includes improvements on Van Ness Avenue in San Francisco to provide for rapid, reliable transit, such as dedicated bus lanes separated from regular traffic, transit signal priority, proof of payment, all-door boarding, high-quality stations, pedestrian safety enhancements and larger platforms for waiting passengers.

(iii) **Mission Bay Transportation Capital Improvements.** This project includes certain capital improvements in the Mission Bay area associated with the Golden State Warriors Event Center and Mixed Use Development at Mission Bay Blocks 29-32.

See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program" for a more detailed description of these Series 2017 Projects.

Pedestrian Safety and Traffic Signal Improvements. The Pedestrian Safety/Transit Improvement program is meant to improve the safety and usability of City streets for pedestrians and includes project development and capital costs for: the installation of red light photo enforcement equipment; pedestrian islands in the medians of major thoroughfares, sidewalk bulb-outs and sidewalk widening; installation of traffic and pedestrian signals which include countdown and accessible pedestrian signal equipment; and targeted traffic calming projects, such as traffic humps and traffic circles.

Transit System Safety and Spot Improvements. The Transit System Safety and Spot Improvements program is designed to improve the safety of the transit system. It includes project development and capital costs for: (i) the replacement of the communication and dispatching system in order to provide interoperable digital voice communications for SFMTA staff and the Public Works Emergency Radio System; (ii) new vehicle on-board and fixed route components which will provide information for core operational capabilities including Computer Aided Dispatch and Automatic Vehicle Location, vehicle health monitoring, on-board ADA-compliant traveler information, transit signal priority, and automated fare collection; (iii) training equipment and simulators for Muni Operators; (iv) replacement of the fire-safety mandated emergency telephones including phone switches, phone stations, blue-light units, raceways, communication cables, uninterrupted power supply units, networking system, operator consoles, and management servers; and (v) transit improvements including signal changes, bus bulbs, striping changes and other localized uses.

Complete Street Capital Improvements. The Complete Street Capital Improvements program focuses on the development of safe and complete streets through integrated major corridor capital projects. It includes project development and capital costs for: the construction of bicycle facilities and improvements to the existing bicycle network; bicycle sharing; new bike lanes and paths; bicycle parking facilities; bicycle boxes, bicycle boulevards, buffered bicycle lanes, cycle tracks, bicycle signals, and "green wave" traffic signal coordination; curb extensions, storm water management features, traffic signal timing changes, signs, installation of pedestrian signals, including countdown and accessible pedestrian signal equipment, sidewalk extensions, medians, refuge islands, and bulb-outs.

Facility Improvements. SFMTA's Facility Improvements program includes safety and seismic upgrades to SFMTA parking garages and expansion of Muni operations and maintenance facilities, including projects intended to maintain the state of good repair of certain existing garages and SFMTA operations facilities, to improve working conditions for staff and to otherwise expand existing facilities.

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 Chairman 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 City Controller (the "Controller"). The BOC provides annual reports about its activities.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Special, Limited Obligations

The Series 2017 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 or interest on the Series 2017 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 or interest on the Series 2017 Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of or interest on the Series 2017 Bonds. The Series 2017 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 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 include but are not limited to: (a) grants or transfers funded pursuant to the Transportation Development Act (codified at Sections 99200 et seq. of the California Public Utilities Code) (the "TDA") and AB 1107 (codified at Sections 29140 et seq. of the Public Utilities Code) ("AB 1107"), and (b) SFMTA parking meter revenues (but only to the extent Bonds or other Parity Obligations have financed traffic regulation and control functions); and do 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) the 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 in "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Pledged Revenues" for a description of historical receipts which would have constituted Pledged Revenues under the Indenture definition.

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 2017 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 and interest on the Series 2017 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 2017 Debt Service Account. Moneys held by the Trustee in the Debt Service Fund are to be transferred to the Series 2017 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 2017 Payment Date, the Trustee is required to transfer from the Debt Service Fund to the Series 2017 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 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 the Series 2017 Debt Service Account is 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 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 2017 Bonds

The Series 2017 Bonds will not be secured by any reserve account.

Reserve Accounts have been 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"). **Amounts in the Prior Bond Reserve Accounts do not secure and are not available to pay principal of or interest on the Series 2017 Bonds.**

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 THE LEGAL DOCUMENTS – 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 Series 2017 Bonds are payable from Pledged Revenues under the Indenture on a parity with the SFMTA's Revenue Bonds, Series 2012A, Series 2012B, Series 2013 and Series 2014, outstanding in the aggregate principal amounts of $20,885,000, $25,835,000, $65,015,000 and $66,460,000, respectively. On September 10, 2013, the SFMTA obtained an irrevocable, direct pay letter of credit issued by State Street that will support the SFMTA's issuance of up to $100 million of subordinate CP Notes. Such CP Notes, and the SFMTA's obligation to reimburse State Street for draws under the letter of credit to pay the principal of and interest on the CP Notes, will be secured by a pledge of Pledged Revenues that is junior and subordinate to the pledge securing the Bonds. The SFMTA currently does not have any CP Notes outstanding. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Outstanding Debt," "– Commercial Paper Program," and "– Future Debt Issuance."

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 and interest on the Bonds, provided that the conditions described below are satisfied. In addition to the Bonds, the SFMTA anticipates incurring both future debt payable from Pledged Revenues on parity with the payment of principal of and interest on the Series 2017 Bonds and debt payable from Pledged Revenues on a basis subordinate to the payment of principal of and interest on the Bonds. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Future Debt Issuance."

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 one hundred twenty five percent 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. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Commercial Paper Program."

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

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2016, approximately 25.2 million people visited the City and spent an estimated $9.0 billion during their visit. The City is also a leading center for financial activity in the State and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco Regional Office of Thrift Supervision.

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

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City to his current term on November 3, 2015. The City's adopted budget for fiscal years 2016-17 and 2017-18 totals $9.59 billion and $9.72 billion, respectively. The General Fund portion of each year's adopted budget is $4.86 billion in fiscal year 2016-17 and $5.09 billion in fiscal year 2017-18, with the balance being allocated to all other funds, including enterprise fund departments, such as the SFMTA, the San Francisco International Airport ("SFO"), the Port Commission and the San Francisco Public Utilities Commission. The City employed 31,342 full-time-equivalent employees at the end of fiscal year 2015-16. According to the Controller of the City (the "Controller"), the fiscal year 2016-17 total net assessed valuation of taxable property in the City is approximately $211.5 billion.

In January 2013, the Mayor established a Transportation Task Force (the "Task Force") charged with prioritizing the City's transportation system needs and identifying funding sources to realize them. On November 25, 2013, the Task Force released its report (the "Task Force Report") analyzing the needs of the Transportation System and other regional carriers and identifying proposed priorities for investment in the Transportation System and potential revenues and sources of funding to meet such needs and goals. The Task Force Report identified a need of approximately $10.1 billion for transportation infrastructure through 2030, with $3.8 billion of funding identified. Prioritized objectives among identified needs included maintaining existing assets in a state of good repair, improving travel time and reliability, reducing costs, serving planned growth and improving safety and accessibility of the Transportation System. Proposed additional revenue and funding sources through 2030 included an aggregate of $829 million in general obligation bonds of the City, an increase of 1.35% in the vehicle license fee, which the Task Force Report estimated would produce approximately $1.09 billion in additional revenues through 2030, and an increase of 0.5% in the sales tax imposed within the City, which the Task Force Report estimated would result in approximately $1.03 billion in additional revenues through 2030. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program." On November 4, 2014, voters in the City approved Proposition A and Proposition B. Proposition A, placed on the ballot in light of the Task Force Report, authorizes the City to issue up to $500 million in general obligation bonds the proceeds of which may be applied to finance transportation-related projects. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Obligation Bonds." Proposition B amends the Charter to provide for annual increases in certain amounts transferred to the SFMTA by the City from its General Fund. Such increases will be proportional to increases in the population of the City, provided that in years in which population has not increased, no adjustments shall be made. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers."

The Task Force Report is available on the Controller's website at http://www.sfcontroller.org. However, neither the Controller's website nor the Task Force Report is incorporated herein by reference.

The Mayor is reconvening the Task Force to possibly revisit the ballot in 2018, co-chaired by the Mayor's Chief of Staff and the Board chair of the SFMTA. The Task Force will consider an additional sales tax, vehicle license tax, or other revenue sources to fund transportation in the City through 2045.

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

Certain information about the City 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 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 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 (collectively referred to in this Official Statement as the "Transportation System"). 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. The voters approved additional Charter amendments in 2007 (Proposition A) and 2010 (Proposition G) that further increased the autonomy of and revenues to the SFMTA and increased management flexibility, respectively. On November 4, 2014, voters in the City approved Proposition A and Proposition B which, respectively, authorize the City to issue up to $500 million in general obligation bonds the proceeds of which may be applied to finance transportation-related projects and provide 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. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Obligation Bonds" and "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Fund Transfers."

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 promotes the safe and efficient movement of people and goods throughout the City through many programs. It manages Muni, which is the eighth largest provider of public transit service in the United States and 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 38 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 through its Fiscal Year 2018-19: 1. Create a safer transportation experience for everyone; 2. Make transit, walking, bicycling, taxi, ridesharing and carsharing preferred means of travel; 3. Improve the environment and quality of life in the City; 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:

<u>Transit Division</u>. The Transit 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.

<u>Sustainable Streets Division</u>. 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. Human Resources, Taxi, Safety, Governmental Affairs, Communications 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 (the "Board") 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
Cheryl Brinkman, Chairman	September 1, 2010	March 1, 2018
Malcolm Heinicke, Vice-Chairman	February 22, 2008	March 1, 2020
Gwyneth Borden	July 8, 2014	March 1, 2018
Lee Hsu	June 27, 2016	March 2, 2019
Joél Ramos	May 23, 2011	February 28, 2019
Cristina Rubke	June 5, 2012	March 1, 2020
Art Torres	May 16, 2017	March 1, 2021

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.

Edward Reiskin. Ed Reiskin is Director of Transportation of the SFMTA. Mr. Reiskin was appointed by the Board on August 2, 2011, and began work on August 15, 2011. Mr. Reiskin has more than 20 years of experience in the private, academic, nonprofit and public sectors. Most recently, he led the City's Department of Public Works, managing more than 1,100 employees, whose responsibilities range from engineering, construction management and project delivery to graffiti removal, street cleaning and public engagement programs and an annual $165 million operating budget and a $2 billion capital budget. Previously, Mr. Reiskin served as the first Director of the City's 311 Customer Service Center. Prior to joining the City, he served as the Interim City Administrator and as Deputy Mayor for the Government of the District of Columbia. Prior to joining the District government, Mr. Reiskin worked for three years for the City of Oakland, California as an assistant to the city manager. Mr. Reiskin has also performed business and community environmental work for a nonprofit research and consulting organization, conducted academic research on sustainable development at a business school and worked as an engineer and manager in the private sector. Mr. Reiskin holds a Master of Public Administration degree from Harvard University's Kennedy School of Government, a Master of Business Administration degree from New York University's Stern School of Business and a Bachelor of Science degree from the Massachusetts Institute of Technology.

Sonali Bose. Sonali Bose is Chief Financial Officer of the SFMTA. Ms. Bose has held senior level finance positions in the public and private sectors over the last 25 years. The public sector positions include Chief Financial Officer for the Metro Gold Rail Line in Los Angeles, Chief Financial Officer for the Port of Oakland, Director of Finance for the City of Berkeley and Treasurer for the City of Oakland. Her private sector positions include Chief Financial Officer/Administrative Officer for a third party administrator for pension, health and welfare funds, Managing Director and Finance Manager for international consulting firms focusing on infrastructure projects and Vice President of Finance for a merchant bank. Ms. Bose has business administration and public policy graduate degrees from Harvard University and the University of California, Berkeley. Her undergraduate degree is from the University of California, Berkeley.

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 18 years of experience in design and construction. Prior to joining the SFMTA, Ms. Yeong has 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, Bay Area Rapid Transit (BART), San Francisco Public Works, and the SFMTA. Siew-Chin holds a Master of Science degree and Bachelor of Science degree in Civil Engineering and Construction Management from Iowa State University.

John Haley. John Haley is Director of Transit of the SFMTA. Mr. Haley is a nationally recognized leader in the transportation industry with over 30 years of public and private sector experience. He joined the SFMTA from the Metropolitan Transit Authority of Harris County ("METRO") in Houston, where he was the Vice-President of Infrastructure and Service Development. At METRO, Mr. Haley implemented new bus rapid transit and commuter rail services, which significantly contributed to improved service reliability and ridership gains. He also directed internal accountability initiatives to improve operational efficiency and advanced Authority-wide plans to improve system safety. Prior to his work in Houston, Mr. Haley served as Deputy Executive Director of the Port Authority of New York and New Jersey, General Manager of the Massachusetts Bay Transportation Authority (MBTA), Deputy General Manager of the San Francisco BART and as a strategic advisor to major transportation agencies nationwide. He has a Master of Public Administration from Syracuse University and a Bachelor of Science in Government from Northeastern University.

Tom Maguire*.* Tom Maguire is the Director of Sustainable Streets of the SFMTA. Mr. Maguire previously worked for New York City's Department of Transportation ("NYCDOT") where he oversaw the agency's Bus Rapid Transit, Freight Mobility, Peak Rate Parking, and Alternative Fuels programs. He worked on road pricing and parking pricing for NYCDOT since the effort to implement congestion pricing began in Manhattan in 2007-2008. While at NYCDOT, Mr. Maguire also managed the transportation elements of New York City's 2007 PlaNYC strategic plan and the transportation resiliency strategy in its Stronger, More Resilient New York plan to rebuild after Hurricane Sandy. In partnership with MTA New York City Transit, he steered the development of New York City's seven-route Select Bus Service program. He has also found ways to use innovative data sources to demonstrate the transportation and economic benefits of livable streets. Prior to joining NYCDOT, Mr. Maguire worked at the engineering and design firm Arup. He holds a Masters in City Planning from the University of California, Berkeley and a Bachelor of Arts 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 the City. 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 45 percent of all transit passengers in the region. Muni averages 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 consists of 50 motor coach lines, 14 electric trolley bus lines (i.e. rubber-tired vehicles that operate on electricity provided from overhead wires), six light rail lines that operate above ground and in the City's Market Street subway tunnel, 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. The table below summarizes the composition of Muni's transit revenue vehicle fleet.

TABLE 1

SUMMARY OF MUNI'S REVENUE VEHICLE FLEET AS OF MARCH 31, 2017

Motor Buses	604 vehicles
Trolley Buses	262 vehicles
Light Rail Vehicles	149 vehicles[1]
Historic Streetcars	42 vehicles
Cable Cars	28 vehicles

(1) The SFMTA Board of Directors and the Board of Supervisors have approved a contract with Siemens Industry, Inc. to acquire up to 260 new light rail vehicles over the next 15 years. The SFMTA has received three new Light Rail Vehicles for testing as of March 31, 2017 and anticipates testing to be completed for at least one of such Light Rail Vehicles by the end of 2017. The new light rail vehicles will replace and expand Muni's existing fleet. The contract is currently being negotiated to provide up to 264 vehicles. See "THE SERIES 2017 PROJECTS" and "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Projects."

Source: SFMTA

Of Muni's five fixed route modes of service, motorbuses serve the highest number of passengers, followed by trolley buses, light rail, street rail and cable car. During the five-year period from Fiscal Year 2011-12 through Fiscal Year 2015-16, annual Muni ridership varied between approximately 222 million and 232 million boardings.

TABLE 2

HISTORIC FIXED ROUTE RIDERSHIP BY MODE
(ANNUAL BOARDINGS IN THOUSANDS)
(FISCAL YEARS ENDED JUNE 30)

Mode	2012	2013	2014	2015[1]	2016[2]
Motor Bus	95,625	97,181	98,366	97,856	101,847
Trolley Bus	67,545	65,248	65,328	67,820	65,121
Light Rail	43,608	45,359	48,779	49,076	52,125
Street Rail	8,078	8,390	8,172	7,857	7,456
Cable Car	7,270	6,813	7,332	6,834	5,800
Total Ridership	222,126	222,991	227,977	229,443	232,349

(1) In 2016, the SFMTA identified automatic passenger counter (APC) undercounting issues that contributed to a lower reported ridership for Fiscal Year 2014-15. The SFMTA has started to address these issues, including equipping all new vehicles with state-of-the-art APCs, and estimates higher actual Fiscal Year 2014-15 ridership than originally reported.

(2) Fiscal Year 2015-16 ridership numbers have been submitted but have not yet been approved by the Federal Transit Administration and the National Transit Database.

Source: SFMTA

Over the past five years, ridership on the Muni system has been increasing. The figures shown above also do not account for over a million additional riders annually in support of the many special events that occur in San Francisco throughout the year. Over Fiscal Year 2014-15 and Fiscal Year 2015-16, the SFMTA increased service by 10% and realigned some routes to improve connections under the Muni Forward program. These have resulted in greater reliability, reduced crowding, and a better customer experience. In the next year, the SFMTA will also launch a Transportation Management Center ("TMC") that will utilize new technologies, strategies, and procedures to more actively manage Muni service and San Francisco's transportation system. With the TMC, the SFMTA will usher in a new era of modern service management and communications in order to 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. Since 2013, the mean distance between failures ("MDBF") has significantly improved across all modes. These improvements are largely explained by on-time preventative maintenance initiatives, new state-of-the-art vehicles, better availability of parts, focused data analysis of repeat maintenance issues, and continuous staff training. For instance, the aging light rail vehicle ("LRV") fleet, MDBF has increased by over 50% in the last three years despite increasing service demands. Recent increases are attributable to revised preventive maintenance schedules and nightly readiness inspections, improved inventory management, and shift re-alignments to maximize work performance.

The SFMTA has also started to replace its rubber tire and LRV fleet. To date, the SFMTA has received approximately 400 new Muni buses from New Flyer out of 814 ordered. A new board-approved contract amendment will allow the SFMTA to purchase 185 new 40-foot electric trolley buses. This new purchase will replace the oldest fleet of ETI trolleys that have exceeded their useful life of 15 years, with some trolleys now exceeding 17 years of revenue service. The ETIs represent over 40% of all bus defects while only accounting for 23% of miles driven. The SFMTA expects the first two new 40-foot trolley buses to arrive by the end of 2017. Additionally, the first of the new fleet of 215 light rail vehicles have started to arrive at the SFMTA's Muni Metro East facility. These vehicles are undergoing an extensive series of qualification tests to verify the safety and performance of the fleet prior to entering revenue service in 2017. The new vehicle design will provide a number of enhancements including better passenger amenities (aisles optimized for passenger flow, improved signage visibility and coverage), maintainability (unitized design, improved reliability, detailed on-board diagnostics), safety features (improved crashworthiness, improved operator visibility), and energy efficiency (LED lighting, precision HVAC control). 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.

TABLE 3

SUMMARY OF SFMTA'S TRANSIT AND BICYCLE FACILITIES AS OF MARCH 31, 2017

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 facilities	22
Signalized intersections	1,232
Bike lanes and shared use paths	222 miles

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 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 the City.

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 are in the process of being transferred into an implementation plan and incorporated into the SFMTA's Capital Improvement Plan. See "– Capital Program."

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 SFMTA meets with the Federal Transit Administration and the CPUC on a regular basis to ensure that both agencies are aware of the SFMTA's transit operations. In addition, 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. The CPUC conducts a triennial audit for rail operations. A determination that the SFMTA is not in compliance with regulatory requirements could lead to a loss of funding, and changes in regulatory requirements could impact the SFMTA's operations or increase operating costs or capital 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 19 public garages and 19 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.

Parking Garages. The 19 parking garages that the SFMTA currently manages include parking facilities owned by the SFMTA, the Parking Authority and Recreation and Park.

The following table lists the public parking garages managed by the SFMTA as of March 31, 2017.

TABLE 4

SFMTA-MANAGED PARKING GARAGES
AS OF MARCH 31, 2017

Facility Name	Number of Spaces	Year Opened
16th & Hoff	98	1996
Civic Center[1]	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
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[1]	504	1960
St. Mary's Square[2]	414	1952
SF General Hospital	1,657	1996
Sutter Stockton	1,865	1959
Union Square[1]	985	1941
Vallejo Street	163	1969
Total	14,412	

(1) Owned by Recreation and Park.
(2) Recreation and Park and SFMTA each own 50%.
Source: SFMTA

The age of the garages ranges from 15 years to 76 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, ventilation systems and compliance with ADA regulations as well as addressing planning, building and fire code issues.

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 Sutter Stockton Garage, the Parking Corporations terminated the Prior Leases and returned direct control of the applicable garage to the SFMTA in 2012. The Japan Center Garage Corporation and the City of San Francisco Uptown Parking Corporation have entered into new leases with the SFMTA, each commencing on February 26, 2013 and expiring in 2023, which provide for daily operational oversight of the Japan Center Garage and the Sutter Stockton Garage, respectively. These new leases require that the Parking Corporations contract with a professional parking company to operate the facility in accordance with the lease and the SFMTA Parking Facility Operation and Management Regulations ("OMR"). All gross revenues and parking taxes collected or received by a Parking Corporation 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 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 will be 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 an RFP process, to manage the day-to-day operations of all other garages, excluding oversight of retail lease space, 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 Series 2012 Bonds, the Series 2013 Bonds, the Series 2014 Bonds and, upon their issuance, the Series 2017 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 22 parking facilities. The new system will bring up-to-date technology to the garages that will enhance revenue-security, assure that credit card transactions are securely processed, and improve customer service through enhanced efficiency of operations all of which will result in an improved customer experience and better accounting of revenues.

The Series 2017 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.

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***Surface Parking Lots, Parking Meters and Parking Enforcement**.* The SFMTA also manages 19 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 MARCH 31, 2017**

Facility Name	Number of Spaces
Cal-Steiner	48
Castro & 18th	20
18th & Collingwood	20
8th & Clement	26
9th & Clement	21
18th & Geary	34
Geary & 21st	21
7th & Irving	36
9th & Irving	41
20th & Irving	24
Ocean & Junipero Serra	20
19th & Ocean	20
Ulloa & Claremont	23
West Portal & 14th	19
24th & Noe	16
Lilac & 24th	18
Norton & Mission	28
Felton & San Bruno	10
7th & Harrison	101
Total	546

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 28,000 total on-street metered and off-street surface lot spaces in four rate areas throughout the City. Rate areas are legislated in the City's Transportation Code as follows: Downtown (Rate Area 1), Downtown Periphery (Rate Area 2), Fisherman's Wharf (Rate Area 4) and Neighborhood-All other Areas (Rate Area 3). Rate Area 5 consists of SF*park* program areas and overlaps portions of Rate Areas 1 4 (see "– SF*park*"). Prior to the implementation of SF*park*, parking rates ranged from $2.00 to $3.50/hr depending on location. Rates in SF*park* program areas now range from $0.25 to $6.00/hr $0.50 to $7.00/hr depending on location, day of week, and time of day. Meters in Rate Areas 1-3 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 (Rate Area 4), meters are in operation from 7 a.m. to 7 p.m. seven days per week. SFMTA also charges a $7.00/hour special event rate during events at meters near AT&T Park.

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.

SF*park*. As part of a new approach to parking management, the SFMTA has implemented a series of enhancements to its management of paid parking. The goal of the SF*park* approach is to apply a transparent, data-driven methodology to parking management in order to manage parking demand towards certain availability goals. As a result, 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). The SF*park* program 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.

While several cities have implemented programs with elements similar to SF*park*, the SFMTA is the first to put in place a full package of smart parking management technology and policies throughout such an extensive area. Funding for the initial five-year pilot phase of the SF*park* project, which ended on June 30, 2014, came from a $19.8 million grant from the U.S. Department of Transportation's Urban Partnership Program and a $22 million loan from the Metropolitan Transportation Commission ("MTC") under its Congestion Mitigation and Air Quality Improvement Program. Evaluation of the SF*park* pilot demonstration was completed in June 2014 and showed that the demand-based pricing approach resulted in improved parking availability and lower average hourly rates at parking meters and garages. The results also indicated that it was easier for drivers to find an available parking space and that fewer drivers received parking citations due to the ease of payment options provided by new meters. The SFMTA is currently planning the implementation of SF*park*-style demand-responsive parking pricing at all meters in the City.

Other Programs*.* In December of 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. Approximately 6,000 taxi drivers operate about 1,800 taxis in the City. There are also 100 wheelchair accessible ramp taxi medallions. Taxi vehicles average 95,000 miles per year, up to ten times as much as a private vehicle, thus pushing the need to green this highly used fleet. Over 95 percent of the vehicles in the taxicab fleet are hybrid or compressed natural gas vehicles. This number does not include the 100 ramp taxi medallions, for which there are no alternative fuel options.

The SFMTA currently derives a limited amount of Pledged Revenues from a program implemented in 2010 which provides for transfer and lease of taxi medallions to individual and color scheme (taxi company) permittees. See “Table 7 – PLEDGED REVENUES.” Transportation Network Companies (“TNCs”), such as Uber and Lyft, have entered the ride sharing transportation market in direct competition with taxis, and have had a significant impact of the Taxi Medallion Sale program. The long-term impact of TNC operations on the taxi industry remains uncertain. The SFMTA has been working with the industry, TNCs, ride sharing users and the CPUC to address issues raised by the changes in the market stemming from the entrance of TNCs.

In addition, the SFMTA is responsible for designing, directing and managing all traffic engineering functions within the City, including placement of signs, signals, traffic striping and curb markings to promote the safe and efficient movement of people and goods throughout the City and to assist Muni’s efficient operation. On March 1, 2016, the SFMTA Board approved revisions to the Commuter Shuttle Program based on findings from the evaluation of the Commuter Shuttle Pilot Program which ran from August 2014 to January 2016. The Commuter Shuttle Program 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 Commuter Shuttle Program went into effect on April 1, 2016 with a one-year term limit. On February 21, 2017 the SFMTA Board voted to approve the Commuter Shuttle Program, allowing the SFMTA to continue regulating operations of commuter shuttles in San Francisco and charging a per-stop fee beyond March 31, 2017. The SFMTA's recent pilot program to test dedicated on-street parking for car share vehicles established more than 200 car share parking spaces across the city, permitted to Zipcar, City CarShare, and Getaround. Utilization of shared vehicles stationed in pilot on-street spaces was very strong, with high rates of daily use by a broad array of different users (the average pilot space saw 19 unique users per month and 6 hours of daily use). Information obtained from the pilot program will inform recommendations for an operational on-street car share program to be presented to the SFMTA’s Board of Directors in June 2017.

The SFMTA is also responsible for making bicycling a safe and comfortable means of transportation for all San Franciscans through planning, engineering and implementing bicycle facilities throughout the city. The SFMTA also support a variety of bicycle education efforts targeting a diverse set of stakeholders. Since August 2010, the SFMTA has completed over 60 bicycle-related projects. The City currently has a bicycle network spanning 434 miles, including 125 miles of bicycle lanes, 14 miles of buffered bicycle lanes, and 13 miles of protected bicycle lanes. In recent years, the SFMTA has also added, on average, over 500 bicycle racks on sidewalks and in bicycle corrals per year and currently has over 10,000 bicycle parking spaces.

The SFMTA is also participating in the regional Bay Area Bike Share system managed by the MTC. The SFMTA is leading San Francisco's efforts to oversee, coordinate and permit a privately-funded expansion of the small-scale pilot Bay Area Bike Share system launched in 2013 to 4,500 bicycles and 320 stations in San Francisco, covering half of the City's land area. Permitting expansion is underway, with deployment anticipated to commence in summer 2017 and stretch into 2018.

The SFMTA supports and facilitates a growing array of shared mobility services as key elements of its strategic plan. Car sharing has been shown to reduce emissions, parking demand and rates of vehicle ownership in the City, and the SFMTA has complemented its ongoing provision of discounted parking permits for qualified car sharing organizations in its parking garages and surface lots with an extensive pilot utilizing on-street parking spaces as permitted car share pods in over 200 curb parking spaces in neighborhoods across the city, with prospects for significant growth as an operational on-street permit program is taken up by the Board this spring. The SFMTA also grants discounted garage permits to an all-electric scooter sharing service and is piloting on-street parking accommodations for shared electric scooters, having found benefits similar to car sharing.

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 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. 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 GASB pronouncements, as well as statements and interpretations of FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issues before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. See Appendix A – "SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY, FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

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 City 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.

Operating Revenues

The SFMTA's financial operations are supported from each of the following sources: 1) passenger fares, 2) City General Fund Transfer No. 1 and City General Fund Transfer No. 2 (each defined below), 3) federal, State and regional grants, and 4) local parking revenues. This diversity of sources gives the SFMTA a relatively stable base of operating revenues.

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TABLE 6

SFMTA HISTORICAL OPERATING REVENUES AND EXPENSES[1]
(FISCAL YEARS ENDING JUNE 30)

	2012	2013	2014	2015	2016
Operating Revenues					
Passenger Fares (fixed route & paratransit)	$202,284,295	$220,101,397	$212,860,558	$214,698,258	$206,757,542
Fines, Fees, & Permits	121,229,720	127,772,131	155,160,297	128,437,369	125,525,583
Parking Meters	47,138,412	53,856,002	59,964,106	56,957,628	63,603,024
Parking Garage	44,024,673	56,572,912	68,462,554	68,765,838	68,183,966
General Fund Transfer No. 2[2]	61,320,000	65,320,000	66,781,300	69,767,003	68,812,637
Other (includes rent, advertising & interest)	22,709,994	25,326,794	28,275,785	33,034,632	34,706,859
Operating Grants:					
Regional Grants (AB 1107, TDA, Bridge Tolls)	$66,512,285	$79,608,421	$81,497,955	$86,597,357	$87,180,536
State Transit Assistance (STA)	31,044,664	46,576,187	39,080,722	40,508,387	36,379,697
Gas Tax Adjustment	2,979,709	3,055,028	3,601,174	3,621,936	3,098,525
Restricted Paratransit Grants (5307, Prop K, STA, Other)	14,776,767	14,767,218	15,056,121	15,879,038	16,594,109
Subtotal Operating Grants	$115,313,425	$144,006,854	$139,235,972	$146,606,718	$143,252,867
General Fund Transfer No. 1[2]	212,640,000	222,390,000	243,910,000	272,340,000	284,730,000
Appropriated Fund Balance	-	-	-	20,000,000	20,009,965
TOTAL OPERATING REVENUES	**$826,660,519**	**$915,346,090**	**$974,650,572**	**$1,010,607,446**	**$1,015,582,443**
Operating Expenses					
Salaries	$365,402,874	$367,955,701	$382,456,456	$412,865,964	$450,546,839
Less: Overhead/Recoveries	(26,091,232)	(28,945,005)	(35,412,815)	(38,379,646)	(49,206,658)
Net Salaries	$339,311,642	$339,010,696	$347,043,641	$374,486,318	$401,340,181
Fringe Benefits:					
Pension	$63,557,023	$65,627,360	$76,811,693	$87,077,155	$78,590,585
Medical	82,321,832	85,429,332	86,540,170	88,499,604	99,515,495
Less: Overhead/Recoveries	(7,793,485)	(8,645,911)	(10,577,854)	(11,464,050)	(14,698,093)
Net Pension & Medical	$138,085,370	$142,410,781	$152,774,009	$164,112,709	$163,407,987
All Other Fringe Benefits	$33,063,255	$28,782,621	$29,844,154	$32,780,502	$36,018,903
Fuel & Lubricants	19,486,160	19,474,408	19,231,499	15,169,563	11,246,552
All Other Materials and Supplies	51,796,213	55,265,880	75,307,240	74,960,295	90,347,126
Paratransit Service Contract	18,140,982	17,893,750	19,040,363	22,405,428	23,350,446
All Other Professional Services	31,547,683	47,761,971	58,304,451	65,443,462	71,520,662
Service of Other City Departments[3]	52,537,398	55,127,744	54,444,965	50,126,885	55,249,813
Rent and Buildings	14,386,146	15,435,334	18,353,315	19,016,959	17,517,139
Insurance and Claims	44,246,793	32,880,736	48,320,905	52,743,760	50,483,254
Payments to Other Governmental Entities	22,261,080	24,710,321	17,366,605	18,538,536	13,292,429
Debt Service	2,685,035	5,886,249	11,348,069	16,275,677	17,018,022
Subtotal Operating Expenses before Transfers	$767,547,757	$784,640,491	$851,379,216	$906,060,094	$950,792,514
Transfers:					
Transfers to Current Capital Projects	3,074,716	5,790	9,714,063	29,965,983	5,636,235
Transfers to Future Capital Projects and Net Changes to Operating Carryforwards	30,765,000	69,927,137	14,137,468	18,487,937	23,569,359
Transfers to Reserves	8,000,000	17,000,000	9,900,000	2,340,000	2,340,000
TOTAL OPERATING EXPENSES & TRANSFERS	**$809,387,473**	**$871,573,418**	**$885,130,747**	**$956,854,014**	**$982,338,108**[4]

(1) 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.

(2) 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."

(3) Service of Other City Departments includes amounts paid to various cities departments for services such as SFPUC for electricity.

(4) FY2016 available operating fund balance is $173,076,318 net of $93 million reserve for FY2017 and FY2018 budget; FY2017 projected available operating fund balance of $179,801,400 is net of $47 million reserve for FY2018 budget; FY2018 projected available operating fund balance is based on FY2018 projected balanced budget without surplus or deficit.

Source: SFMTA

The amounts in Table 7 (extracted from Table 6) represent the SFMTA revenues that constituted "Pledged Revenues" in Fiscal Years 2011-12 through 2015-16 and SFMTA revenues that would have constituted "Pledged Revenues" under the Indenture in earlier Fiscal Years had the Indenture been in effect at such time. 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 were not or, as applicable, would not have constituted "Pledged Revenues" under the Indenture.

TABLE 7

PLEDGED REVENUES
(IN THOUSANDS)
(FISCAL YEARS ENDING JUNE 30)

REVENUE SOURCE	2012	2013	2014	2015	2016
Passenger Fares (fixed route & paratransit)[1]	$202,284	$220,101[2]	$212,861	$214,698	$206,758
Fines, Fees, Permits & Taxis[1], [3]	121,230	127,772	155,160	128,437	125,526
Parking Meters[1], [4]	47,138	53,856	59,964	56,958	63,603
Parking Garages[1], [5]	44,025	56,573	68,463	68,766	68,184
Other (includes rent, advertising & interest)	22,710	25,327	28,276	33,035	34,707
AB 1107	32,501	34,812	36,912	38,811	40,262
State Transit Assistance (STA)[6]	31,045	46,576	39,081	40,508	36,380
TDA	31,324	42,108	41,898	45,099	44,231
Total Pledged Revenues[7]	$532,257	$607,125	$642,615	$626,312	$619,651

(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) Includes one-time payment from BART for feeder service provided by the SFMTA. See Table 9.
(3) Increase in Fiscal Year 2013-14 is due to more taxi medallion sales. See "– Parking and Traffic Functions – Other Programs."
(4) 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 June 30, 2016, 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."
(5) Net of operating and maintenance expenses of the Parking Corporations. See"– Parking and Traffic Functions – Parking Garages."
(6) 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.
(7) 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" applicable to Muni fares, SFMTA parking citations and SFMTA garage parking rates, among other charges. Under this plan, 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. 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 percent 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. 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 $2.50 for regular service, which includes fixed route service on motorbuses, trolley buses, light rail and historic streetcars, but excludes cable cars. The basic adult cash fare is scheduled to increase to $2.75 for regular service effective July 1, 2017. Transfers are issued for each cash fare paid for regular Muni service and are valid for 90 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.

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 Lifeline Monthly 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

Effective Date	Adult Cash Fare	Adult Monthly Pass
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)[†]
July 1, 2012	$2.00	$74(A) or $64(M)[†]
July 1, 2011	$2.00	$72(A) or $62(M)[†]
January 1, 2010	$2.00	$70(A) or $60(M)[†]
July 1, 2009	$2.00	$55
September 1, 2005	$1.50	$45
September 1, 2003	$1.25	$45

[†] 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

On March 1, 2013, 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 continuing the Youth Program through the end of Fiscal Year 2015-16. The Board also approved expanding the Youth Program to include 18 year-olds as well as 19 to 22 year-old students enrolled in the San Francisco Unified School District's Special Education Services and English Learner Programs and delaying indexed increases for discount passes and discount cash fare until the end of Fiscal Year 2015-16. The costs of the expanded and extended Youth Program have been funded by a gift from Google of approximately $6.8 million. In January 2015, the Board expanded the Free Muni Program to include senior citizens over age 65 and persons with disabilities through the end of its Fiscal Year 2015-16. The estimated revenue loss from the Free Muni Program for low income youth, senior citizens and persons with disabilities for Fiscal Year 2016-17 is approximately $12.5 million.

Between Fiscal Year 2006-07 and Fiscal Year 2015-16, annual ridership has remained relatively stable while Muni's adult cash fare, the cost of an adult monthly pass and Muni's average fare per passenger have generally increased, with a decline in average fare per passenger in Fiscal Year 2013-14 resulting from the Youth Program and other discounts implemented by the SFMTA.

TABLE 9

FARE REVENUE, RIDERSHIP AND AVERAGE FARES PER PASSENGER

Fiscal Year	Total Fare Revenue (In Thousands)	Total Annual Boardings (In Thousands)	Percentage Change in Boardings	Average Fare Per Passenger[1]	Percentage Change in Average Fare[2]
2016[3]	$206,758	232,349[4]	5.9%	$0.89	-9.1%
2015[3]	214,698	219,326[4]	-3.8	0.98	4.8%
2014[3]	212,861	224,893	2.2	0.93	-5.4
2013[3]	220,101	222,991	0.4	0.99	8.4
2012[3]	202,284	222,126	3.9	0.91	1.6
2011[3]	191,637	213,748	-1.0	0.90	3.2
2010[3]	187,642	215,982	-4.4	0.87	28.3
2009	153,016	225,990	2.7	0.68	-1.6
2008	151,456	220,046	6.6	0.69	-0.7
2007	143,079	206,459	N/A	0.69	N/A

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

(2) Percentages based on non-rounded fare totals.

(3) 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 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 and 2015-2016 include payments for feeder services provided by SFMTA to BART of $2.9 million, $3.1 million and $3.2 million, respectively.

(4) Fiscal Years 2013-2014 through 2015-16 ridership numbers include participation in the Youth Program. Fiscal Year 2015-2016 ridership numbers have been submitted but have not yet been approved by the Federal Transit Administration and the NTD.

Source: SFMTA

Parking and Citation Revenues. In accordance with the Charter, the SFMTA receives dedicated revenues from 19 parking garages and 19 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.

Other Operating Revenues. The SFMTA receives a portion of its advertising revenue from (i) a Transit Shelter Advertising Agreement, 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, which expires on June 30, 2019 with options to extend, at the City's discretion, for up to two consecutive five-year periods. 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.

TABLE 10

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

	2012	2013	2014	2015	2016
Rents and Concessions	$ 3.4	$ 3.2	$ 3.4	$ 3.8	$ 3.3
Advertising	15.1	17.8	19.5	20.4	21.7
Charges for Services & Other	2.3	3.1	2.7	5.9	6.7

Source: SFMTA

Interest Income

The SFMTA invests operating cash balances in the City Treasurer's pooled funds and earned approximately $1.9 million, $1.2 million, $2.7 million, $2.9 million and $3.0 million in fiscal years 2011-12 through 2015-2016, 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) will 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."

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."

***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.

Pursuant to the State Transportation Development Act of 1971 ("TDA"), a portion of certain sales taxes (1/4 of 1 percent of the total 8.5 percent Sales Tax imposed within the City) are 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 (the "LTF Funds"). 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 City's 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. The SFMTA has received an average of approximately $40.9 million in LTF funds each year since Fiscal Year 2009-10. 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"). The proceeds of the Proposition K sales tax are reserved primarily for funding capital projects (the SFMTA expects to have received a total of approximately $261 million of such funds for capital projects during Fiscal Years 2012-13 through 2016-17), but $9.6 million is allocated annually to support Muni's paratransit operations and Muni receives funds up to that amount to the extent it incurs expenses for such operations in a particular year.

In addition, the SFMTA receives State Transit Assistance ("STA") funds from the State 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 in recent years, 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 has 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. Based on MTC projections, the SFMTA projects to receive approximately $18 million in Fiscal Year 2017-18 and $38 million annually commencing in Fiscal Year 2018-19 from Senate Bill 1.

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 ("SB 916"). 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.

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 and RM2 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. 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; and 2) Federal funds for Paratransit services under Federal Transit Act ("FTA") Section 5307.

TABLE 11

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

	2012	2013	2014	2015	2016
AB 1107	$32.5	$34.8	$36.9	$38.8	$40.3
State Transit Assistance (STA)[1]	31.0	46.6	39.1	40.5	36.4
Transportation Development Act (TDA)	31.3	42.1	41.9	45.1	44.2
MTC Bridge Tolls	2.7	2.7	2.7	2.7	2.7
Gas Tax Adjustment/Revenue	3.0	3.1	3.6	3.6	3.1
Restricted Paratransit Grants (5307, Prop K, STA, other)	14.8	14.8	14.9	15.9	16.6
Total Operating Grants	$115.3	$144.1	$139.1	$146.6	143.3

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

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. In June 2015, the City issued approximately $67 million in aggregate principal amount of general obligation bonds pursuant to Proposition A.

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. 75% 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. Should voters in the City approve the imposition of a new vehicle license fee on vehicles registered in the City for the benefit of the City's general fund, the Mayor may permanently discontinue further population-based increases in the Base Amount. In Fiscal Year 2015-16, the SFMTA received $27.7 million from Proposition B.

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 percent of total parking charges. Pursuant to Section 8A.105(f) of the Charter, the SFMTA receives an additional guaranteed annual deposit into the Transportation Fund from the City's General Fund equivalent to 80 per cent of the revenues from the City's tax on the occupancy of commercial off-street parking spaces ("General Fund Transfer No. 2").

TABLE 12

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

	2012	2013	2014	2015	2016
General Fund Transfer No. 1	$212.6	$222.4	$243.9	$272.3	$284.7
General Fund Transfer No. 2	61.3	65.3	66.8	69.8	68.8
Population Based General Fund Baseline (Proposition B)	–	–	–	–	27.7

Source: SFMTA

Although the City transfers significant funds to the SFMTA annually pursuant to the Charter, such amounts are not 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."

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 operating expenditures over a ten-year period by adding 1% to the reserve in each Fiscal Year. Based on Fiscal Year 2015-16, the current target amount is $118.2 million. Each year, during its annual budget process, the Board reviews the adequacy of the reserves. As of June 30, 2015, the SFMTA held $212.4 million on deposit in the contingency reserve fund. In Fiscal Year 2015-16, the SFMTA spent a portion of its Contingency Reserve on one-time capital improvements to certain aged transportation infrastructure, in order to reduce future operational costs. The SFMTA had a contingency reserve fund balance of approximately $173.7 million at the end of Fiscal Year 2015-16, which is above the Board required target.

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 2011-12 and Fiscal Year 2015-16, the SFMTA's total operating and maintenance expenses increased by $183.2 million or 23.9 percent, from approximately $767.5 million to approximately $950.8 million. Such increase was due primarily to increased salaries, pension and medical costs, other professional services, material and supplies, and judgments and claims.

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)

Fiscal Year	Total Operating Expense Before Transfers (In Thousands)	Number of Employees[2]	Total Personnel Costs[1] (in Thousands)	Percentage Change in Operating Expenses	Percentage Change in Personnel Costs (Salaries & Fringes)
2016	$950,793	5,304	$664,672	4.94%	6.99%
2015	906,060	5,056	621,223	6.42	7.92
2014	851,379	4,852	575,652	8.51	5.09
2013	784,640	4,751	547,795	2.23	0.63
2012	767,548	4,514	544,345	8.90	6.26

(1) Includes gross salaries and fringe benefits.
(2) Based on operating budget.
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 City and County 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.

TABLE 14

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

	2012	2013	2014	2015	2016
Fuels & Lubricants[(1)]	$19.5	$19.5	$19.2	$15.2	$11.2
Electricity[(2)]	4.7	5.1	5.7	6.7	7.9

(1) Includes purchases of natural gas. In Fiscal Year 2013-14, such purchases amounted to approximately $245,000.
(2) 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 2011-12 through 2015-16, the SFMTA purchased all of its electricity from the SFPUC. Power sold by the SFPUC consists primarily of hydroelectric power generated by dams the SFPUC operates (including O'Shaughnessy Dam) as part of its Hetch Hetchy Project, supplemented by certain solar and other generation resources, owned by the SFPUC, and purchased power. Power purchased by the SFMTA, is delivered through a municipal distribution system within the City owned and operated by Pacific Gas & Electric Company.

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, 2016, the

SFMTA paid approximately $0.06855/kWh for power purchased from the SFPUC as compared to PG&E's rate of $0.19667/kWh.

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. The SFMTA contributed $5.2 million for operating needs in Fiscal Year 2015-16, $5.2 million for operating needs in Fiscal Year 2014-15 and $4.5 million for operating needs in Fiscal Year 2013-14. The PCJPB's annual financial statements are publicly available, however, they are not incorporated by reference into this Official Statement.

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 $52.5 million in Fiscal Year 2011-12 to $55.2 million in Fiscal Year 2015-16. These payments include non-service items such as utilities and technology.

All 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.

Fiscal Year 2016-17 and Fiscal Year 2017-2018 Budget

On August 5, 2016, the Board approved its Fiscal Year 2016-17 and Fiscal Year 2017-18 Budget. See "– Financial Operations – Budget Process." The SFMTA's original Fiscal Year 2016-17 and Fiscal Year 2017-18 Operating Budget was approved in the amounts of $1.18 billion and $1.25 billion, respectively.

The operating budget will continue to support affordability goals including free Muni fares for low and moderate income youth, senior citizens over age 65 and persons with disabilities. The Capital Budget will continue to focus on state of good repair and completion of Central Subway.

The SFMTA ended its 2015-16 Fiscal Year with a net operating surplus of approximately $33.2 million, resulting in a projected year-end fund balance of approximately $173.1 million. The projected revenue surplus is due to increases across all revenue areas, particularly operating grants from the State based on gas and sales taxes.

Labor Relations

Employee Relations. As of March 31, 2017, the SFMTA employed 5,762 Full-Time Equivalent employees. All of these 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." The Charter prohibits SFMTA and other City employees from striking. See "CERTAIN RISK FACTORS – Labor Actions."

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. 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 March 31, 2017.

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TABLE 15

SUMMARY OF SFMTA SERVICE CRITICAL LABOR AGREEMENTS

Employee Bargaining Unit	Full-Time Equivalent Employment[1]	Agreement Expiration Date[2]
International Association of Machinists, Local 1414	271	June 30, 2019
International Brotherhood of Electrical Workers, Local 6	498	June 30, 2019
Transport Workers Union, Local 200	306	June 30, 2019
Transport Workers Union, Local 250-A, Automotive Service Workers	92	June 30, 2019
Transport Workers Union, Local 250-A, Transit Fare Inspectors	47	June 30, 2019
Transport Workers Union, Local 250-A, Transit Operators	2,570	June 30, 2019
Service Employees International Union, Local 1021	613	June 30, 2019
MEA, Municipal Executives Association	135	June 30, 2019
Total Critical Service Employee Count	4,532	

(1) As of March 31, 2017. 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.

(2) As of March 31, 2017.

Source: SFMTA

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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 March 31, 2017.

TABLE 16

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

Employee Bargaining Unit	Full-Time Equivalent Employment(1)	Agreement Expiration Date(2)
Carpenters, Local 22	16	June 30, 2019
Glaziers, Local 718	2	June 30, 2019
International Federation of Professional And Technical Engineers, Local 21	593	June 30, 2019
Laborers, Local 261	90	June 30, 2019
Operating Engineers, Local 3	3	June 30, 2019
Painters, Local 1176	40	June 30, 2019
Plumbers, Local 38	2	June 30, 2019
Service Employees International Union, Local 1021	410	June 30, 2019
Sheet Metal Workers, Local 104	3	June 30, 2019
Stationary Engineers, Local 39	39	June 30, 2019
Teamsters, Local 853	13	June 30, 2019
Teamsters, Local 856	18	June 30, 2019
Unrepresented Employees (Misc)	1	N/A
Total Employee Count	1,230	

(1) As of March 31, 2017. 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.

(2) As of March 31, 2017.

Source: SFMTA

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.

<u>Retirement System Plan Description</u>. 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 with the exception of transit operators, for whom the SFMTA pays all or part of the employee contribution portion. Employee contribution rates for Fiscal Year 2015-16 varied from 7.5% to 13.0% as a percentage of Pensionable Salary. For Fiscal Year 2014-15 the actuarially determined rate as a percentage of Pensionable Salary is 26.76% and for Fiscal Year 2015-16, the actuarially determined rate as a percentage of Pensionable Salary was 22.80%. The SFMTA's required contribution was approximately $71.7 million in Fiscal Year 2013-14, $79.9 million in Fiscal Year 2014-15, and $73.7 million in Fiscal Year 2015-16. SFMTA's budgeted contributions in Fiscal Year 2016-17 and Fiscal Year 2017-18 are $71.2 million and $82.2 million, respectively, based on an actuarially determined rate as a percentage of Pensionable Salary of 21.40% and 23.46%, 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 $89.7 million in Fiscal Year 2014-15 and $101.3 million in Fiscal Year 2015-16, 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 $27.6 million and $29.3 million for Fiscal Year 2014-15 and Fiscal Year 2015-16 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.

The City has 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 year ended June 30, 2016 based on a percentage of Citywide Pensionable Salary is presented below. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Employment Costs; Post-Retirement Obligations." The following table shows the components of the City's annual OPEB allocations for the SFMTA for the Fiscal Years ended June 30, 2012 through June 30, 2016, the amounts contributed to the plan and changes in the net OPEB obligations.

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TABLE 17

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

	2012[1]	2013[2]	2014[3]	2015[4]	2016[5]
Annual Required Contribution	$51,232	$52,025	$44,080	$46,893	$42,506
Interest on net OPEB Obligation	6,017	7,297	9,225	10,672	13,496
Adjustment to ARC	(4,987)	(6,050)	(7,691)	(8,898)	(10,973)
Annual Net OPEB Cost	52,262	53,272	45,614	48,667	45,029
Contribution Made	(25,352)	(25,984)	(27,066)	(27,575)	(29,334)
Increase in net OPEB Obligation	26,910	27,288	18,548	21,092	15,695
Net OPEB Obligation at beginning of Fiscal Year	126,459	153,369	180,657	199,205	220,297
Net OPEB Obligation at end of Fiscal Year	153,369	180,657	199,205	220,297	235,992

(1) In Fiscal Year 2011-12, the City had 28,073 funded positions and the SFMTA had 4,514 funded positions for both operations and capital project support. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Employment Costs; Post-Retirement Obligations." The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

(2) In Fiscal Year 2012-13, the City had 28,387 funded positions and the SFMTA had 4,751 funded positions for both operations and capital project support. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Employment Costs; Post-Retirement Obligations." The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

(3) In Fiscal Year 2013-14, the City had 29,236 funded positions and the SFMTA had 4,852 funded positions for both operations and capital project support. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Employment Costs; Post-Retirement Obligations." The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

(4) In Fiscal Year 2014-15, the City had 30,156 funded positions and the SFMTA had 5,056 funded positions for both operations and capital project support. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Employment Costs; Post-Retirement Obligations." The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

(5) In Fiscal Year 2015-16, the City had 30,788 funded positions and the SFMTA had 5,304 funded positions for both operations and capital project support. See Appendix B – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Employment Costs; Post-Retirement Obligations." The total number of active employees during any Fiscal Year may vary from the number of authorized funded positions.

Source: SFMTA and City CAFR, calculated in accordance with GAAP

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 5-year Capital Improvement Plan ("CIP") presents prioritized capital needs that are constrained by projected capital funds. The SFMTA also develops 20-year and 10-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 2-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 2-year Capital Budget determines the SFMTA's expenditure appropriation authority.

Every two years, a 2-year Capital Budget consistent with the CIP is approved by the Board. The 2-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 2-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 five-year 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 five-year CIP conveys specific commitments from various funding agencies to support the SFMTA's highest priority capital improvements. The most recently approved Five-Year CIP, covering the period from Fiscal Year 2016-17 to Fiscal Year 2020-21, was adopted by the Board on July 19, 2016. The Five-Year CIP is adjusted from time to time.

Capital resources identified as of June 2016 totaled approximately $1.28 billion, with approximately $1.12 billion of that amount invested in projects currently underway and approximately $159 million to be invested in new projects. The SFMTA projects a total investment in capital projects of approximately $3.4 billion, including the $159 million of funds already in place, for the five-year CIP beginning in Fiscal Year 2016-17. Of that amount, approximately $403 million is expected to be expended on the Central Subway Project (as defined below), approximately $280 million on Light Rail Vehicle Acquisition, approximately $965 million on other transit expansion/enhancement projects, approximately $356 million for safer street and traffic signals improvements, and approximately $1.1 billion on State of Good Repair projects. See "– Current

Projects – Central Subway," "– Light Rail Vehicle Acquisition" and "– State of Good Repair Analysis." The current revenue projection for the 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.

TABLE 18

ESTIMATED SFMTA 5-YEAR CAPITAL FUNDING BY FUNDING SOURCE (FOR THE FISCAL YEARS 2016-17 THROUGH 2020-21) (IN MILLIONS)

Source	Projected Funding Amount
Federal Funding Sources	
FTA Section 5307, Urbanized Area Formula Program	$4
FTA Section 5309, Fixed Guideway Modernization Program & Starts Program	472
FTA Section 5337, State of Good Repair	216
FTA Transit Capital Priorities	586
Other Federal Funds	11
State Funding Sources	
State Infrastructure Bond Funds (Proposition 1B)	21
Other State Grant Funds	199
Local Funding Sources	
Proposition K Sales Tax Proceeds	406
AB 664-Bridge Tolls	25
Other MTC Funding	42
Developer Impact Fees/Contributions	230
Transfer from Operating Revenues	75
General Fund Transfer	189
Other Local Capital Funds	120
Debt Financing Proceeds	
SFMTA Revenue Bonds (including the Series 2017 Bonds)	310
San Francisco General Obligation Bond(1)	344

(1) 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 transportation-related projects. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – City General Obligation Bonds."

Source: SFMTA CIP, adopted July 19, 2016 with subsequent update on March 2, 2017.

To ensure that projects expected to be funded through the CIP and Capital Budget proceed, the SFMTA has implemented capital plan and program policies which include cost controls designed to facilitate the completion of projects on schedule and on budget. All projects over a five-year CIP period are funded to phase and only if 90% of the funding for the proposed scope of work 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 form the SFMTA's different divisions, provides project oversight and controls on project scope, schedules and budgets.

On September 10, 2013, the SFMTA also obtained an irrevocable, direct pay letter of credit issued by State Street that supports the SFMTA's issuance of up to $100 million of subordinate CP Notes, the proceeds of which are expected to be used to pay for costs of projects pending the receipt of grant proceeds and/or finance state of good repair projects. The SFMTA currently does not have any CP Notes outstanding. See "– Capital Program – Current Projects – Central Subway Project" and "– Commercial Paper Program." For a list of the types of state of good repair projects the SFMTA may potentially undertake and finance, in part, from proceeds of additional Bonds and the CP Notes, see "– State of Good Repair Analysis."

Fiscal Year 2016-17 to Fiscal Year 2017-18 Capital Improvement Budget; 2-Year Projected Capital Improvement Investments. In April 2016, the Board adopted the 2 year Capital Budget, covering the period from Fiscal Year 2016-17 to Fiscal Year 2017-18. The Fiscal Year 2016-17 to Fiscal Year 2017-18 Capital Budget included $1.11 billion for Fiscal Year 2016-17 and $860 million for Fiscal Year 2017-18. Based on the 5-year CIP adopted in July 2016, the 2 year Capital Budget adopted in April 2016, and expenditures authorized in prior 2 year Capital Budgets but not yet completed, the SFMTA projects total investment in capital projects for Fiscal Years 2016-17 and 2017-18, classified as either State of Good Repair projects or Enhancement/Expansion projects, as follows:

TABLE 19

**PROJECTED 2-YEAR CAPITAL IMPROVEMENT INVESTMENTS
FISCAL YEAR 2016-17 TO FISCAL YEAR 2017-18
(IN MILLIONS)
(FISCAL YEARS ENDING JUNE 30)**

	2017	**2018**
State of Good Repair Projects	$603.7	$426.3
Enhancement/Expansion Projects	506.3	433.5
Total	$1,110.0	$859.8

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 a transit 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. Begun in 2006 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 February 2017 (the "2016 SGR Report"). The 2016 SGR Report is the fourth comprehensive SGR report. The SFMTA's current asset replacement value is approximately $13.6 billion (in 2016 dollars). The table below summarizes the breakdown of the SFMTA's current asset replacement costs by asset category, as updated.

TABLE 20

$13.6 BILLION TOTAL CAPITAL ASSET REPLACEMENT VALUE BY ASSET CATEGORY

Stations	25%
Overhead Wires	19
Facilities	12
Parking and Traffic	11
Track	8
Light Rail Vehicles	6
Train Control and Communications	6
Other Systems and Vehicles	5
Motor Coach Vehicles	4
Trolley Coach Vehicles	4

Source: SFMTA

The SFMTA has developed a strategic approach to asset management with the goal to prioritize replacement of mission critical assets with a commitment that there should not be an impact to service delivery. The 2016 SGR Report was based on a calculated asset replacement or scheduled replacement date, which is the date that the asset should be replaced based on its estimated useful accounting life. However, not all assets are equal; some assets degrade based on operational uses sooner than the end of their useful lives, and other assets are able to continue to provide service well beyond the end of their estimated useful lives.

The SGR analysis indicated a backlog of asset replacement of approximately $2.4 billion as of June 2016 based on accounting asset life. Eliminating the backlog over twenty years was calculated to cost approximately $586 million annually. Maintaining the backlog at the level existing as of June 2016 would require annual capital expenditures of approximately $466 million per year, according to the 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 (FTA) in 2010 as part of the full funding agreement for the Central Subway Project.

During Fiscal Years 2012-13 through 2015-16, the SFMTA expended an average of $203.1 million per year on capital projects, not including the large capital enhancement projects such as the Central Subway.

TABLE 21

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

Asset	Amount Needed	Percentage
Overhead Lines	$1,111	13%
Stations	934	11
Parking and Traffic	12	12
Motor Coach Vehicles	489	6
Facilities	720	8
Light Rail Vehicles	1,796	21
Other Systems & Vehicles	810	10
Train Control & Communications	480	6
Trolley Coach Vehicles	463	5
Tracks	664	8

Source: SFMTA, 2016 State of Good Repair Report (February 2017)

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The SFMTA is pursuing numerous options to address state of good repair needs, including implementing best practices and new revenue sources. 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. 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 the City's downtown beneath Fourth Street and Stockton Street into Chinatown near the City's theater, hotel and central business district; one surface station and three underground stations are being constructed (collectively, the "Central Subway"). Four light rail vehicles are being purchased as part of a larger SFMTA light rail vehicle procurement 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 the City 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 collaboration with the Federal Transit Administration's formal Risk Management Program, the SFMTA continues to carry out the extensive risk management process, initiated in 2008, to proactively manage and mitigate risks to the Central Subway Project scope, schedule and budget. See "– Certain Central Subway Project Risks and Risk Management" and "CERTAIN RISK FACTORS."

The estimated cost to complete the Central Subway Project has remained at $1.578 billion in year of expenditure dollars. All of the Central Subway Project funding sources are committed as set forth in Table 22. If the costs of the Central Subway Project ultimately exceed $1.578 billion, or available funds are expended more quickly than currently projected, or if committed funds are not received on a timely basis, the SFMTA will require additional funds to complete the Central Subway Project. Such events could have a material adverse effect on the SFMTA's operations and finances. See "– Additional Regional and Local Support" and "– Additional Financing."

TABLE 22

CENTRAL SUBWAY PROJECT: COMMITTED PRINCIPAL FUNDING SOURCES (IN MILLIONS)

Source	Projected Funding Amount
FTA Section 5309 New Starts Program	$ 942.2
Federal - Congestion Mitigation and Air Quality Program	41.0
State RTIP Grant (State-STP)[(1)]	88.0
State TCRP Grant[(2)]	14.0
State - Proposition 1B, PTMISEA[(3)]	307.8
State – Proposition 1A, High-Speed Rail Funds	61.3
San Francisco - Proposition K Sales Tax	124.0
Total:	$1,578.3

(1) Regional Transportation Improvement Program.
(2) Traffic Congestion Relief Program.
(3) Public Transportation Modernization, Improvement and Service Enhancement Account.
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 candidate 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. In April 2011, the SFMTA Board, after working with local stakeholders, approved a funding plan of committed and non-committed sources. 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. On September 2016, the SFMTA received a federal Fiscal Year 2015 New Starts Program allocation in the amount of $150 million, bringing total New Starts grants received by the SFMTA to approximately $769.2 million for the Central Subway Project.

Funding of FFGA programs is subject to Congressional appropriation and satisfaction of certain grant conditions, as discussed below. The SFMTA FFGA commits to a maximum level of New Starts financial assistance (subject to appropriation), 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 December 31, 2018. See "– Central Subway Project Status" and "– Certain Central Subway Project Risks and Risk Management."

The SFMTA FFGA is providing SFMTA with predictable federal financial support for the Central Subway Project; however, annual payouts remain subject to Congressional appropriations. The SFMTA FFGA also places limitations on the amount and timing of its support which would not necessarily take into account cost increases, if any, relating to the Central Subway Project. See "– Additional Financing." 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.

Two 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, State Surface Transportation Program funds ("State-STP") are funds that are federal transportation revenues programmed by the State of California, including its Congestion Management Agencies. On September 5, 2014, the SFMTA was awarded approximately $12.5 million of State-STP funds for the Central Subway Project. This increment represents the first payment of $88 million of State RTIP Grant funds to the Central Subway Project.

See "– Central Subway Project Status," "– Certain 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 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, SFMTA has received Caltrans' full allocation of approximately $307.8 million in PTMISEA funds to the SFMTA. In April 2011, the SFMTA Board allocated $225.3 million of its available $307.5 million in PTMISEA funds to the Central Subway Project. An additional $82.5 million in PTMISEA funds were committed to the SFMTA by the MTC as part of its "urban core" transit expansion program to fund a portion of the Central Subway Project.

Countywide Regional Transportation Improvement Program ("RTIP") grants are funded by the State, from an array of State and Federal funding sources, as part of its State Transportation Improvement Program ("STIP"). MTC, as the Regional Transportation Planning Agency for the Bay Area and its nine member Congestion Management Agencies, develop local and regional priorities within the RTIPs, which are then submitted to the California Transportation Commission for programmatic inclusion in the STIP, with funds awarded (allocated) to the project sponsor agencies across a five year horizon, i.e. 2016-2020. The San Francisco County Transportation Authority has committed $88 million in RTIP Grant funds to the Central Subway Project. The first tranche of approximately $12.5 million of STIP funds was awarded in September 2014. The SFMTA is working with the County Transportation Authority and the CTC to accelerate the receipt of these funds to 2017. See "– Additional Regional and Local Support."

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 Central Subway Project has received and expended all $14 million from this funding source.

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 Tunnel Contract and Station Contract, and were part of the Central Subway Project's Fiscal Year 2013 14 cash flow. As of September 2014, all of these funds have been spent.

Finally, the County Transportation Authority awarded $123.975 million in Proposition K local sales tax revenues to the SFMTA for the Central Subway Project and all of these funds have been received by the SFMTA.

As of October 2016, the total of grants received from all sources is approximately $1.33 billion, or, approximately 84.3% of the total Central Subway Project budget. The timing and level of funds received to date has enabled the SFMTA to maintain a positive cash flow for the first four years of construction. As of March 31, 2017, the total funds allocated to project accounts and available for current billing is approximately $1,150.82 million. Concurrently, the remaining available and unallocated cash balance as of March 31, 2017 was approximately $178.96 million for on-going Central Subway Project expenditures. The anticipated timelines for future receipts of committed funds and future disbursements for expenditures result in a positive project cash flow through at least June 2018. After June 2018 (or earlier, if the Central Subway Project expenditures are faster than current projections or committed funds are not received on a timely basis), the SFMTA anticipates using CP Notes as bridge financing, if needed, until it receives subsequent grant funds. See "CERTAIN RISK FACTORS – Reliance Upon Grants and City General Fund Transfers," "– State of California Financial Condition" and "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Commercial Paper Program."

Central Subway Project Status. The Central Subway Project has several construction related phases. Preliminary utilities relocation projects for the Central Subway Project, totaling approximately $32 million, have been completed within the initial budget and schedule adopted for this phase. In 2010, small deposits of Native American middens were found on 4th Street near the Yerba Buena/Moscone Station site during utility relocation. The middens debris field were mapped as the station site was prepared in accordance with archeological resource project management practices established in State law.

On August 8, 2011, the SFMTA awarded the tunneling contract ("Tunneling Contract") to Barnard Impregilo Healy, a Joint Venture ("BIH") for approximately $233.6 million. The twin bore tunneling construction has been successfully completed. The remaining Tunneling Contract work is to construct the transition ramp between the subway tunnel end and the surface line and operations. Substantial completion of the remaining tunneling portion of the Central Subway Project occurred in May 2015. See "– Certain Central Subway Project Risks and Risk Management."

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"), totaling approximately $840 million, was awarded by the SFMTA to Tutor Perini Corporation in May 2013.

In the summer and fall of 2014 construction at the three subway station sites focused on completion of the installation of interlocking piles around the perimeter of the station structures. In August 2014, downward excavation of the Union Square Market Street Station began. Roof decking is being added on top of the earth removal, which will soon cover over the site, with an access point to allow crews and machinery underneath the deck to continue excavating underground.

As of April 2017, remaining total cost contingency for the Central Subway Project is $76.14 million. This contingency level represents a $16.14 million contingency surplus, above the $60 million minimum contingency level established by the Federal Transit Administration for a project, at this stage of completion. The projected schedule for commencement of revenue service is November 2019. The current projected start of revenue service is approximately 10 months behind the original program completion date, established in November 2008. Schedule contingency recovery efforts are being evaluated and developed for review and approval by the Federal Transit Administration. Schedule contingency discussions with the Federal Transit Administration could result in an extension of the Central Subway Project schedule. See "– Certain Central Subway Project Risks and Risk Management," "– Additional Regional and Local Support," "– Additional Financing" and "CERTAIN RISK FACTORS – Reliance Upon Grants and City General Fund Transfers."

Certain Central Subway Project Risks and Risk Management. While the current schedule for commencement of revenue service on the Central Subway is November 2019 and the current estimated cost to complete the Central Subway Project is approximately $1.578 billion in year of expenditure dollars, there can be no assurance that time to completion will not be longer, or costs of completion 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 rolling stock, and potential service issues in connection with integration of the Central Subway line into Muni's existing operations. See "CERTAIN RISK FACTORS."

Among other risks considered and identified for mitigation, the SFMTA's risk assessment includes the possibility that the Federal Transit Administration, for any reason, may not fulfill its funding obligations under the SFMTA FFGA. Although in the course of managing a discretionary federal grant program of substantial size for more than 25 years and through more than 1,000 projects, the Federal Transit Administration has never, to the knowledge of the SFMTA, failed to ultimately honor its commitments to fund a project under an FFGA, funding delays or temporarily reduced funding due to delays in Congressional approvals have occurred for some projects in recent years. Were significant delays or temporary reductions in fund allocations to occur with respect to the SFMTA FFGA, the SFMTA might need to adjust the program scope and budget for the Central Subway Project, or identify alternative sources of funding, which could include the issuance of additional Bonds. A potential consequence of providing for such alternative funding could be reduced funding for SFMTA's other long-term capital improvement and service plans. See "–Additional Regional and Local Support," "Additional Financing" and "CERTAIN RISK FACTORS."

In order to qualify for commitment of funds for construction through completion under the SFMTA FFGA, the Central Subway Project had to fulfill the Federal Transit Administration's rigorous criteria for transit project construction readiness. A key fulfillment of the criteria was completing an extensive risk assessment. During the transition from preliminary engineering to final design, the Central Subway Project finalized an industry standard Risk Management and Mitigation program. The Project Risk Assessment Committee, meeting monthly, focuses on managing and mitigating identified risks that remain outstanding as well as mitigating new risks that may arise during implementation of the Central Subway Project.

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 as described above 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 longer, 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. In addition, to the extent that the Federal Transit Administration is unable to fulfill, or for any reason disclaims its obligations to fulfill, its funding obligations under the SFMTA FFGA, the Central Subway Project could face significant funding shortfalls or delays. See "– Additional Regional and Local Support," "– Additional Financing" 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 FTA 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 anticipates substantial completion of the MBL in Summer 2017.

Additional Regional and Local Support. MTC, the County Transportation Authority and the Controller have each indicated their respective intent to help mitigate the financial impact of delays or cost increases associated with the Central Subway Project. MTC has indicated that it would work with the State and the SFMTA to mitigate the financial impact of delays, if any, in the receipt by the SFMTA from the State of Proposition 1B funds for the Central Subway Project. The County Transportation Authority has committed up to $150 million dollars of additional funds for the Central Subway Project, subject to certain conditions, in order to mitigate the impact of increases in costs, if any, above the approximately $1.578 billion in expected future year of expenditure dollars.

The City Controller has indicated readiness to work with the SFMTA to address timing discrepancies with respect to payment of approved grants by the federal government should such discrepancies threaten the timing of the delivery of Central Subway Project, though potential solutions might require approval of the Board of Supervisors.

Additional Financing. Finally, the SFMTA may issue additional Bonds or CP Notes to provide interim financing of Central Subway Project costs pending the receipt of grant proceeds. See "– Future Debt Issuance."

In the event that the Central Subway Project exceeds both its budget and the $150 million in additional Regional Improvement Funds committed to the Central Subway Project by the County Transportation Authority, non-federal funding programmed to other SFMTA projects would have to be moved or new funding would have to be identified to cover those costs because the SFMTA FFGA caps the federal contribution to the Central Subway Project. Potential sources might include SFMTA operating funds, additional Bonds, new sales tax revenues, the proceeds of future general obligation bonds, if any, issued by the City for such purpose, or the proceeds of future bonds, if any, issued by the State for such purpose. Such events could have a material adverse effect on the SFMTA's finances. See "CERTAIN RISK FACTORS."

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. $185 million has been secured through the San Francisco Transportation and Road Improvement General Obligation bond to implement approximately 20 projects through 2022, including the City's issuance in June 2015 of approximately $66 million of such bonds. The SFMTA is finalizing the projects and amounts for a second bond issuance, and upon consultation with the City's Office of Public Finance, plans to take its proposal to the SFMTA Board for approval in 2017. 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. The SFMTA Board of Directors has approved a contract with Siemens to acquire up to 260 new light rail vehicles over the next 15 years. The new light rail vehicles will replace and expand Muni's existing fleet of Breda light rail vehicles. The SFMTA expects that the first 24 light rail vehicles, intended to provide service on the Central Subway line, will be delivered in Fiscal Years 2016-17 and 2017-18. The SFMTA further anticipates taking delivery of at least 151 additional light rail vehicles over the following 11 Fiscal Years pursuant to the contract with Siemens. The contract with Siemens also provides SFMTA with an option to purchase up to 85 additional light rail vehicles, for a total of 260 light rail vehicles over the term of the contract through Fiscal Year 2028-29 (to date, the SFMTA has exercised the option to purchase 40 of these 85 light rail vehicles). The contract is currently being negotiated to provide up to 264 vehicles. The SFMTA anticipates entering into one or more contracts for development of proprietary software control systems to manage operations of Siemens-built light rail vehicles on Muni's rail system, though the scope of such project will not be defined until final, detailed performance specifications for the vehicles are available.

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 light rail vehicles. Total project costs, including project support, taxes and contingency are estimated to be $1.42 billion. The SFMTA has identified funding for approximately $1.14 billion of such project amount, including approximately $627 million in funding from MTC, $159 million of Proposition K local sales tax funds, $202 million in revenues from the State's cap-and trade emissions program, up to $150 million in Bond proceeds (including the planned expenditure of up to $125 million in proceeds of the Series 2017 Bonds), $8 million of operating funds, and $26 million of Central Subway Project funds. The SFMTA projects that such amounts would be sufficient to purchase the base number of 175 light rail vehicles and to exercise the option for 40 additional light rail vehicles. In some cases the other funds identified have been prioritized by the grantors to facilitate SFMTA's acquisition of light rail vehicles, 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, light rail vehicles under the contract with Siemens. The SFMTA would need to identify approximately $280 million in additional funding to exercise its option to purchase the remaining 45 light rail vehicles. Failure to identify additional funding sources could have a material adverse effect on the SFMTA's finances.

<u>Transportation Management Center</u>. The Transportation Management Center project is part of the SFMTA's larger program to upgrade its central control and communications capabilities. Currently, the SFMTA's real-time command and control functions reside in various sites located throughout the City in facilities that are undersized and which include outmoded systems. The Transportation Management Center project will integrate and consolidate multi-modal, real-time command and control functions into one secure location in the City's downtown incorporating updated systems. The $11.6 million project, which is funded primarily from Proposition K local sales tax funds allocated by the County Transportation Authority, will provide the SFMTA with a service delivery-focused operations center for command, control of, and communications among, all of the SFMTA's diverse functions, including transit operations, traffic signaling monitoring and control, parking enforcement dispatch, taxi medallion management, bicyclists, pedestrians and off-street parking. The Transportation Management Center will be housed in leased space. The necessary tenant improvements have been completed. Move-in for some existing command and control functions has been completed and the remainder is in the planning phase.

<u>Van Ness Avenue Bus Rapid Transit</u>. The Van Ness Avenue Bus Rapid Transit project, now known as the Van Ness Improvement Project, covers approximately two miles, from Mission St. and South Van Ness Avenue to Lombard St. and Van Ness Avenue. The project includes improvements that would provide for rapid, reliable transit, including dedicated bus lanes separated from regular traffic to improve transit performance; transit signal priority, recognizing an approaching bus rapid transit ("BRT") vehicle and extending the green light when it is safe to do so; proof of payment and all-door boarding to allow buses to pick up and drop off passengers more quickly; high-quality stations; pedestrian safety enhancements, including reduced crossing distances on streets where BRT stations are located; and large platforms for waiting passengers. The project is expected to improve transit speeds by up to 30 percent on these corridors, significantly improve reliability, improve rider and pedestrian comfort, amenities, and safety, and fill a key gap in the City's Rapid Transit Network. The project will also include replacement of the aging overhead wire system that powers the buses, replacement of more than 22,000 feet of water main, rehabilitation and relocation of the underground sewer system, overhauling the emergency firefighting system that supplies water to over 1,200 hydrants, installation of an electrical duct bank, installation of new landscaping and rain gardens, and repavement of Van Ness Avenue. The project is estimated to cost approximately $195 million (in 2017 dollars).

The County Transportation Authority adopted a Project Feasibility Study in 2006, and led the environmental review stage of the project. The Environmental Impact Report/Statement was made available for public review and comment in November 2011. After reviewing the public comments and holding public hearings, the Board and the Board of Commissioners of the County Transportation Authority approved a locally preferred alternative. The Final Environmental Impact Report/Statement was released in July 2013 and approved by the Board of Commissioners of the County Transportation Authority on September 10, 2013 and the Board on September 17, 2013. The Federal Record of Decision was issued on December 20, 2013, determining that the requirements of the National Environmental Policy Act have been met through the Final Environmental Impact Statement document and process. The proposed actions are within the scope of the Van Ness BRT Project Final EIS/EIR. Upon issuance of the Federal Record of Decision, SFMTA assumed project lead from the County Transportation Authority. Final design was completed in 2016, with construction expected to occur from 2016-2019 and revenue service beginning in 2019.

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 to 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.

Twin Peaks Tunnel Rail Replacement. The Twin Peaks Tunnel Rail Replacement will replace 20,600 track feet of rail, ballast and ties; replace two existing turnouts; seismically upgrade the Eureka Station; make improvements to the fire suppression system; and reconfigure the West Portal interlocking, installing new VPI logic, installation of new track circuits, and replacement of switch machines. This $47 million project is expected to be substantially completed in summer 2019.

Funding of Capital Improvements*.* The SFMTA's capital program is financed and otherwise funded from a variety of funding sources. In addition to the SFMTA's outstanding debt, and the debt to be issued in this financing, the SFMTA relies primarily on capital grant funds from federal, State and local sources to finance its capital improvements. During the 20-year period from Fiscal Year 2016-17 to Fiscal Year 2037-38, the SFMTA projects that it could undertake approximately $22 billion in capital improvement projects.

***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 Authority 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 Authority 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. The ratio of local revenues, including fare revenues, to transit operating costs in Fiscal Year 2014-15 was 72.1%, and in Fiscal Year 2015-16 was 69.0%. The ratio of fare revenues only to transit operating costs was 27.9% and 24.9% in Fiscal Year 2014-15 and Fiscal Year 2015-16, respectively. 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.

Outstanding Debt

Prior to the issuance of the Series 2017 Bonds, the SFMTA's outstanding long-term debt obligations consist of the Series 2012 Bonds, the Series 2013 Bonds and the Series 2014 Bonds. See "DEBT SERVICE SCHEDULE" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Other Obligations Secured by Pledged Revenues."

The $500 million 2014 San Francisco Transportation and Road Improvement General Obligation Bond was passed by voters to provide improved transit and safer streets. The first issuance in June 2015 made $66 million available for projects. This bond program is comprised of eight major components, each including a number of discreet projects of varying size and scope. The largest portion of the bond funds is allocated for Muni Forward Rapid Network Improvements, which implements the SFMTA's Muni Forward project. These bonds are secured by ad valorem property taxes imposed by the City and are not secured by Pledged Revenues.

Commercial Paper Program

On September 10, 2013, the SFMTA obtained an irrevocable, direct pay letter of credit issued by State Street that supports the SFMTA's issuance of subordinate CP Notes in an aggregate principal amount of up to $100 million, the proceeds of which are expected to be used to pay for costs of projects pending the receipt of grant proceeds (see "– Capital Program – Current Projects – Central Subway Project) and/or to finance state of good repair projects. Such CP Notes, and the SFMTA's obligation to reimburse State Street for draws under the letter of credit to pay the principal of and interest on the CP Notes, are 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." The letter of credit issued by State Street is scheduled to expire on September 10, 2018, subject to prior termination pursuant to its terms and as provided for in the related reimbursement agreement. The SFMTA currently does not have any CP Notes outstanding.

Future Debt Issuance

The SFMTA currently does not plan to issue additional debt for new money projects; however, the SFMTA continues to review its Capital Program and its issuance plans may change in the future. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds and Other Indebtedness." For a list of the types of state of good repair projects the SFMTA may potentially undertake and finance, in part, from proceeds of additional Bonds and CP Notes, see "– Capital Program – State of Good Repair Analysis."

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 (collectively, the "Lease Transactions"). The first tranche covered 118 Breda light rail vehicles (the "Tranche 1 Equipment"), and the second tranche covered 21 Breda light rail vehicles (the "Tranche 2 Equipment" and, together with the Tranche 1 Equipment, the "Equipment"). Tranche 1 consisted of six sub-tranches and involved four equity investors; Tranche 2 consisted of one tranche and one equity investor.

The Lease Transactions were structured as a head lease of the Equipment to a separate special purpose trust and a sublease of the Equipment back from the trust. During the term of the subleases, the SFMTA maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease. Under the respective subleases, the SFMTA is required to make periodic rental payments to the special purpose trusts. In addition, the SFMTA has an option to purchase the Tranche 1 Equipment on specified dates between January 2027 and January 2030, and the Tranche 2 Equipment in January 2030, following the scheduled expiration of the subleases. The funding for the periodic rental payments derives from payments made by a payment undertaker whose obligations are guaranteed by Assured Guaranty Municipal Corporation ("AGM"), as successor to Financial Security Assurance, Inc., a bond insurance company. The funding for the purchase options, if exercised, derives from U.S. Agency securities purchased at the outset of each Lease Transaction (the "Equity Securities"). In addition, early termination payments, if any, under the subleases are guaranteed by surety policies issued by AGM.

As a result of these cash transactions, Muni recorded approximately $35.5 million and $4.4 million in Fiscal Year 2001-02 and 2002-03, respectively, for the difference between the amounts received by the SFMTA of approximately $388.2 million and $72.6 million, and the amounts paid by the SFMTA to the escrows and the debt payment undertaker of approximately $352.7 million and $67.5 million, respectively. Such amounts are classified as deferred outflows of resources and will be amortized over the life of the applicable sublease unless the purchase option is executed.

The SFMTA is required to replace the payment undertaker if the rating of its guarantor, AGM, falls below "BBB+" or "Baa1" by S&P Global Ratings ("S&P"), and Moody's Investors Service, Inc. ("Moody's"), respectively. The ratings of AGM currently satisfy these threshold rating requirements.

The SFMTA is also required to replace AGM as surety provider if AGM's rating falls below "AA-" or "Aa3" by S&P and Moody's, respectively. In January 2013, Moody's downgraded AGM to A2, a rating level which triggers the SFMTA's obligation to replace AGM as surety provider upon 30 days' notice from an equity investor with respect to its sub-tranche. The SFMTA's failure to replace AGM within 30 days could result in the termination of the Lease Transactions, requiring the SFMTA to make a payment equal to the scheduled termination value (less the market value of the Equity Securities) on the termination date. SFMTA has never received a demand from an equity investor to replace AGM.

The Board of Supervisors has authorized the SFMTA to enter into consensual terminations of the Lease Transactions provided that, among other conditions, such terminations do not involve a cost to the SFMTA. As of April 5, 2017, the SFMTA has terminated five sub-tranches of Tranche 1 and the one tranche in Tranche 2. One sub-tranche in Tranche 1 remains. The SFMTA cannot predict whether the remaining equity investor in the Lease Transactions will agree to a consensual termination on terms consistent with the Board of Supervisors' resolution.

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 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 $20.1 million at the end of Fiscal Year 2015-16. 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 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 designed; (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, 2016, the City Treasurer held $811.5 million of SFMTA's current assets, of which $509.6 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 2017 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 2017 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 or interest on the Series 2017 Bonds or lead to a decrease in the market value and/or in the liquidity of the Series 2017 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 2017 Bonds Limited Obligations

The Series 2017 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 or interest on the Series 2017 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 or interest on the Series 2017 Bonds, and neither the credit nor the taxing power of the City is pledged to the payment of the principal of or interest on the Series 2017 Bonds. The Series 2017 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 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 OPINION 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 budget for certain major capital projects, such as the Central Subway Project, includes grant funding that has not yet been disbursed to the SFMTA; and the disbursement of such grant funds remains subject to the satisfaction of certain conditions and, in some cases, to appropriation. 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, and the timely disbursement of such funding, is not assured. 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. The SFMTA's financial condition was not, however, materially impacted by the failure of the United States Congress to pass an appropriations bill or a continuing appropriations act until the passage of H.R. 2775 on October 16, 2013, which failure resulted in the shutdown of many non-essential operations of the federal government beginning October 1, 2013 and continuing through October 17, 2013. 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 is the Central Subway Project. The Central Subway Project is a major undertaking involving complex engineering and coordination of underground and surface activities. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY – Capital Program – Current Projects – Central Subject Project" and, specifically, "– Certain Central Subway 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) 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 2017 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.

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

The City and the Transportation System are located in a seismically active region. Active earthquake faults underlie both the City and the surrounding Bay Area, including the San Andreas Fault, which passes about three miles to the southeast of the 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. Significant recent seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of the City, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires, building collapses and structural damage to buildings and highways in the City and environs. The San Francisco-Oakland Bay Bridge, the only east-west vehicle access into the City, was closed for a month for repairs, and several highways in the City were permanently closed and eventually removed. See "– Casualty Losses."

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 2008 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 was a greater than 60% chance that one or more earthquakes of magnitude 6.7 or larger would occur in the Bay Area before the year 2038, a period ending prior to the final scheduled maturity of the Series 2017 Bonds. 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 longer-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.

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 and interest on the Series 2017 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 XIIIC to the California Constitution. Article XIIIC 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 XIIIC 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 XIIIC. 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 XIIIC 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 three specific 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 and interest on the Series 2017 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 2017 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 2017 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 2017 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 2017 Bonds.

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

As discussed under "TAX MATTERS", interest with respect to the Series 2017 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 2017 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 2017 Bonds are not subject to prepayment or any increase in interest rate.

SFMTA has not sought to obtain a private letter ruling from the IRS with respect to the exempt status of interest on the Series 2017 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 2017 Bonds were undertaken, it would not adversely affect the secondary market value of the Series 2017 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 2017 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 2017 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 2017 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 2017 Bonds.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2017 Bonds or, if a secondary market exists, that the Series 2017 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 the 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 – City Budget – 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 2017 Bonds. There may be other risks inherent in ownership of the Series 2017 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 2017 Bonds.

AUDITED FINANCIAL STATEMENTS

Audited Financial Statements of the SFMTA (the "Financial Statements") for the Fiscal Year ended June 30, 2016 are attached as Appendix A. See Appendix A – "SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY, FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2016." 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 2017 Bonds to provide certain financial information and operating data relating to the SFMTA not later than 270 days after the end of the SFMTA's Fiscal Year (which currently ends on June 30), commencing with the report for Fiscal Year 2016-17 (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 purchaser of the Series 2017 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

In the last five years, the SFMTA has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual financial information or notices of enumerated events.

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

Tax Exemption

The delivery of the Series 2017 Bonds is subject to the opinion of Co-Bond Counsel to the effect that interest on the Series 2017 Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The delivery of the Series 2017 Bonds is also subject to the delivery of the opinion of Co-Bond Counsel, based upon existing provisions of the laws of the State of California, that interest on the Series 2017 Bonds is exempt from personal income taxes of the State of California. A form of Co-Bond Counsel's opinion is reproduced as Appendix G. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Series 2017 Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the federal alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Co-Bond Counsel will rely upon representations and certifications of the SFMTA made in a certificate dated the date of delivery of the Series 2017 Bonds pertaining to the use, expenditure, and investment of the proceeds of the Series 2017 Bonds and will assume continuing compliance by the SFMTA with the provisions of the Indenture subsequent to the issuance of the Series 2017 Bonds. The Indenture contains covenants by the SFMTA with respect to, among other matters, the use of the proceeds of the Series 2017 Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Series 2017 Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Series 2017 Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Series 2017 Bonds.

Co-Bond Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the SFMTA described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Co-Bond Counsel, and Co-Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Series 2017 Bonds is commenced, under current procedures the IRS is likely to treat the SFMTA as the "taxpayer," and the owners of the Series 2017 Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2017 Bonds, the SFMTA may have different or conflicting interests from the owners of the Series 2017 Bonds. Public awareness of any future audit of the Series 2017 Bonds could adversely affect the value and liquidity of the Series 2017 Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Co-Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should be aware that the ownership of tax-exempt obligations such as the Series 2017 Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Series 2017 Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Series 2017 Bonds

The initial public offering price of certain Series 2017 Bonds (the "Discount Bonds") may be less than the amount payable on such Series 2017 Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Series 2017 Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Series 2017 Bonds (the "Premium Bonds") may be greater than the amount payable on such Series 2017 Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings ("S&P"), have assigned their municipal bond ratings of "Aa2" and "AA," respectively, to the Series 2017 Bonds. Moody's and S&P's rating outlooks with respect to the Series 2017 Bonds are "stable." 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 2017 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 2017 Bonds.

SALE OF THE SERIES 2017 BONDS

The Series 2017 Bonds were sold at competitive bid on May 24, 2017, as provided in the Official Notice of Sale, dated May 16, 2017 (the "Official Notice of Sale").

The Series 2017 Bonds were awarded to Wells Fargo Bank, National Association, Municipal Products Group (the "Purchaser") at a purchase price of $191,037,062.40 (consisting of the principal amount of the Series 2017 Bonds, plus net original issue premium of $14,293,603.70, and less an underwriter's discount of $1,086,541.30). The Official Notice of Sale provided that all Series 2017 Bonds shall be purchased if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Co-Bond Counsel and certain other conditions. The Purchaser has represented to SFMTA that the Series 2017 Bonds have been reoffered to the public at the prices or yields stated on the inside cover page hereof, and SFMTA will take no responsibility for the accuracy of those prices or yields. The Purchaser may offer and sell Series 2017 Bonds to certain dealers and others at yields that differ from those that are stated on the inside cover. The offering prices or yields may be changed from time to time by the Purchaser.

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 2017 Bonds are to be issued,

(ii) the validity of any provision of the Series 2017 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 and interest on the Series 2017 Bonds as they become due.

CERTAIN LEGAL MATTERS

The validity of the Series 2017 Bonds and certain other legal matters are subject to the approving opinions of Norton Rose Fulbright US LLP, Los Angeles, California, and Amira Jackmon, Attorney at Law, 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 to the initial purchaser of the Series 2017 Bonds at the time of the original delivery of the Series 2017 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 Hawkins Delafield & Wood LLP, Disclosure Counsel to the SFMTA.

Hawkins Delafield & Wood 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 2017 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 2017 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 2017 Bonds, or other person or party other than the SFMTA, will be entitled to or may rely on such letter of Hawkins Delafield & Wood LLP having acted in the role of Disclosure Counsel to the SFMTA.

ROLE OF THE MUNICIPAL ADVISORS

Backstrom McCarley Berry & Co., LLC, San Francisco, California and Public Financial Management, Inc., San Francisco, California are acting as co-municipal advisors to the SFMTA with respect to the Series 2017 Bonds (collectively, the "Municipal Advisors"). The Municipal Advisors have 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 2017 Bonds. The Municipal Advisors have 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 Advisors assume no responsibility for the accuracy or completeness of any of the information contained herein. The Municipal Advisors will not purchase or make a market in any of the Series 2017 Bonds.

A portion of the compensation to be received by the Municipal Advisors from the SFMTA for services provided in connection with the planning, structuring, execution and delivery of the Series 2017 Bonds is contingent upon the sale and delivery of the Series 2017 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 2017 Bonds. The preparation and distribution of this Official Statement has been authorized by the SFMTA.

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/ Edward D. Reiskin
Director of Transportation

APPENDIX A

SFMTA AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Financial Statements
and Supplemental Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Table of Contents

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

Independent Auditors' Report

The Honorable Mayor, 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, 2016 and 2015, and the related notes to the 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 information of the City of San Francisco Uptown Parking Corporation, the City of San Francisco Japan Center Garage Corporation, and the City of San Francisco Portsmouth Plaza Parking Corporation, which reflect total assets constituting 0.80% and 0.91%, respectively, of SFMTA's total assets at June 30, 2016 and 2015, and total revenue constituting 5.28% and 3.91%, respectively, of SFMTA's total revenue for the years then ended. Such financial information was 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 audits 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 SFMTA'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 SFMTA'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, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of SFMTA as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows 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 net position and the changes in net position and 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 net position of the City as of June 30, 2016 and 2015, the changes in its net position, or, where applicable, the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, effective July 1, 2015, the SFMTA adopted *Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application and No. 82 Pension Issues-An Amendment of GASB Statements No. 67, No. 68 and No. 73.*

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4–14 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.

Supplemental Schedules

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 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 October 21, 2016 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 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 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
October 21, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with information contained in the financial statements. All amounts, unless otherwise noted, are expressed in thousands of dollars.

Financial Highlights

- The SFMTA’s assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by $3,020,957 and $2,542,700 as of fiscal years ended June 30, 2016 and 2015, respectively.
- The SFMTA’s total net position increased by $478,257 in 2016 and decreased by $143,360 in 2015 over the prior fiscal year.
- Total net investment in capital assets were $2,938,712 and $2,529,275 at June 30, 2016 and 2015, respectively, an increase of 16.2% and an increase of 5.5% over the balance of $2,529,275 and $2,396,595 at June 30, 2015, and 2014, 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), bike and pedestrian programs, taxis, parking and traffic control operations in the City. The SFMTA applies Governmental Accounting Standards Board (GASB) Statements. The SFMTA is an integral part of the City and County of San Francisco, California (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 page 20).

The statements of net position (found on pages 15 and 16) presents information on all of 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 statement 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, 2016 and 2015.

The statements of revenue, expenses, and changes in net position (found on page 17) present information showing how the SFMTA’s net position changed during the fiscal years ended June 30, 2016 and 2015. 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. Revenue and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The statements of cash flows (found on pages 18 and 19) presents information about the cash receipts and payments of the SFMTA during the fiscal years ended June 30, 2016 and 2015. This statement shows 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.

(Dollars in thousands, unless otherwise noted)

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 20 through 48 of this report.

Other Information

The supplemental schedules found on pages 49 through 66 of this report are presented for the purpose of providing additional analysis and are not a required part of the financial statements.

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 $3,020,957 at the close of the most recent fiscal year.

Condensed Summary of Net Position
June 30, 2016, 2015, and 2014

		2016	2015 (Restated)	2014
Assets:				
Total current assets	$	1,083,976	1,074,180	969,807
Total restricted assets		86,597	52,475	36,333
Capital assets, net		3,147,877	2,747,219	2,542,048
Total assets	$	4,318,450	3,873,874	3,548,188
Deferred outflows of resources	$	98,333	79,870	—
Liabilities:				
Total current liabilities	$	390,861	388,033	383,851
Total noncurrent liabilities		900,659	792,967	460,540
Total liabilities	$	1,291,520	1,181,000	844,391
Deferred inflows of resources	$	104,306	230,044	17,737
Net position:				
Net investment in capital assets	$	2,938,712	2,529,275	2,396,595
Restricted		85,643	51,429	35,065
Unrestricted		(3,398)	(38,004)	254,400
Total net position	$	3,020,957	2,542,700	2,686,060

Fiscal Year 2016

During fiscal year 2016, current assets increased by $9.8 million or 0.9%. This increase was in receivables of $63.2 million, $6.6 million in inventories and $0.3 million in prepaid asset offset by decrease in deposits and investments of $60.3 million. The increase is mainly from capital project billings to grantors, and procurement of maintenance parts inventory.

The restricted assets increased by $34.1 million or 65.0%, attributable to more collections levied from Transit Impact Development fees (TIDF) of $34.8 million offset by slight decrease of $0.2 million in funds held by the bond trustee and $0.5 million in receivable from development fees.

The capital assets increased by $400.7 million or 14.6%, mainly from construction in progress account of $387.7 million for the Central Subway Project, and procurement of new revenue vehicles. The remaining $13.0 million is from various infrastructure work and street improvement projects net of assets disposed and depreciation.

The SFMTA's net position increased by 18.8% compared to the prior year. The increase in net position is attributable to increases in nonoperating revenue, capital contributions and transfers, offset by decreases in operating revenues and increase in operating expenses.

The largest portion of the SFMTA's net position ($2,938,712 as of June 30, 2016) reflects its net investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these assets of $4,920,534 is offset by accumulated depreciation of $1,772,657 and related debt of $209,165. More information can be found in note 5 on page 27. 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 assets include deposits, investments, and receivables.

Fiscal Year 2015

During fiscal year 2015, current assets increased by $104.4 million or 10.8%. This increase was in unrestricted cash and investments of $167.3 million, and $11.3 million in inventories offset by decrease in receivables of $74.2 million. The increase is mainly due from higher City general fund allocation, collections from grantors, and procurement of maintenance parts inventory.

The restricted assets increased by $16.1 million or 44.4%, is attributable to more collection in Transit Impact Development Fee (TIDF) of $10.6 million and increase of $5.5 million held by the trustee from the issuance of new revenue bonds in fiscal year 2015.

The capital assets increased by $205.2 million or 8.1%, mainly from construction in progress account of $203.9 million for the Central Subway Project, Central Control System Upgrade, and Rail Replacement Project. The remaining $1.3 million is from the acquisition of various equipments and nonrevenue vehicles.

The SFMTA's net position decreased by 5.3% compared to the prior year. The decrease in net position is attributable to decreases in operating revenue, and capital contributions, offset by increases in nonoperating revenues, transfers, decrease in operating expenses, and restatement reduction to the beginning net position with the implementation of GASB Statement No. 68 on pensions.

(Dollars in thousands, unless otherwise noted)

The largest portion of the SFMTA's net position ($2,529,275 as of June 30, 2015) reflects its net investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these assets of $4,428,643 is offset by accumulated depreciation of $1,681,424 and related debt of $217,944. More information can be found in note 5 on page 27. 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 assets include deposits, investments, and receivables. The unrestricted net asset reflects the GASB Statement No. 68 restatement adjustment of $429.4 million and $8.6 million from GASB Statement No. 82 implementation.

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

Years ended June 30, 2016, 2015, and 2014

		2016	2015 (Restated)	2014
Revenues:				
Total operating revenues	$	499,234	504,625	527,268
Total nonoperating revenues, net		206,529	166,761	163,973
Capital contributions:				
Federal		288,481	176,315	304,351
State and others		131,257	117,035	141,588
Total capital contributions		419,738	293,350	445,939
Net transfers		452,990	341,331	316,891
Total revenues and net transfers		1,578,491	1,306,067	1,454,071
Expenses:				
Total operating expenses		1,100,234	1,019,981	1,032,437
Change in net position		478,257	286,086	421,634
Net position at beginning of year:				
Beginning of year, as previously reported		2,542,700	2,686,060	2,264,426
Cumulative effect of accounting changes		—	(429,446)	—
Beginning of year as restated		2,542,700	2,256,614	2,264,426
Total net position – ending	$	3,020,957	2,542,700	2,686,060

Fiscal Year 2016

Total revenue and net transfers for the year ended June 30, 2016 were $1,578,491, an increase of $272,424 or 20.9%, compared to the prior fiscal year. This is due to increases in nonoperating revenues, capital contributions and net transfers, offset by decreases in operating revenues.

Operating revenue decreased by $5,391 or 1.1% compared to prior year. The decrease is mainly due to lower passenger fares revenue by $7,954 or 3.7%, taxi revenues by $6,160 or 64.5%, and slight decrease in rental income by $788 or 9.2%. These decreases are offset by an increase of $6,062 or 4.8% in parking fees, advertising revenue by $1,328 or 6.5%, permits revenue by $1,223 or 9.6%, parking fines and penalties by $630 or 0.7%, and charges for services by $268 or 1.2%. The decrease in taxi revenue is due to fewer sales of taxi medallions and waiver of certain taxi fees in fiscal year 2016. Passenger fares decrease is attributable to the implementation of the Free Fares for low and moderate income youth, senior and disabled patrons.

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 $39,768 or 23.8%, mostly from development fees and in amortized portion of the lease leaseback benefits, which were offset by lower interest and investment income, decrease in operating grants, and loss on disposal of assets.

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 2016 compared to the prior year mostly related to Central Subway, Revenue Vehicles procurement and other huge projects. This resulted in the significant increase in capital contribution by $126,388 or 43.1% when compared to fiscal year 2015.

Net transfers increased by $111,659 or 32.7% in fiscal year 2016 due to the increase in the City's General Fund baseline subsidy and Population-based allocation as well as from proceeds received from the City's General Obligation Bond to support various transportation and road improvement projects.

Total operating expenses for the year ended June 30, 2016 were $1,100,234 an increase of $80,253 or 7.9% compared to the prior year. The resulting net increase comprises trend changes from various expense categories. Personnel service costs increase of $52,538 or 8.4% is attributable mainly to COLA increase and increase in hiring during fiscal year 2016 as well as increases in workers' compensation and pension costs. Contractual services increased by $23,073 or 22.7% and materials and supplies increased by $8,374 or 11.5% were attributable to revenue vehicle overhaul and major repairs completed during this fiscal year. Depreciation expense increased by $6,959 or 5.5% with more assets capitalized. Services from other City departments increased by $9,157 or 17.3% mainly from share of cost on City-wide financial system replacement project and City Attorney services. The offsetting decreases are in the following categories: general and administrative and other operating expenses category. General and administrative costs net decrease is $1,037 or 2.4%. Other operating expenses decreased by $18,811 or 698.0% with more cost recovery and less noncapitalizable cost compared to prior year.

Fiscal Year 2015

Total revenue and net transfers for the year ended June 30, 2015 were $1,306,067, a decrease of $148,004 or 10.2%, compared to the prior fiscal year. This is due to decreases in operating revenue and capital contributions offset by slight increase in nonoperating revenue and net transfers.

Operating revenue decreased by $22,643 or 4.3% compared to prior year. The decrease is mainly due to lower taxi medallion revenue by $25,815 or 73.0%, parking fees by $2,967 or 2.3%, and parking fines and penalties by $2,057 or 2.2%; offset by total increase of $1,644 or 0.8% in passenger fares, advertising revenue by $898 or 4.6%, charges for services by $4,166 or 23.6%; rental income by $1,030 or 13.7%, and permits revenue by $458 or 3.7%. The taxi medallion revenue decrease is due to fewer sales of taxi medallions and waiver of certain taxi fees in fiscal year 2015. For parking revenues, the decrease is mostly attributable to reduction in parking meter payments. The increase in charges for services is mainly due to one-time contribution to subsidize the Free Fares for low and moderate income youth.

The nonoperating revenue includes operating support received from other sources, primarily federal and state operating grants, transit impact development fees, and interest income. Nonoperating revenue increased by $2,788 or 1.7%, mostly from operating grants, which were offset by lower interest and investment income, decrease in amortized portion of the lease leaseback benefits, and increase in interest expense.

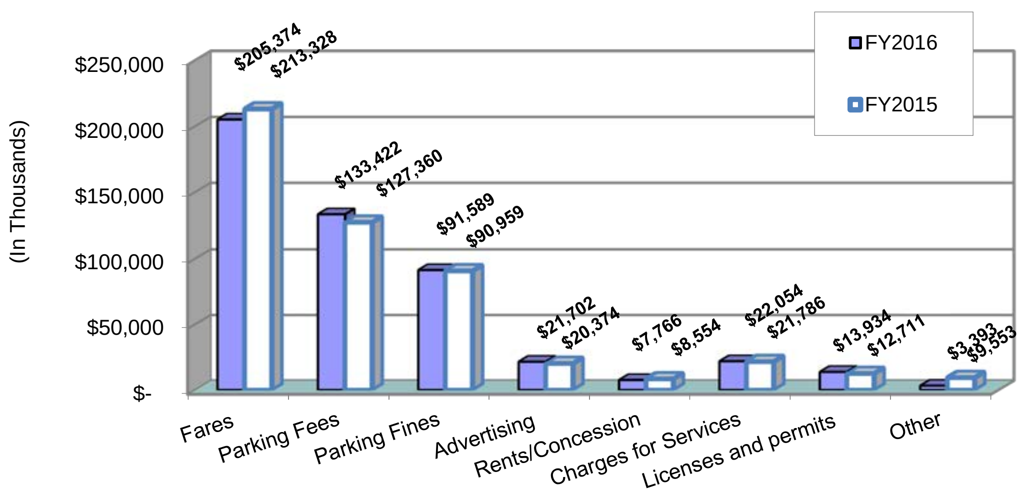
Capital contributions consist principally of funds received or receivable from federal, state, and local grant agencies that provide funding for many of the SFMTA's capital projects. There was a decrease in capital expenditures incurred and billable to the grantors in fiscal year 2015 compared to the prior year due to federal grants mostly related to Central Subway and other huge projects completed in the prior year. This resulted in the significant decrease in capital contribution by $152,589 or 34.2% when compared to fiscal year 2014.

Net transfers increased by $24,440 or 7.7% in fiscal year 2015 mostly due to the increase in the City's General Fund baseline allocation of $33,569 offset by more funding transfers mostly to the City's Street Improvement fund by $9,129 compared to prior year.

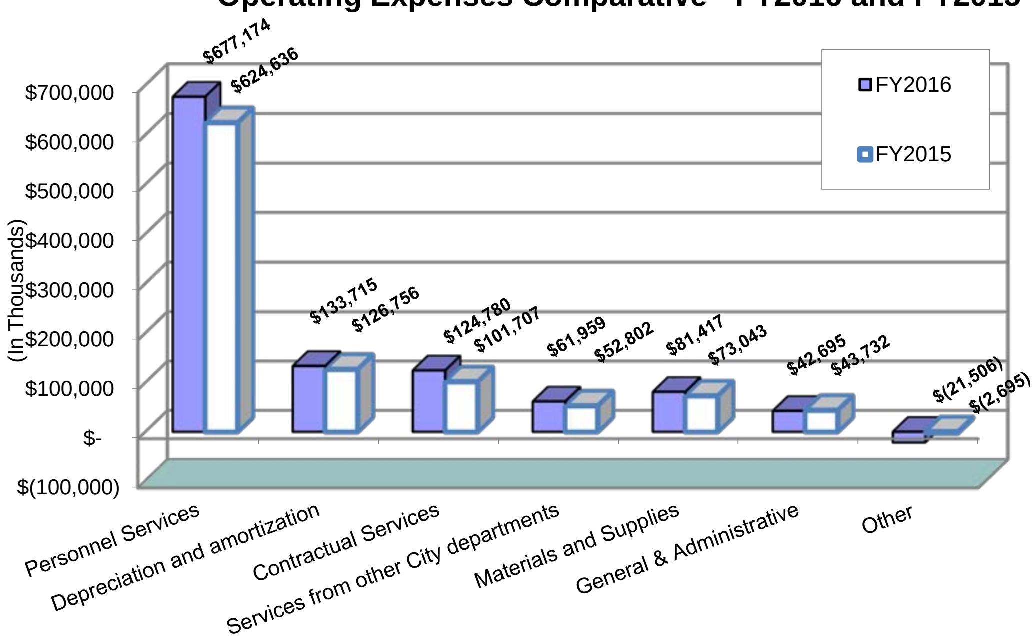
Total operating expenses for the year ended June 30, 2015 were $1,019,981, a decrease of $12,456 or 1.2% compared to the prior year. The resulting net decrease comprises trend changes from various expense categories. The increase in contractual services by $8,567 was attributable to higher rental costs and software license payments during this fiscal year compared to prior year. Depreciation expense increased by $5,802 or 4.8% with more assets capitalized. Other operating expense category increased by $10,384 or 79.4% with more noncapitalizable cost and increase in paratransit costs than prior year. The offsetting decreases are in the following categories: personnel services, materials and supplies, general and administrative, and services to other departments. Personnel service costs decrease by $4,213 or 0.7%, attributable to reduction of retirement cost associated with the GASB Statement No. 68 implementation that took effect in fiscal year 2015. General and administrative costs decreased by $14,552 or 25.0%, mainly due to lower judgment and claim costs compared to prior year. Materials and supplies decreased by $14,289 or 16.4%, and services by other departments decreased by $4,155 or 7.3% for police security work.

The charts below illustrate the SFMTA's operating revenue by source and expenses by category for fiscal year 2016 and fiscal year 2015:

Operating Revenue Comparative - FY2016 and FY2015



Operating Expenses Comparative - FY2016 and FY2015



(Dollars in thousands, unless otherwise noted)

Capital Assets and Debt Administration

Capital Assets

The SFMTA's investment in capital assets amounts to $3,147,877 net of accumulated depreciation as of June 30, 2016. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles, and construction in progress. The increase in capital assets is $400,658 or 14.6%, compared to the previous year. This increase is attributed to continued construction for both enhancement and state of good repair projects as well as acquisition of new revenue vehicles.

The SFMTA's investment in capital assets amounts to $2,747,219 net of accumulated depreciation as of June 30, 2015. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles, and construction in progress. The increase in capital assets is $205,171 or 8.1%, compared to the previous year. This increase is attributed to continued construction for both enhancement and state of good repair projects.

Summary of Capital Assets

		Balance, June 30, 2016	Balance, June 30, 2015	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	$	41,030	41,030	41,030
Construction in progress		1,346,257	1,035,096	849,447
Total capital assets not being depreciated		1,387,287	1,076,126	890,477
Capital assets being depreciated:				
Building structures and improvements		711,596	697,731	679,847
Equipment		1,561,455	1,413,277	1,326,667
Infrastructure		1,260,196	1,241,509	1,225,359
Total capital assets being depreciated		3,533,247	3,352,517	3,231,873
Less accumulated depreciation for:				
Building structures and improvements		291,541	274,731	258,927
Equipment		903,392	865,348	815,280
Infrastructure		577,724	541,345	506,095
Total accumulated depreciation		1,772,657	1,681,424	1,580,302
Total capital assets being depreciated, net		1,760,590	1,671,093	1,651,571
Total capital assets, net	$	3,147,877	2,747,219	2,542,048

Construction in progress is made up of various transportation projects. The five projects that have the highest balances on June 30, 2016 are the Central Subway, Central Control System Upgrades, MUNI Forward infrastructure, Rail Replacement, and Radio Replacement.

(Dollars in thousands, unless otherwise noted)

Central Subway Project will link the existing 5.4 mile Phase I T-line, beginning at 4th Street and King Street, to BART, Muni Metro along Market Street, Union Square, and Chinatown to the north. Construction is in full swing in 2016; work to excavate the Chinatown Station headhouse has reached the future fare gate area, where construction of the entry archway has begun. Current activities include utility relocation, excavation of the headhouse, construction of the north access (emergency exit) shaft and construction of the Cross Cut Cavern.

Significant capital asset additions during fiscal year 2016 included:

- Infrastructure and Construction in progress – A majority of the $212.7 million costs incurred are for the new Central Subway Project, Central Control, rail replacement, transit lane and street improvement projects.
- Equipment – The cost of $283.1 million incurred during the fiscal year for the procurement of new light rail vehicles, trolley and motor buses to replace the old fleet, upgrade of communications system, traffic signals, radio replacement, and various information systems development.
- Building – The total of $36.2 million was incurred in fiscal year 2016 for Islais Creek facility improvement, transit operator convenience stations, elevator and escalator modernization, and upgrade of garage facilities in various locations.

Significant capital asset additions during fiscal year 2015 included:

- Infrastructure and Construction in progress – A majority of the $264.1 million costs incurred are for the new Central Subway Project, Rail Replacement, and transit lane improvements. These projects are to upgrade and reconfigure rail and tracks and roadway improvements to support transit.
- Equipment – The cost of $61.3 million incurred during the fiscal year for the enhancement and replacement of parking meters, traffic signals, bus and rail vehicle purchase, radio replacement, and information systems development.
- Building – The total of $6.2 million was incurred in fiscal year 2015 for Islais Creek facility improvement, operator restrooms, and upgrade of garages and parking lots in various locations.

Debt Administration

At June 30, 2016 and 2015, the SFMTA's bond debt obligations outstanding totaled $205,756 and $214,449, respectively. The following table summarizes the balances in debt between fiscal years 2016, 2015, and 2014:

	2016	2015	2014
Bonds payable	$ 205,756	214,449	142,940

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 $8,693 or 4.1% as of June 30, 2016. The decrease represents principal payments and amortization of issuance premium in fiscal year 2016. During the fiscal year, The SFMTA carried underlying debt ratings of AA/Stable from Standard & Poor's and Aa2 from Moody's as of June 30, 2016.

The SFMTA's total bond-related debt increased by $71,509 or 50% as of June 30, 2015. The increase was primarily due to issuance of new revenue bonds. During the fiscal year, SFMTA issued a total of $70.6 million to finance a portion of the costs of various capital projects, including a deposit to the bond reserve fund and payment for portion of the cost of issuance.

More detailed information about the SFMTA's debt activity is presented in note 8 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 was reclassified as the 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 Assured Guaranty Municipal Corp (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 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 $100.4 million.

More information can be found in note 15 of the financial statements.

FY 2017 and FY 2018 Budget

The SFMTA Board of Directors approved SFMTA’s FY2017 and FY2018 two-year budget in April 2016 which was endorsed by the Board of Supervisors in July 2016. The SFMTA’s final FY2017 and FY2018 Operating Budget is $1.18 billion and $1.25 billion, respectively. The FY2017 and FY2018 Capital Budget is $1,110 million and $859.8 million respectively reflecting technical changes.

The focus of this two-year operating budget is to continue addressing affordability and equity while making strategic investments that create a safer, more reliable, and resilient transportation system.

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, 3rd 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, 2016 and 2015

(In thousands)

		2016	2015 (Restated)
Assets:			
Current assets:			
Cash and investments with City Treasury	$	811,548	872,240
Cash and investments held outside City Treasury		10,096	9,688
Cash on hand		175	226
Receivables:			
Grants		149,799	99,509
Due from the San Francisco County Transportation Authority		16,973	4,001
Due from component unit		31	13
Charges for services (net of allowance for doubtful accounts of $42 in 2016 and $156 in 2015)		5,373	6,587
Interest and other		9,188	7,983
Total receivables		181,364	118,093
Inventories		80,013	73,419
Current prepaids and other assets		780	514
Total current assets		1,083,976	1,074,180
Restricted assets:			
Cash and investments with City Treasury		66,645	31,852
Cash and investments held outside City Treasury		18,091	18,299
Other receivables		1,861	2,324
Total restricted assets		86,597	52,475
Noncurrent assets:			
Capital assets, net		3,147,877	2,747,219
Total noncurrent assets		3,234,474	2,799,694
Total assets	$	4,318,450	3,873,874
Deferred outflows of resources:			
Related to pensions	$	98,333	79,870
Total deferred outflows of resources	$	98,333	79,870

(Continued)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Net Position

June 30, 2016 and 2015

(In thousands)

		2016	2015 (Restated)
Liabilities:			
Current liabilities:			
Due to other funds	$	2,503	3,627
Accounts payable and accrued expenses		131,103	100,425
Accrued payroll		24,285	19,375
Accrued vacation and sick leave		21,759	21,711
Accrued workers' compensation		20,251	17,191
Accrued claims		37,762	34,979
Grants received in advance		122,045	168,933
Unearned revenue and other liabilities		19,531	10,304
Payable from restricted assets		954	1,046
Accrued interest payable		2,996	3,102
Bonds, loans, capital leases, and other payables		7,672	7,340
Total current liabilities		390,861	388,033
Noncurrent liabilities:			
Accrued vacation and sick leave, net of current portion		13,047	10,971
Accrued workers' compensation, net of current portion		97,389	85,793
Accrued claims, net of current portion		41,460	30,501
Other postemployment benefits obligation		235,992	220,297
Pensions obligation		314,611	238,296
Bonds, loans, capital leases, and other payables, net of current portion		198,160	207,109
Total noncurrent liabilities		900,659	792,967
Total liabilities	$	1,291,520	1,181,000
Deferred inflows of resources:			
Unamortized gain on leaseback transaction	$	4,349	16,141
Unamortized gain on refunding of debt		337	393
Related to pensions		99,620	213,510
Total deferred inflows of resources	$	104,306	230,044
Net position:			
Net investment in capital assets	$	2,938,712	2,529,275
Restricted:			
Debt service		17,999	18,299
Other purposes		67,644	33,130
Unrestricted		(3,398)	(38,004)
Total net position	$	3,020,957	2,542,700

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015 (Restated)
Operating revenues:		
Passenger fares	$ 205,374	213,328
Parking and transportation	133,422	127,360
Fines, forfeitures, and penalties	91,589	90,959
Charges for services	22,054	21,786
Licenses, permits, and franchises	13,934	12,711
Advertising	21,702	20,374
Rents and concessions	7,766	8,554
Other	3,393	9,553
Total operating revenues	499,234	504,625
Operating expenses:		
Personnel services	677,174	624,636
Contractual services	124,780	101,707
Materials and supplies	81,417	73,043
Depreciation and amortization	133,715	126,756
Services from other City departments	61,959	52,802
General and administrative	42,695	43,732
Other operating expenses	(21,506)	(2,695)
Total operating expenses	1,100,234	1,019,981
Operating loss	(601,000)	(515,356)
Nonoperating revenues (expenses):		
Operating assistance:		
Federal	10,555	13,887
State and other grants	133,867	136,663
Interest and investment income	5,410	5,756
Interest expense	(6,186)	(6,850)
Other, net	62,883	17,305
Total nonoperating revenues, net	206,529	166,761
Loss before capital contributions and transfers	(394,471)	(348,595)
Capital contributions:		
Federal	288,481	176,315
State and others	131,257	117,035
Total capital contributions	419,738	293,350
Transfers in:		
City and County of San Francisco – General Fund	381,342	344,484
San Francisco County Transportation Authority	18,341	12,264
City and County of San Francisco – Other City departments	61,939	3,600
Total transfers in	461,622	360,348
Transfers out:		
City and County of San Francisco – Other City departments	(8,632)	(19,017)
Net transfers	452,990	341,331
Change in net position	478,257	286,086
Net position at beginning of year:		
Beginning of year, as previously reported	2,542,700	2,686,060
Restatement due to implementation of GASB Statement No. 68	—	(429,446)
Net position, beginning of year as restated	2,542,700	2,256,614
Total net position, end of year	$ 3,020,957	2,542,700

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015 (Restated)
Cash flows from operating activities:			
Cash received from passengers and service contracts	$	452,979	454,613
Cash received from fines, forfeitures, and penalties		91,740	90,924
Cash received from tenants for rent		7,805	8,630
Cash paid to employees for services		(697,634)	(670,562)
Cash paid to suppliers for goods and services		(336,058)	(303,639)
Cash paid for judgments and claims		(11,714)	(15,558)
Net cash used in operating activities		(492,882)	(435,592)
Cash flows from noncapital financing activities:			
Operating grants		141,495	149,736
Net transfers		452,990	341,331
Other noncapital increases		40,001	16,343
Net cash provided by noncapital financing activities		634,486	507,410
Cash flows from capital and related financing activities:			
Capital grants		325,791	378,764
Proceeds from sale of capital assets		653	33
Acquisition of capital assets		(501,012)	(338,204)
Other capital financing increases		16,881	—
Bond sale proceeds and loans received		97	80,393
Retirement of capital leases, bonds, and loans		(7,361)	(7,695)
Bond issue cost paid		—	(681)
Interest paid on long-term debt		(7,700)	(6,377)
Net cash (used in) provided by capital and related financing activities		(172,651)	106,233
Cash flows from investing activities:			
Interest income received		5,297	5,805
Net cash provided by investing activities		5,297	5,805
Net (decrease) increase in cash and cash equivalents		(25,750)	183,856
Cash and cash equivalents – beginning of year		932,305	748,449
Cash and cash equivalents – end of year	$	906,555	932,305

(Continued)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015 (Restated)
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(601,000)	(515,356)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization		133,715	126,756
Provision for doubtful accounts		(114)	24
Writeoff of assets		(6,089)	—
Changes in operating assets and liabilities:			
Receivables		299	(1,678)
Inventories		(6,594)	(11,350)
Prepaid and others		(266)	1
Accounts payable and accrued expenses		(4,080)	8,192
Accrued payroll		4,506	(18,651)
Accrued vacation and sick leave		2,124	1,951
Accrued workers' compensation		14,656	7,833
Accrued claims		13,742	5,779
Other postemployment benefits obligations		15,695	21,092
Pension obligations		(56,038)	(57,510)
Due to other funds		(274)	274
Unearned revenues and others		(3,164)	(2,949)
Net cash used in operating activities	$	(492,882)	(435,592)
Reconciliation of cash and cash equivalents to the statement of net position:			
Cash and investments with City Treasury:			
Unrestricted	$	811,548	872,240
Restricted		66,645	31,852
Cash and investments held outside City Treasury:			
Unrestricted		10,096	9,688
Restricted		18,091	18,299
Total deposits and investments		906,380	932,079
Cash on hand		175	226
Total cash and investments, end of year	$	906,555	932,305

See accompanying notes to financial statements.

(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 financial statements include the entire San Francisco's (the City's) surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and off and on street parking, regulation of the taxi industry, and three nonprofit parking garage corporations operated by separate nonprofit corporations, whose operations are interrelated. All significant inter-entity transactions have been eliminated. The SFMTA 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 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 seventh largest system in the United States. It currently has more than 222 million boardings annually. Operating historic streetcars, modern light rail vehicles, diesel buses, alternative fuel vehicles, electric trolley coaches, and the world famous cable cars, Muni's fleet is among the most diverse in the world.

The SFMTA's Sustainable Streets initiates and coordinates improvements to City's streets, transit, bicycles, pedestrians, and parking infrastructure. It manages 19 City-owned garages and 19 metered parking lots. In March 2009, the former Taxi Commission was merged with the SFMTA, which then has assumed responsibility for taxi regulation to advance industry reforms.

Three non-profit corporations provide 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. The activities of these nonprofit garages are accounted for in the parking garages account.

(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, revenue is recorded when earned and expenses are recorded when the related liability is 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.

(b) Effects of New Pronouncements

During fiscal year 2016, the City implemented the following accounting standards:

In fiscal year 2016, the SFMTA adopted Statement No. 72 of the Governmental Accounting Standards Board, entitled, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the SFMTA to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. For those investments held with the City Treasury, the City discloses the requirements regarding the hierarchy of valuation inputs and techniques used for the fair value measurements at City-wide level. However, such disclosure is not required at the department level for those investments held with the City Treasury.

In fiscal year 2016, the SFMTA adopted Statement No. 82 of the Governmental Accounting Standards Board, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As GASB Statement No. 82 changes the classification of these payments, commonly referred to as Employer-Paid Member Contributions, SFMTA reclassified these payments. While the applicable requirements of this Statement are effective for reporting periods beginning after June 15, 2016, the SFMTA has elected early implementation in fiscal year 2016. In fiscal year 2015, SFMTA made Employer-Paid Member Contributions to satisfy contribution requirements of the San Francisco Employees' Retirement System and collective bargaining agreements. GASB Statement No. 82 requires Employer-Paid Member Contributions to be classified as employee contributions rather than classified as employer contributions. In fiscal year 2015, such payments were classified as employer contributions by SFMTA as required by GASB Statement No. 68. Therefore early implementation of GASB Statement No. 82, which amends GASB Statement No. 68, requires these payments to be reclassified as employee contributions, resulting in a restatement due to change in accounting principle of fiscal year 2015, decreasing deferred outflows and increasing pension expense by $8.6 million.

The SFMTA distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses primarily result mainly from the public using the transportation surface 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 revenue such as operating assistance grants, interest income, and development fees are considered nonoperating revenue. 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.

(c) 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 revenue (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.

(d) 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.

(e) Capital Assets

Capital assets are stated at cost. All construction in progress items over $100 and nonconstruction in progress items over $5 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 60 years for building structures and improvements, infrastructure, and equipment. Generally, no depreciation is recorded in the year of acquisition, and a full year's depreciation is taken in the year of disposal.

Facilities and improvements	4 to 60 years
Infrastructure	5 to 60 years
Equipment	3 to 30 years

(f) 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.

(g) 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 premiums 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.

(h) 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 earned. The amount of allowable accumulation is set forth in various memorandums of understanding but is generally limited to six months per employee.

(i) 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 (FTA), 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.

(j) 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.

(k) Development Fees

Development fees to fund transportation projects are derived from three main sources. These include the following:

The Transportation Sustainability Fee (TSF), approved in 2016, is a citywide transportation fee placed on new development in the City and County of San Francisco. As a part of the City's Transportation Sustainability Program, the TSF will be an update to the current Transportation Impact Development Fee (TIDF) by expanding applicability to include market-rate residential development and certain large institutions. The TSF is expected to provide funding for the purchase of new Muni fleet, improvements to local and regional transit systems, and pedestrian and bicycling infrastructure improvements.

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 are recorded as nonoperating revenue.

(l) 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.

(Dollars in thousands, unless otherwise noted)

(m) Reclassification

Certain amounts have been reclassified to conform to the current year presentation.

(3) Net Position

Net position as of June 30, 2016 and 2015 consists of the following:

		2016	2015 (Restated)
Restricted assets:			
Cash and investments with City Treasury	$	66,645	31,852
Cash and investments outside City Treasury		18,091	18,299
Receivables		1,861	2,324
Total restricted assets		86,597	52,475
Restricted liabilities of:			
Payable from restricted assets		954	1,046
Total restricted liabilities		954	1,046
Restricted assets, net	$	85,643	51,429
Net position:			
Restricted:			
Debt service	$	17,999	18,299
Other purposes		67,644	33,130
Total restricted net position		85,643	51,429
Unrestricted		(3,398)	(38,004)
Net investment in capital assets		2,938,712	2,529,275
Net position	$	3,020,957	2,542,700

Restricted Net Assets

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, 2016 and 2015, SFMTA reported $18.0 million and $18.3 million restricted assets related to debt reserves and debt service and $67.6 million and $33.1 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.

(Dollars in thousands, unless otherwise noted)

(4) 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, 2016 and 2015, the SFMTA's unrestricted and restricted cash and investments with City Treasury totaled to $878,193 and $904,092, which represents 11.3% and 12.9% of the City's investment pool, respectively.

The unrestricted cash and investments outside the City Treasury are cash held by the three nonprofit garage corporations totaling to $3,533 and $3,618, taxi medallion collateral sale to $6,284 and $5,791, and revolving fund to $279 and $279 as of June 30, 2016 and 2015, respectively. The SFMTA had restricted cash and investments of $17,999 held by an independent trustee outside the City's investment pool and $92 held at a commercial bank in checking account that is covered by depository insurance as of June 30, 2016. The SFMTA had restricted cash and investments of $18,299 held by an independent trustee outside the City's investment pool as of June 30, 2015.

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**
2016	18.4%	23.2%	20.3%	38.1%
2015	12.6%	11.9%	10.5%	65.0%

The following table shows the restricted cash and investments outside of City Treasury as of June 30, 2016 and 2015.

	Restricted cash and investments outside City Treasury		
	Investment	**Maturities**	**Fair value**
2016	Money Market Funds	Less than 1 month	$ 17,999
2015	Money Market Funds	Less than 1 month	18,299

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.

(Dollars in thousands, unless otherwise noted)

SFMTA's cash and investments outside of the City's pooled investments as of June 30, 2016 and 2015 consist of money market investments with maturities of one year or less and cash and cash equivalents. These are exempt from fair value treatment under GASB Statement No. 72.

(5) Capital Assets

Capital asset balances and their movements as of and for the year ended June 30, 2016 are as follows:

	Balance, July 1, 2015	Increases	Decreases	Balance, June 30, 2016
Capital assets not being depreciated:				
Land	$ 41,030	—	—	41,030
Construction in progress	1,035,096	532,005	(220,844)	1,346,257
Total capital assets not being depreciated	1,076,126	532,005	(220,844)	1,387,287
Capital assets being depreciated:				
Building structures and improvements	697,731	13,940	(75)	711,596
Equipment	1,413,277	196,806	(48,628)	1,561,455
Infrastructure	1,241,509	18,687	—	1,260,196
Total capital assets being depreciated	3,352,517	229,433	(48,703)	3,533,247
Less accumulated depreciation for:				
Building structures and improvements	274,731	16,815	(5)	291,541
Equipment	865,348	80,521	(42,477)	903,392
Infrastructure	541,345	36,379	—	577,724
Total accumulated depreciation	1,681,424	133,715	(42,482)	1,772,657
Total capital assets being depreciated, net	1,671,093	95,718	(6,221)	1,760,590
Total capital assets, net	$ 2,747,219	627,723	(227,065)	3,147,877

Certain buses, parking meters, and equipment were sold, disposed, and retired during 2016. The net loss on disposal or retirement is $5.4 million.

(Dollars in thousands, unless otherwise noted)

Capital asset balances and their movements as of and for the year ended June 30, 2015 are as follows:

	Balance, July 1, 2014	Increases	Decreases	Balance, June 30, 2015
Capital assets not being depreciated:				
Land	$ 41,030	—	—	41,030
Construction in progress	849,447	331,845	(146,196)	1,035,096
Total capital assets not being depreciated	890,477	331,845	(146,196)	1,076,126
Capital assets being depreciated:				
Building structures and improvements	679,847	18,288	(404)	697,731
Equipment	1,326,667	112,363	(25,753)	1,413,277
Infrastructure	1,225,359	16,150	—	1,241,509
Total capital assets being depreciated	3,231,873	146,801	(26,157)	3,352,517
Less accumulated depreciation for:				
Building structures and improvements	258,927	16,208	(404)	274,731
Equipment	815,280	75,298	(25,230)	865,348
Infrastructure	506,095	35,250	—	541,345
Total accumulated depreciation	1,580,302	126,756	(25,634)	1,681,424
Total capital assets being depreciated, net	1,651,571	20,045	(523)	1,671,093
Total capital assets, net	$ 2,542,048	351,890	(146,719)	2,747,219

Certain buses, trucks, and equipment were sold, disposed, and retired during 2015. The net gain on disposal or retirement is $33.

(Dollars in thousands, unless otherwise noted)

Construction in progress consists of the following projects as of June 30, 2016 and 2015:

		2016	2015
New Central Subway	$	946,088	794,809
Central Control System Upgrades		85,951	75,719
Security Projects		10,493	9,151
Historic Street Car Renovation		3,512	2,912
Radio Replacement		49,509	25,098
Facility Upgrades		24,460	15,509
Islais Creek-Woods Annex		21,765	16,835
Transit Effectiveness Program		39,364	26,397
Rail Replacement		58,834	35,760
Traffic Signal Upgrades		21,253	16,302
Motor Bus Hybrid Procurement		7,980	—
Traffic Sign Installation/Traffic Calming		3,824	1,090
Trolley Overhead Reconstruction		4,415	1,713
Light Rail Vehicle Procurement		16,753	—
Street Improvements		10,920	4,822
Trolley Bus Procurement		35,768	4,441
Others		5,368	4,538
	$	1,346,257	1,035,096

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were $131,103 and $100,425 at June 30, 2016 and 2015, respectively. This category consists of liabilities for goods and services either evidenced by vouchers approved for payment but not paid as of June 30, accrued expenses for amount owed to private persons or organizations for goods and services, and construction contracts retainage payable.

		2016	2015
Vouchers payable	$	80,730	70,527
Accruals		27,322	23,693
Contracts retainage		23,051	6,205
Total accounts payable and accrued expenses	$	131,103	100,425

(7) 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 is 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. 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.

No commercial paper notes have been drawn or outstanding as of June 30, 2016 and 2015.

(8) Long-Term Debt, Loans, and Other Payables

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.

Series 2014 Revenue Bonds

In November 2014, the SFMTA issues its Revenue Bonds, Series 2014 in the total amount of $70.6 million. The net proceed 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 $75.0 million for various transit and parking capital projects for the SFMTA. The Series 2014 bonds bear interest at fixed rates between 1.0% to 5.0% and have a final maturity on March 1, 2044.

Series 2013 Revenue Bonds

In December 2013, the SFMTA issues its Revenue Bonds, Series 2013 in the total amount of $75.4 million. The net proceed 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 $6.0 million into the Reserve Account, and fund $75.0 million for various transit and parking capital projects for the SFMTA. The Series 2013 bonds bear interest at fixed rates between 1.5% to 5.0% and have a final maturity on March 1, 2033.

Series 2012A Revenue Bonds

In July 2012, the SFMTA issued Revenue Refunding Bonds, Series 2012A in the total amount of $38.0 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 2.0% and 5.0%, and will mature on March 1, 2032.

The net proceeds of $46.0 million (consisting of the $38.0 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's 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:

(Dollars in thousands, unless otherwise noted)

		Refunded	Rate	Price
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		6,095	4.50%–5.375%	100
Total	$	42,250		

The refunded bonds were defeased and redeemed on July 27, 2012. Accordingly, the liability for these bonds has 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.

Series 2012B Revenue Bonds

In July 2012, the SFMTA issues its Revenue Bonds, Series 2012B in the total amount of $25.8 million. The net proceeds of $28.0 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 3.0% to 5.0% and have a final maturity on March 1, 2042.

The following table is a summary of long-term obligations on bonds for the SFMTA:

	Final maturity date	Remaining interest rate		Balance June 30, 2016	Balance June 30, 2015
Revenue Bonds Series 2012A	2032	4.0%–5.0%	$	27,544	31,608
Revenue Bonds Series 2012B	2042	3.0%–5.0%		27,814	27,864
Revenue Bonds Series 2013	2033	3.0%–5.0%		73,485	76,521
Revenue Bonds Series 2014	2044	3.0%–5.0%		76,913	78,456
Total long-term obligations			$	205,756	214,449

(Dollars in thousands, unless otherwise noted)

The changes in long-term obligations for the SFMTA for year ended June 30, 2016 and 2015 are as follows:

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*In August 2015, the Uptown Parking Corporation entered into an equipment finance agreement with US Bank for the purchase of security cameras for the Sutter-Stockton Garage. The loan balance as of fiscal year 2016 is $76.

		July 1, 2014	Additional obligations, interest accretion, and net increases	Current maturities, retirements, and net decreases	June 30, 2015	Amounts due within one year
Bonds payable:						
Revenue bonds	$	130,265	70,605	(7,695)	193,175	7,340
Add/less unamortized amounts:						
For issuance premiums		12,675	9,789	(1,190)	21,274	—
Total bonds payable		142,940	80,394	(8,885)	214,449	7,340
Accrued vacation and sick leave		30,731	3,253	(1,302)	32,682	21,711
Accrued workers' compensation		95,151	30,401	(22,568)	102,984	17,191
Accrued claims		59,701	21,337	(15,558)	65,480	34,979
Other postemployment benefits obligation		199,205	48,667	(27,575)	220,297	—
Unearned revenue and other liabilities		15,282	1,140	(6,118)	10,304	10,304
Net pension liability		509,795	—	(271,499)	238,296	—
Total long-term obligations	$	1,052,805	185,192	(353,505)	884,492	91,525

(Dollars in thousands, unless otherwise noted)

The bond debt service requirements are as follows:

		Principal	Bond interest	Total
Year ending June 30:				
2017	$	7,640	8,989	16,629
2018		7,615	8,617	16,232
2019		7,015	8,340	15,355
2020		7,355	8,019	15,374
2021		5,800	7,663	13,463
2022–2026		32,560	34,033	66,593
2027–2031		41,120	25,292	66,412
2032–2036		33,410	15,068	48,478
2037–2041		28,385	8,129	36,514
2042–2044		14,935	1,380	16,315
	$	185,835	125,530	311,365

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 2016 and 2015.

SFMTA must be in compliance with certain bond covenants.

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, 2016 and 2015, the bond reserve fund with the trustee totaled $15.0 million and $15.0 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 2044.

Annual principal and interest payments for fiscal year 2016 and 2015 were 29.5% and 14.8%, 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 2016 and 2015, applicable net revenues, and funds available for bond debt service are as follows:

(Dollars in thousands, unless otherwise noted)

		2016	2015
Bonds issued with revenue pledge	$	209,840	209,840
Principal and interest remaining due at the end of the year		311,365	328,011
Principal and interest paid during the year		16,495	14,640
Net revenue for the year		39,405	84,547
Fund available for revenue bond debt service		55,900	99,187

(9) Employee Benefit Plans

(a) Pensions – City and County of San Francisco

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 Retirement System plans, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary, for Plan. 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 time frames. For this report, the following time frames are used.

San Francisco Employers Retirement System (SFERS) – Cost Sharing

Valuation Date (VD)	June 30, 2014 updated to June 30, 2015
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

The City is an employer of the plan with a proportionate share of 93.90% as of June 30, 2015, and 93.78% as of June 30, 2014. The SFMTA's allocation percentage was determined based on the SFMTA's employer contributions divided by the City's total employer contributions for fiscal year 2015 and 2014. The SFMTA's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense to each department is based on the SFMTA's allocated percentage. The SFMTA's allocation of the City's proportionate share in fiscal year 2016 was 14.84% as of the measurement date and in fiscal year 2015 was 14.35% as of the measurement date.

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 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 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 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. 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 the Consumer Price Index with increases capped at 2%. Effective July 1, 2012, the Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan and the Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including that Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits.

Funding and Contribution Policy

Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2016 varied from 7.5% to 13.0% as a percentage of gross covered salary. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2014 actuarial report, the required employer contribution rate for fiscal year 2016 was 18.30% to 22.80%.

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 years

(Continued)

ended June 30, 2015 and 2014 were $556.5 million and $499.8 million, respectively. The SFMTA's allocation of employer contribution for fiscal years 2015 and 2014 were $79.9 million and $80.3 million restated as $71.7 million due to the implementation of GASB Statement No. 82, respectively.

In fiscal year 2016, the SFMTA elected an early implementation of Statement No. 82 of the Governmental Accounting Standards Board, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* The GASB Statement No. 82 changes the classification of payments made by employers to satisfy employee (plan member) contribution requirements, commonly referred to as Employer-Paid Member Contributions. SFMTA reclassified these payments as employee contributions rather than classified as employer contributions.

<u>Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions</u>

As of June 30, 2016 and 2015, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $2.16 billion and $1.66 billion, respectively. 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 for June 30, 2016 is measured as of June 30, 2015, 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, 2014 rolled forward to June 30, 2015 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, 2016 and 2015 was $314,611 and $238,296, respectively. During the measurement year 2015, there were no changes to benefits. The increase in service costs, interest costs, and decrease in the discount rate increased total pension liability and were only partially offset by contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability.

For the year ended June 30, 2016 and 2015, the City's recognized pension expense was $106,499 and $95,710, respectively including amortization of deferred outflow/inflow related pension items. The SFMTA's pension expense for the year ended June 30, 2016 and 2015 was $17,638 and $13,735, respectively, allocated share of pension expense from the City including amortization of deferred outflows/deferred inflows of resources related items. At June 30, 2016, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources. These amounts will be amortized annually and recognized in pension expense.

(Dollars in thousands, unless otherwise noted)

Schedule of deferred inflows and outflows

		FY2016		FY2015 (Restated)	
		Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Pension contributions made subsequent to the measurement date	$	73,676	—	79,870	—
Differences between expected and actual experience		—	22,077	—	—
Changes in assumptions		24,179	5,929	—	7,894
Net difference between projected and actual earnings on pension plan investments		—	70,508	—	204,142
Changes in employer's proportion		478	1,106	—	1,474
Total	$	98,333	99,620	79,870	213,510

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be recognized in pension expense as follows:

		Deferred outflows (inflows) of resources
Year ended June 30:		
2017	$	(32,103)
2018		(32,103)
2019		(32,103)
2020		21,346
Thereafter		—

Actuarial Assumptions – A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the July 1, 2014 actuarial valuation. Refer to the July 1, 2014 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

(Dollars in thousands, unless otherwise noted)

Key Actuarial Assumptions	
Valuation date	June 30, 2014 updated to June 30, 2015
Measurement date	June 30, 2015
Actuarial cost method	Entry-age normal cost method
Expected rate of return	7.50%
Municipal bond yield	4.31% as of June 30, 2014
	3.85% as of June 30, 2015
	Bond Buyer 20-Bond GO Index, July 2, 2014 and July 2, 2015
Discount rate	7.58% as of June 30, 2014
	7.46% as of June 30, 2015
Administrative expenses	0.45% of payroll
Basic COLA:	
All miscellaneous and all new plans	2.00%
Old Police & Fire pre-7/1/75 retirements	3.00%
Old Police & Fire, Charters A8.595 and A8.596	4.00%
Old Police & Fire, Charters A8.559 and A8.585	5.00%

Mortality rates for active members were based on the RP-2000 Employee Tables for Males and Females, projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for healthy annuitants were based upon the RP-2000 Healthy Annuitants Tables for Males and Females projected using Scale AA to 2020.

Discount Rate – The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.46% as June 30, 2015 and 7.58% as of June 30, 2014.

The discount rate used to measure the Total Pension Liability as of June 30, 2015 was 7.46%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability. The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized

(Continued)

(Dollars in thousands, unless otherwise noted)

over 20 years. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the valuation do not anticipate any Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLA's for current members when they are expected to be granted. For a Supplemental COLA to be granted the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the System, developed an assumption as of June 30, 2015 of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for member with a 2.00% basic COLAs for sample years.

Assumed Supplemental COLA for members with a 2.00% Basic COLA

FYE	Assumption
2016	0.000%
2021	0.345%
2026	0.375%
2031	0.375%
2036+	0.375%

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2076 when only a portion of the projected benefit payments 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 3.85% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2015 and 2014 are 7.46% and 7.58%, respectively.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

(Dollars in thousands, unless otherwise noted)

Long-term expected real rates of return

Asset class	Target allocation	Long-term expected real rate of return
Global equity	40%	5.1%
Fixed income	20%	1.2%
Private equity	18%	7.5%
Real assets	17%	4.1%
Hedge Funds/Absolute Returns	5%	3.5%
	100%	

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.

Employer	1% decrease share of NPL @ 6.46%	Share of NPL @ 7.46%	1% increase share of NPL @ 8.46%
SFMTA	$ 695,714	$ 314,611	$ (5,002)

(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. 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.

(Dollars in thousands, unless otherwise noted)

(c) Healthcare Benefits

Healthcare benefits of the SFMTA employees, retired employees, and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). The SFMTA's annual contribution, which amounted to approximately $101,300 and $89,689 in fiscal years 2016 and 2015, respectively, is determined by a charter provision based on similar contributions made by the 10 most populous counties in California.

The City has determined a citywide annual required contribution, interest on net Other Post – Employment Benefits (OPEB) obligation, Annual Required Contribution (ARC) adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45, by the City's actuaries. The City's allocation of the OPEB-related cost to the SFMTA for the year ended June 30, 2016 based upon its percentage of citywide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for SFMTA for the fiscal years ended June 30, 2016 and 2015 the amounts contributed to the plan and changes in the net OPEB obligations:

		2016	2015
Annual required contribution	$	42,506	46,893
Interest on net OPEB obligation		13,496	10,672
Adjustment to ARC		(10,973)	(8,898)
Annual OPEB cost		45,029	48,667
Contribution made		(29,334)	(27,575)
Increase in net OPEB obligation		15,695	21,092
Net OPEB obligation, beginning of fiscal year		220,297	199,205
Net OPEB obligation, end of fiscal year	$	235,992	220,297

Refer to the City's CAFR for the other required disclosures related to the City's OPEB plan. The City issues a publicly available financial report at citywide level with complete note disclosures and required supplementary information related to the City's postretirement healthcare obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102, or by calling 415-554-7500.

(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 agencies. 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, 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 \$5.2 million and \$5.2 million for operating needs in fiscal years 2016 and 2015, respectively. The PCJPB's annual financial statements are publicly available.

(Dollars in thousands, unless otherwise noted)

(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-Insure
b. Property	Self-Insure and Purchase Insurance
c. Workers' Compensation	Self-Insure
d. Employee (Transit Operators)	Purchase Insurance
e. Directors and Officers	Purchase Insurance

(a) General/Transit Liability

The SFMTA is self-insured. Through coordination with the Controller and City Attorney's Office, the SFMTA general liability payments are addressed through pay-as-you-go funding as part of the budgetary process as well as a reserve that is increased each year by approximately \$3 million. The annual budget for claims was \$11.9 million and \$13.9 million for fiscal year 2016 and 2015, respectively. In addition, as of June 30, 2016 and 2015, the reserve was \$20.1 million and \$17.7 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.

(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 revenue, 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, Long-Term Debt, Loans, and Other Payables.

(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 $284.7 million and $272.3 million in fiscal years 2016 and 2015, respectively, as required by the City Charter. In addition, SFMTA received $68.9 million and $69.8 million allocation in fiscal years 2016 and 2015, 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 year 2016, SFMTA received $27.7 million from this source.

(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, 2016 and 2015, the SFMTA had approved capital grants with unused balances amounting to $906.4 million and $920.8 million, respectively. Capital grants receivable as of June 30, 2016 and 2015 totaled $136.1 million and $76.0 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, 2016 and 2015, the SFMTA had various operating grants receivable of $30.7 million and $27.5 million, respectively. In fiscal year 2016 and 2015, the SFMTA's operating assistance from BART's Americans with Disability Act (ADA) related support of $1.6 million and $1.5 million, respectively, and other federal, state, and local grants of $8.5 million and $12.4 million, respectively, to fund project expenses that are operating in nature.

The capital and operating grants identified above include funds received and due from the SFCTA. During the fiscal year 2016 and 2015, the SFCTA approved $124.4 million and $176.1 million, respectively, in new capital grants and the SFMTA received payments totaling $50.6 million and $24.0 million, respectively. As of June 30, 2016 and 2015, the SFMTA had $12.6 million and $1.5 million, respectively, in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA mostly for paratransit support. During the fiscal years 2016 and 2015, SFCTA approved $1.5 million and $10.7 million, respectively, in new operating grants, and SFMTA received payments totaling $6.5 million and $7.7 million, respectively. The SFMTA had $4.3 million and $2.5 million, respectively, in operating grants due from the SFCTA as of June 30, 2016 and 2015.

Proposition 1B is a ten-year $20 billion transportation infrastructure bond that was approved by state voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) and the Transit Security & Safety Account that are funding solely for public transit projects. The SFMTA received cash totaling $12.6 million and $95.5 million, respectively, in fiscal year 2016 and 2015 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, 2016 for funds awarded between fiscal years 2008 and 2010. The Budget Act of 2013 further extended the date to June 30, 2018. 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 2016 and 2015, $69.7 million and $89.1 million drawdowns, respectively, were made from the funds for various eligible projects costs.

(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.

(Dollars in thousands, unless otherwise noted)

(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 2045. These agreements are accounted for as operating leases. Rent expense was $17.1 million and $16.1 million for the years ended June 30, 2016 and 2015, respectively.

The SFMTA has operating leases for certain buildings that require the following minimum annual payments:

Year ending June 30:		
2017	$	12,419
2018		12,661
2019		12,816
2020		12,611
2021		13,099
2022–2026		62,679
2027–2031		70,306
2032–2036		68,899
2037–2041		74,473
2042–2046		91,136
	$	431,099

SFMTA leases certain owned facilities to tenants and concessionaires who will provide the following minimum annual payments:

Year ending June 30:		
2017	$	4,539
2018		4,489
2019		4,085
2020		3,103
2021		2,450
2022–2026		7,488
2027–2031		6,267
2032–2036		6,250
2037–2041		6,250
2042–2046		6,250
2047–2051		6,250
2052-2056		5,833
	$	63,254

(c) Other Commitments

As of June 30, 2016 and 2015, the SFMTA has outstanding commitments of approximately $567.2 million and $465.9 million with third parties for various capital projects, respectively. Grant funding is available for the majority of this amount. The SFMTA also has outstanding commitments of approximately $53.1 million and $45.6 million with third parties for noncapital expenditures as of June 30, 2016 and 2015, respectively. Various local funding sources are used to finance these expenditures.

In addition, the SFMTA is involved in various lawsuits, claims, and disputes, which 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.

Muni received an aggregate of $388.2 million and $72.6 million, respectively in 2002 and 2003, from the equity investors in full prepayment of the head leases. Muni deposited a portion of the prepaid head lease payments into separate escrows that were invested in U.S. agency securities with maturities that correspond to the purchase option dates for the Equipment as specified in each sublease. Muni also deposited a portion of the head lease payments with a debt payment undertaker whose repayment obligations are guaranteed by Assured Guaranty Municipal Corp. (AGM) as successor to Financial Security Assurance (FSA), a bond insurance company, that was rated "AAA" by Standard & Poor's ("S&P") and "Aaa" by Moody's Investor Services ("Moody's") at the time the Tranche 1 and Tranche 2 Equipment transactions were entered into. Although these escrows do not represent a legal defeasance of Muni's obligations under the subleases, management believes that these transactions are structured in such a way that it is not probable that Muni will need to access other monies to make sublease payments. Therefore, the assets and the sublease obligations have not been recorded on the financial statements of the SFMTA.

As a result of the cash transactions above, Muni recorded $35.5 million and $4.4 million in fiscal 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 in fiscal year 2016 and will be amortized over the life of each sublease unless the purchase option is executed or sublease is otherwise terminated before its expiration date. The deferred inflows of resources amortized amounts were $9.4 million and $2.4 million for the Tranche 1 Equipment and Tranche 2 Equipment in fiscal year 2016.

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 $100.4 million. As of June 30, 2016, one leveraged lease transaction with respect to 29 items of Tranche 1 Equipment having an initial transaction value of $98.7 million remains outstanding.

(16) Subsequent Events

Issuance of Revenue Bond Series

The Series 2017 Revenue Bonds will be issued by the SFMTA with the US Bank as trustee as approved by the SFMTA Board and concurred by the Board of Supervisors under resolution adopted on June 14, 2016. The total Series 2017 Bonds will result in project funding of $207 million and are being issued (a) to finance a portion of the costs of various capital projects for the SFMTA; (b) to make a deposit to the Series 2017 Reserve Account of the Reserve Fund established under the Indenture for the Series 2017 Bonds; and (c) to pay a portion of the costs of issuance of the Series 2017 Bonds.

Pension Supplemental COLA

A court decision was reached subsequent to the June 30, 2015 measurement date used by the City's actuaries in determining the City's Net Pension Liability for the San Francisco City and County Employees' Retirement System's defined benefit pension plan. The impact of the decision on the System's Net Pension Liability is not yet known, but is expected to significantly increase the City's proportionate share of the plan's Net Pension Liability. The expected increase is due to the determination of the court that the full funding requirement for payment of the Supplemental COLA was unconstitutional as applied to members who worked after November 6, 1996 and before Proposition C passed in November 2011. The June 30, 2016 actuarial report has not been issued as of the date of this report.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Net Position

June 30, 2016

(In thousands)

		Transit	Sustainable Streets	Parking Garages	Total
Assets:					
Current assets:					
Deposits and investments with City Treasury	$	439,293	372,255	—	811,548
Deposits and investments held outside City Treasury		215	6,348	3,533	10,096
Cash on hand		175	—	—	175
Receivables:					
Grants		144,474	5,325	—	149,799
Due from the San Francisco County Transportation Authority		11,803	5,170	—	16,973
Due from component unit		—	31	—	31
Charges for services, net		2,495	2,723	155	5,373
Other, net		7,315	1,873	—	9,188
Total receivables		166,087	15,122	155	181,364
Inventories		80,013	—	—	80,013
Current prepaids and other assets		—	—	780	780
Total current assets		685,783	393,725	4,468	1,083,976
Restricted assets:					
Deposits and investments with City Treasury		66,645	—	—	66,645
Deposits and investments held outside City Treasury		9,701	8,298	92	18,091
Other receivables		1,861	—	—	1,861
Total restricted assets		78,207	8,298	92	86,597
Noncurrent assets:					
Capital assets, net		2,970,436	148,338	29,103	3,147,877
Total noncurrent assets		3,048,643	156,636	29,195	3,234,474
Total assets	$	3,734,426	550,361	33,663	4,318,450
Deferred outflows of resources:					
Related to pensions	$	85,261	13,072	—	98,333
Total deferred outflows of resources	$	85,261	13,072	—	98,333

(Continued)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Net Position

June 30, 2016

(In thousands)

	Transit	Sustainable Streets	Parking Garages	Total
Liabilities:				
Current liabilities:				
Due to other funds	$ 2,503	—	—	2,503
Accounts payable and accrued expenses	111,116	18,121	1,866	131,103
Accrued payroll	21,147	3,049	89	24,285
Accrued vacation and sick leave	18,804	2,955	—	21,759
Accrued workers' compensation	17,357	2,894	—	20,251
Accrued claims	32,380	5,382	—	37,762
Grants received in advance	121,907	138	—	122,045
Unearned revenue and other liabilities	14,485	4,650	396	19,531
Payable from restricted assets	954	—	—	954
Accrued interest payable	1,642	1,354	—	2,996
Bonds, loans, capital leases, and other payables	2,654	4,986	32	7,672
Total current liabilities	344,949	43,529	2,383	390,861
Noncurrent liabilities:				
Accrued vacation and sick leave, net of current portion	11,276	1,771	—	13,047
Accrued workers' compensation, net of current portion	82,728	14,661	—	97,389
Accrued claims, net of current portion	31,915	9,545	—	41,460
Other postemployment benefits obligation	204,850	31,142	—	235,992
Pensions obligation	273,484	41,127	—	314,611
Bonds, loans, capital leases, and other payables, net of current portion	109,301	88,815	44	198,160
Total noncurrent liabilities	713,554	187,061	44	900,659
Total liabilities	$ 1,058,503	230,590	2,427	1,291,520
Deferred inflows of resources:				
Unamortized gain on leaseback transaction	$ 4,349	—	—	4,349
Unamortized gain on refunding of debt	—	337	—	337
Related to pensions	87,081	12,539	—	99,620
Total deferred inflows of resources	$ 91,430	12,876	—	104,306
Net position:				
Net investment in capital assets	$ 2,856,839	52,846	29,027	2,938,712
Restricted:				
Debt service	9,701	8,298	—	17,999
Other purposes	67,552	—	92	67,644
Unrestricted	(264,338)	258,823	2,117	(3,398)
Total net position	$ 2,669,754	319,967	31,236	3,020,957

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, 2016

(In thousands)

		Transit	Sustainable Streets	Parking Garages	SFMTA Eliminations	Total
Operating revenues:						
Passenger fares	$	205,374	—	—	—	205,374
Parking and transportation		—	108,448	24,974	—	133,422
Fines, forfeitures, and penalties		—	91,589	—	—	91,589
Charges for services		5,214	16,840	—	—	22,054
Licenses, permits, and franchises		—	13,934	—	—	13,934
Advertising		21,702	—	—	—	21,702
Rents and concessions		2,388	4,029	1,349	—	7,766
Other		—	3,336	57	—	3,393
Total operating revenues		234,678	238,176	26,380	—	499,234
Operating expenses:						
Personnel services		591,803	80,731	4,640	—	677,174
Contractual services		71,634	49,691	3,455	—	124,780
Materials and supplies		75,620	5,283	514	—	81,417
Depreciation and amortization		121,929	10,535	1,251	—	133,715
Services from other City departments		52,849	9,110	—	—	61,959
General and administrative		34,353	6,933	1,409	—	42,695
Other operating expenses		(29,629)	5,956	2,167	—	(21,506)
Total operating expenses		918,559	168,239	13,436	—	1,100,234
Operating income (loss)		(683,881)	69,937	12,944	—	(601,000)
Nonoperating revenues (expenses):						
Operating assistance:						
Federal		7,191	3,364	—	—	10,555
State and other grants		129,689	4,178	—	—	133,867
Interest and investment income		2,591	2,816	3	—	5,410
Interest expense		(3,118)	(3,068)	—	—	(6,186)
Other, net		50,068	12,815	—	—	62,883
Total nonoperating revenues, net		186,421	20,105	3	—	206,529
Income (loss) before capital contribution and transfers		(497,460)	90,042	12,947	—	(394,471)
Capital contributions:						
Federal		286,739	1,742	—	—	288,481
State and others		126,688	4,569	—	—	131,257
Total capital contributions		413,427	6,311	—	—	419,738
Transfers in:						
City and County of San Francisco – General Fund		296,683	84,659	—	—	381,342
San Francisco County Transportation Authority		10,658	7,683	—	—	18,341
City and County of San Francisco – Other City departments		12,783	49,156	—	—	61,939
SFMTA operating transfers in		144,169	9,584	—	(153,753)	—
Total transfers in		464,293	151,082	—	(153,753)	461,622
Transfers out:						
City and County of San Francisco – Other City departments		(2,335)	(2,359)	(3,938)	—	(8,632)
SFMTA operating transfers out		—	(144,169)	(9,584)	153,753	—
Net transfers		461,958	4,554	(13,522)	—	452,990
Change in net position		377,925	100,907	(575)	—	478,257
Net position, beginning of year as restated		2,291,829	219,060	31,811	—	2,542,700
Total net position – end of year	$	2,669,754	319,967	31,236	—	3,020,957

See accompanying independent auditors’ report.

TRANSIT

Supplemental Schedule of Grants – Federal

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital grants:							
FY 2007 Section 5309 New Starts	$ 130,443	150,000	(89,067)	—	191,376	(164,869)	26,507
FY 2002 Section 5307 Urban Area Formula	1,476	—	(205)	—	1,271	(1,226)	45
FY 2007 Section 5307 Urban Area Formula	5,421	—	(2,353)	—	3,068	(2,383)	685
FY 2008 Section 5307 Urban Area Formula	3,968	—	(1,511)	—	2,457	(793)	1,664
FY 2009 Section 5307 Urban Area Formula	10,756	—	(1,444)	—	9,312	(9,253)	59
FY 2010 Section 5307 Urban Area Formula	200	—	(200)	—	—	—	—
FY 2011 Section 5307 Urban Area Formula	4,079	—	—	—	4,079	(4,079)	—
FY 2013 Section 5307 Urban Area Formula	10,598	—	(5,210)	—	5,388	(2,569)	2,819
FY 2014 Section 5307 Formula Grants	11,147	—	(4,599)	—	6,548	(6,506)	42
FY 2014 Section 5307-3 Urban Area Formula	—	4,133	—	—	4,133	(4,133)	—
FY 2008 and 2009 Section 5317 New Freedom	4	—	—	(4)	—	—	—
FY 2011 Section 5307 CMAQ	208	—	—	—	208	(208)	—
FY 2005 Section 5309 Fixed Guideway	1,929	—	(334)	—	1,595	(1,575)	20
FY 2006 Section 5309 Bus and Facilities	1,415	—	(1,261)	—	154	(32)	122
FY 2007 Section 5309 Fixed Guideway	2,800	—	(1,373)	—	1,427	(271)	1,156
FY 2008 Section 5309 Fixed Guideway	2,591	—	(1)	—	2,590	(1,473)	1,117
FY 2009 Section 5309 Fixed Guideway	25,736	—	(11,807)	—	13,929	(9,571)	4,358
FY 2010 Section 5309 Fixed Guideway	58,910	—	(23,815)	—	35,095	(31,589)	3,506
FY 2011 Section 5309 Bus and Facilities	34,391	—	(6,020)	—	28,371	(26,633)	1,738
FY 2011 Section 5309 Fixed Guideway	58,172	—	(28,149)	—	30,023	(25,729)	4,294
FY 2012 Section 5307 Urban Area Formula	1,426	—	(1,314)	—	112	(74)	38
FY 2012 Section 5309 Fixed Guideway	63,010	—	(12,220)	—	50,790	(34,375)	16,415
FY 2013 Section 5307 CMAQ and Surface Transportation Program	24,566	14,884	(1,626)	—	37,824	(22,970)	14,854
FY 2013 Section 5309 Bus Livability	3,131	—	(113)	—	3,018	(2,650)	368
FY 2015 Section 5309-1 Bus & Bus Facilities	—	8,995	(8,995)	—	—	—	—
FY 2013 Section 5337 State of Good Repair	28,057	—	(1,956)	—	26,101	(26,028)	73
FY 2014 Section 5337 State of Good Repair	17,730	—	—	—	17,730	(17,730)	—
FY 2015 Section 5337 State of Good Repair	—	24,758	—	—	24,758	(24,758)	—
FY 2013 Section 5339 Bus and Facilities Formula	6,691	—	—	—	6,691	—	6,691
FY 2013 Section 5307 Surface Transportation Program	1,051	—	(595)	—	456	—	456
FY 2014 Section 79-TG-3 Tiger IV OST Surface Transportation Infrastructure	9,021	—	(515)	—	8,506	(8,332)	174
FY 2013 CA Regional Priority Development Area Planning Grant	492	—	(43)	—	449	—	449
FY 2014 Section 5307 Formula Fund	—	44,985	(36,898)	10,805	18,892	(7,324)	11,568
FY 2015 Section 5307 Formula Fund	—	26,091	(6,232)	—	19,859	(639)	19,220
FY 2016 Section 5304 Sustainable Communities	—	300	—	—	300	(293)	7
Total capital grants	$ 519,419	274,146	(247,856)	10,801	556,510	(438,065)	118,445
Operating grants:							
FY 2007 Section 5317 New Freedom	$ 34	—	(34)	—	—	—	—
FY 2012 Section 5317 New Freedom	52	—	(5)	—	47	(44)	3
FY 2010 Section 5307 Urban Area Formula	2,899	—	(2,899)	—	—	—	—
FY 2013 Section 5307 CMAQ and Surface Transportation Program	1,600	—	(257)	—	1,343	(1,275)	68
FY 2014 Section 5307 Formula Fund	10,805	—	—	(10,805)	—	—	—
FY 2015 Section 5307 Formula Fund	—	4,690	(3,991)	—	699	(699)	—
FY 2015 FTA Section 5303 Planning	40	—	(40)	—	—	—	—
FY 2016 Section 6002(A) Fixing America's Surface	—	100	—	—	100	—	100
Total operating grants	$ 15,430	4,790	(7,226)	(10,805)	2,189	(2,018)	171

See accompanying independent auditors' report.

TRANSIT

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital grants:							
FY 2008 Prop 1B: 3rd Street Light Rail	$ 2,407	—	(117)	—	2,290	(2,290)	—
FY 2008 Prop 1B: Farebox Rehab	27	—	(27)	—	—	—	—
FY 2008 Prop 1B: Metro East Light Rail Vehicle Facility	607	—	—	—	607	(607)	—
FY 2008 Prop 1B: Operator Restrooms	790	—	—	—	790	(790)	—
FY 2008 Prop 1B: Transit Security	45	—	(45)	—	—	—	—
FY 2009 Prop 1B: New Central Subway	3,470	—	(1,103)	—	2,367	(2,367)	—
FY 2009 Prop 1B: High Speed Connectivity	18	—	—	—	18	(18)	—
FY 2009 Prop 1B: Transit Security Infrastructure	136	—	(136)	—	—	—	—
FY 2009 Prop 1B: LRV Rehabilitation	35	—	(35)	—	—	—	—
FY 2010 Prop 1B: Transit Security	1,130	—	(572)	(80)	478	(478)	—
FY 2012 Prop 1B: Transit Security	4,450	—	(4,257)	—	193	(193)	—
FY 2010 Prop 1B: Balboa Park Eastside Connection	680	—	(85)	—	595	(595)	—
FY 2013 Prop 1B: Central Subway	46,187	—	(46,186)	—	1	(1)	—
FY 2011 Prop 1B: Transit Security	366	—	(366)	—	—	—	—
FY 2013 Prop 1B: Transit Security	7,071	—	(43)	—	7,028	(7,028)	—
FY 2013 Prop 1B: Mission Mobility Maximization	4,555	—	(895)	—	3,660	(3,660)	—
FY 2013 Prop 1B: 8X Mobility Maximization	3,280	—	(247)	(216)	2,817	(2,817)	—
FY 2013 Prop 1B: Mission Bay Loop	1,047	—	(149)	—	898	(898)	—
FY 2014 Prop 1B: LRV Procurement	6,580	—	—	—	6,580	(6,580)	—
FY 2014 Prop 1B: Central Subway	81,880	—	(12,839)	—	69,041	(69,041)	—
FY 2014 Prop 1B: Transit Security	—	7,071	(121)	—	6,950	(6,950)	—
FY 2016 Prop 1B: Van Ness Bus Rapid Transit	—	5,550	—	—	5,550	(5,550)	—
Total capital grants	$ 164,761	12,621	(67,223)	(296)	109,863	(109,863)	—
Operating grant:							
FY 2015 Low Carbon Transit Operations Grant	$ 2,592	—	(1,873)	—	719	(719)	—
FY 2016 Low Carbon Transit Operations Grant	—	8,157	—	—	8,157	(8,157)	—
Total operating grant	$ 2,592	8,157	(1,873)	—	8,876	(8,876)	—

See accompanying independent auditors’ report.

TRANSIT

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital grants:							
Bridge toll:							
Match to Capital Grants	$ 9,679	237	(822)	(3,248)	5,846	(3,973)	1,873
Total capital grants – Bridge tolls	9,679	237	(822)	(3,248)	5,846	(3,973)	1,873
Regional Measure 2							
Match to Capital Grants	—	—	—	1,875	1,875	(1,192)	683
Total capital grants – Regional Measure 2	—	—	—	1,875	1,875	(1,192)	683
State Transit Assistance:							
Third Street Light Rail	306	—	(305)	—	1	(1)	—
Total capital grants – State Transit Assistance	306	—	(305)	—	1	(1)	—
Total capital grants	$ 9,985	237	(1,127)	(1,373)	7,722	(5,166)	2,556
Operating grants:							
AB1107 Sales Tax	$ 3,447	40,262	(43,709)	—	—	—	—
State Transit Assistance	9,317	37,212	(24,557)	—	21,972	—	21,972
Transportation Development Act	4,182	44,335	(48,517)	—	—	—	—
Translink Project – Wayside Fare Collection	14	—	—	—	14	(14)	—
Lifeline Cycle 2 – Shopping Shuttle	16	600	(550)	(42)	24	—	24
RM2:							
Owl Service	—	188	(188)	—	—	—	—
T-Third Light Rail	—	2,500	(2,500)	—	—	—	—
Lifeline Cycle 4							
Expanded Late Night Transit	—	3,512	(701)	—	2,811	(2,811)	—
Total operating grants	$ 16,976	128,609	(120,722)	(42)	24,821	(2,825)	21,996

See accompanying independent auditors' report.

TRANSIT

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital grants:							
Third Street Light Rail Projects	$ 4,169	2,030	(2,030)	—	4,169	(4,169)	—
Cable Car Infrastructure	813	—	—	(813)	—	—	—
Central Subway	4,991	—	(4,451)	—	540	(122)	418
Escalator Replacement Study	3,672	—	(116)	—	3,556	(2,938)	618
Islais Creek Woods	3,264	—	—	—	3,264	(3,264)	—
Muni Rail Replacement Project	1,649	—	—	—	1,649	(1,649)	—
PCC Streetcars 10-Year Overhaul	828	—	—	(828)	—	—	—
Rail Replacement and Mission Bay Loop	1,571	—	—	—	1,571	(1,571)	—
Central Train Control and Communication (3C)	18,707	—	(2,071)	(2,022)	14,614	(14,158)	456
Van Ness Bus Rapid Transit Environmental Review	5	—	—	(5)	—	—	—
Radio Communications System	59,175	—	(4,125)	—	55,050	(54,651)	399
Bus Rapid Transit (Geary/Van Ness)	4,291	8,298	(961)	(1,928)	9,700	(9,175)	525
Wayside Fare Collection	2,573	—	(1)	—	2,572	(2,572)	—
Balboa Park Intermodal Improvements	1,774	—	—	—	1,774	(1,631)	143
Balboa Park Station Eastside Connection	163	—	(12)	—	151	(151)	—
Motor Coach NABI Replacement	4,196	—	(750)	—	3,446	(3,381)	65
Green Center Rail Replacement	4,090	—	(1,775)	—	2,315	(1,872)	443
Market and Haight Transit and Pedestrian Improvements	273	—	(42)	—	231	(229)	2
Motor Coach Replacement	5,699	—	(1,665)	—	4,034	(3,938)	96
Central Subway Phase 3 Initial Study	6	—	—	—	6	(6)	—
Muni Forward Bike and Pedestrian Integration	131	—	(131)	—	—	—	—
Bayshore Multimodal Station Location	14	—	(13)	—	1	—	1
Glen Park Bus Terminal	85	—	(80)	—	5	—	5
60 Foot Trolley Coach Replacement	20,389	—	(12,368)	—	8,021	(7,187)	834
Phelan Plaza Development	933	—	(83)	—	850	(341)	509
Paratransit 35 Vans Ness	122	—	—	(122)	—	—	—
Muni Forward	11,273	—	(3,567)	—	7,706	(6,820)	886
New Light Rail Vehicles	131,153	—	—	—	131,153	(131,153)	—
Geneva – Harvey Bus Rapid Transit Study	109	135	(217)	—	27	(21)	6
Muni Metro East (MME) Phase II	2,490	—	(354)	—	2,136	(2,097)	39
Fall Protection System	2,014	706	(742)	—	1,978	(1,920)	58
Recplace M-Line Curve Tracks	—	190	(48)	—	142	(130)	12
Procurement of 30, 40 & 60 Ft Hybrid Buses	—	93,626	(11,809)	—	81,817	(76,019)	5,798
Kearny Corridor Multimodal Project	—	100	—	—	100	(100)	—
Ensuring Transit Srv Equity Thru Comm. En	—	39	—	—	39	(38)	1
Fire Life Safety Upgrade	—	400	—	—	400	(393)	7
1570 Burket Facility Renovation	—	4,400	—	—	4,400	(4,337)	63
Total capital grants	$ 290,622	109,924	(47,411)	(5,718)	347,417	(336,033)	11,384

(Continued)

TRANSIT

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2016

(In thousands)

		Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Operating grants:								
Transit Corridor Investment Study	$	289	256	(67)	—	478	(75)	403
N-Judah Customer First		393	—	(153)	—	240	(224)	16
Total operating grants	$	682	256	(220)	—	718	(299)	419

See accompanying independent auditors’ report.

TRANSIT

Supplemental Schedule of Grants – Others

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital grants:							
Homeland Security:							
FY 2008 CA Emergency Management Agency – Transit Security	$ 1	—	—	—	1	(1)	—
FY 2011 Federal Homeland Security – TSA K9 Project	1,174	—	(219)	—	955	(908)	47
FY 2013 Transit Security Grant Program	1,570	—	(1,569)	(1)	—	—	—
Total capital grants	$ 2,745	—	(1,788)	(1)	956	(909)	47
Operating in nature grants:							
BAAQMD–TFCA 82X Shuttle Service	122	—	(52)	—	70	—	70
FY 2014 Transit Security Grant Program	2,810	—	(1,773)	—	1,037	(84)	953
FY 2015 Transit Security Grant Program	—	4,663	—	—	4,663	(4,427)	236
Total operating grants	$ 2,932	4,663	(1,825)	—	5,770	(4,511)	1,259

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – Federal

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital grants:							
FY 2009 CMAQ – SF Park	$ 1,665	—	(419)	—	1,246	(795)	451
FY 2012 Section 4314 Transportation Community and System Preservation	8	—	(8)	—	—	—	—
FY 2012 Highway Safety Improvement – Bayshore Paul Signals	48	—	(32)	—	16	(16)	—
FY 2013 Section 5307 Surface Transportation	507	—	(498)	—	9	(9)	—
FY 2012 Safe Routes to School – Chinatown	244	—	(88)	—	156	(18)	138
FY 2010 Highway Safety Improvement–Sunset New Signals	105	—	—	—	105	(105)	—
FY 2012 CMAQ – Outer Sunset	549	—	(417)	—	132	(132)	—
FY 2012 Surface Transportation – Church and Duboce	116	—	—	—	116	(116)	—
FY 2013 Highway Safety Imprograment – Continental Crosswalks	312	—	(150)	—	162	(16)	146
FY 2013 Highway Safety Imprograment – Masonic Signals Project	739	—	(572)	(33)	134	(58)	76
FY 2013 Safe Routes to School – Jefferson SRTS Project	303	—	(256)	—	47	(36)	11
FY 2013 Highway Safety Improvement – Rail Signals	717	—	—	—	717	(562)	155
FY 2013 Surface Transportation – Mansell Corridor Complete Streets	1,730	—	(105)	—	1,625	(438)	1,187
FY 2014 Highway Safety Improvement Program – Polk Street Signals	1,538	—	(93)	—	1,445	(1,371)	74
FY 2016 and 2017 Highway Safety Improvement Program – South Van Ness Pedestrian Signals Projects	254	1,339	(99)	—	1,494	(1,433)	61
FY 2015 State Transportation Improvement – Twin Peaks Connectivity	168	—	(24)	—	144	(113)	31
FY 2013 State Transportation Improvement – Crosswalks	245	—	(68)	—	177	(174)	3
Total capital grants	$ 9,248	1,339	(2,829)	(33)	7,725	(5,392)	2,333
Operating in nature:							
TEA Pedestrian Safety Education	$ 20	—	—	—	20	—	20
Inner Sunset Traffic Calming and Transit Enhancement	69	—	—	—	69	(69)	—
Inner Sunset Traffic Calming and Transit Enhancement	73	—	—	—	73	(73)	—
Tenderloin Pedestrian Improvements	279	—	—	—	279	(279)	—
Golden Gate Park Pedestrian Improvements	63	—	—	—	63	(3)	60
Various Bike Network Improvements	8	—	—	—	8	(8)	—
Chinatown Safe Routes to School	25	—	—	—	25	(25)	—
Van Ness Corridor Improvement	566	—	(89)	—	477	(471)	6
Fulton Curb Ramps	71	—	—	(71)	—	—	—
Bayshore and Paul Signal Upgrade Design	2	—	—	—	2	(2)	—
Parking Guidance Project	747	—	(522)	—	225	—	225
Sunset Boulevard New Traffic Signal Design	26	—	—	—	26	(26)	—
Alamo School Safe Routes to School	576	—	(451)	—	125	(112)	13
SFGO Van Ness Corridor Management – TSP/BRT	17,248	—	(1,872)	—	15,376	(15,347)	29
Sunset Blvd Ped Safety Education Program	17	—	—	—	17	(17)	—
SF Bicycle Parking Program	27	—	(15)	—	12	(12)	—
Pedestrian Safety Program	4	—	—	—	4	(2)	2
Masonic Avenue Signal Upgrade	66	—	(21)	—	45	(45)	—
FY 2007 Safe Routes to School	29	—	—	—	29	(29)	—
FY 2012 Safe Routes to School – Tenderloin	757	—	(21)	—	736	(378)	358
FY 2012 Safe Transportation Improvement – Ped Countdown	112	—	(112)	—	—	—	—
FY 2013 Safe Routes to School – Denman	67	760	(25)	—	802	(743)	59
FY 2012 State Transportation Improvement – Church and Duboce	18	—	—	—	18	(1)	17
VPPL-6328(054) Link Price Elec	1,304	—	(30)	—	1,274	(1,229)	45
FY 2010 and 2011 State Transportation Improvement Program – SF Pedestrian Safety and Encouragement	395	—	(231)	—	164	(24)	140
FY 2013 CA Regional Priority Development Area Planning – Various Projects	2,181	—	(193)	—	1,988	(509)	1,479
FY 2015 State Active Transportation Program - SF Safer Street Campaign	—	2,000	—	—	2,000	(1,783)	217
Total operating in nature	$ 24,750	2,760	(3,582)	(71)	23,857	(21,187)	2,670

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital grants:							
Prop IB – Persia Triangle Improvements	$ —	—	(304)	529	225	(225)	—
Prop IB – Hunter’s View Transit Connection	—	—	—	13	13	(13)	—
Prop 1B – 8X Mobility Maximization	—	—	(13)	216	203	(203)	—
Prop 1B – Transit Security	—	—	(80)	80	—	—	—
Total capital grants	$ —	—	(397)	838	441	(441)	—
Operating in nature grants:							
Randolph/Farralones/Orizaba Transit Access Pedestrian Safety	$ 125	—	(122)	—	3	(3)	—
Addison and Dighy Traffic Circle	63	—	—	—	63	(63)	—
Van Ness Corridor Improvement	1,943	—	(1,942)	—	1	(1)	—
Prop IB – Persia Triangle Improvements	529	—	—	(529)	—	—	—
Prop IB – Hunter’s View Transit Connection	13	—	—	(13)	—	—	—
Class II and III Bikeways	260	—	—	—	260	(125)	135
West Portal Improvements to School Access	162	—	—	—	162	(162)	—
Western Approach to SFO Bay Bridge	8	—	(8)	—	—	—	—
Jean Parker Safe Routes to School	413	—	(47)	—	366	(362)	4
Total operating in nature grants	$ 3,516	—	(2,119)	(542)	855	(716)	139

See accompanying independent auditors’ report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital in nature grants:							
TDA:							
TDA FY2016 Allocation	$ —	511	—	—	511	(511)	—
CBTP:							
Western Addition CBTP	—	60	—	—	60	(60)	—
Total capital in nature grants	$ —	571	—	—	571	(571)	—
Operating in nature grants:							
TDA:							
Market and Octavia Bicycle Markings	$ 6	—	(6)	—	—	—	—
Bicycle Safety Education	3	—	(3)	—	—	—	—
Bicycle Facility	3	—	(2)	(1)	—	—	—
Green Lanes Project	10	—	—	(1)	9	—	9
Bicycle Share System	121	—	(105)	—	16	—	16
Folsom-Essex Bicycle Improvements	28	—	(26)	—	2	—	2
Raised Cycletrack Demonstration	33	—	(21)	(10)	2	—	2
Long-term Bike Parking	200	—	—	—	200	(181)	19
FY2015 Bicycle Projects, Safety and Outreach	132	—	—	(132)	—	—	—
Second Street VZIP Improvements	59	—	(21)	—	38	(4)	34
Polk Street Southbound Bicycle Lane	29	—	—	(29)	—	—	—
King Street Bike Lanes	18	—	—	—	18	(2)	16
Howard Street Buffered Bicycle Lane	95	—	—	—	95	(75)	20
Fell & Oak Bikeway Improvements	—	98	—	—	98	(98)	—
Folsom-Essex Bicycle Improvements - FY2015	—	26	—	—	26	(21)	5
Polk Street Southbound Bicycle Lane	—	29	—	—	29	(26)	3
Electronic Bicycle Lockers	—	8	—	—	8	—	8
Bridge Tolls (RM2):							
Mission/Geneva Pedestrian Improvements – Construction	93	—	—	(93)	—	—	—
Balboa Park Station Connection Phase II – Signals and Signs	55	—	(9)	—	46	(46)	—
Bicycle Transit System Integration	26	—	—	—	26	(26)	—
Polk Street Bicycle Gap Closure	29	—	(29)	—	—	—	—
Total operating in nature grants	$ 940	161	(222)	(266)	613	(479)	134

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2016

(In thousands)

		Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital in nature grants:								
Bicycle Program Projects	$	—	882	(140)	—	742	(629)	113
Pedestrian Safety Program Projects		—	2,100	(373)	—	1,727	(1,699)	28
Traffic Calming Program Projects		—	375	(271)	—	104	(85)	19
Traffic Signal/Traffic Sign Projects		—	9,949	(2,101)	—	7,848	(6,952)	896
Transit Study & Street Improvement Projects		—	533	(227)	—	306	(258)	48
Transportation Demand/Parking Management		—	60	—	—	60	(60)	—
Total capital in nature grants	$	—	13,899	(3,112)	—	10,787	(9,683)	1,104
Pass-thru grants capital in nature:								
Bicycle Program Projects	$		529	(69)	—	460	(309)	151
Total pass-thru grants capital in nature	$	—	529	(69)	—	460	(309)	151
Operating in nature grants:								
Bicycle Program Projects	$	2,663	—	(1,573)	(11)	1,079	(803)	276
Pedestrian Safety Program Projects		2,747	655	(1,124)	(70)	2,208	(1,868)	340
Traffic Calming Program Projects		1,614	—	(337)	(26)	1,251	(1,176)	75
Traffic Signal/Traffic Sign Projects		7,470	300	(2,185)	(215)	5,370	(4,437)	933
Transit Study and Street Improvement Projects		3,703	—	(331)	(59)	3,313	(1,301)	2,012
Taxi Vehicle Alternative Fuel Program		202	—	(107)		95	(4)	91
Transportation Demand/Parking Management		100	—	—		100	(100)	—
Total operating in nature grants	$	18,499	955	(5,657)	(381)	13,416	(9,689)	3,727
Pass-through grants operating in nature:								
Bicycle Program Projects	$	235	—	(163)	—	72	(72)	—
Traffic Calming Projects		131	—	(109)	—	22	(19)	3
Transportation Demand/Parking Management		498	—	(302)	—	196	(33)	163
Transportation Outreach		—	244	—	—	244	(222)	22
Total pass-through grants operating in nature	$	864	244	(574)	—	534	(346)	188

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – Others

Year ended June 30, 2016

(In thousands)

	Authorized grants as of July 1, 2015	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2016	Amounts not expended as of June 30, 2016	Grants receivable as of June 30, 2016
Capital grant:							
Electronic Bicycle Lockers	$ —	40	—	—	40	—	40
Total capital grant	$ —	40	—	—	40	—	40
Operating in nature grants:							
OCII – 6th Street Pedestrian Safety Improvements	$ 526	—	—	—	526	(517)	9
Total operating in nature grants	$ 526	—	—	—	526	(517)	9

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, 2016

(In thousands)

Project Title	Allocation	Beginning Balance July 1, 2015	Additions	Reassigned Allocation	Interest Earned	Reassigned Interest Earnings	Expenditures	Ending Balance June 30, 2016
First Allocation Fiscal Year 2007–2008								
Third Street Light Rail Interest	$ —	58	—	—	15	—	—	73
Third Street/Metro East-CP/Other Direct	3,700	2,407	—	(2,200)	—	—	—	207
LRV4 VCC Support	—	—	—	2,200	—	—	(117)	2,083
Subtotal PTSB01	3,700	2,465	—	—	15	—	(117)	2,363
Auto Passenger Count	1,200	1	—	—	—	—	—	1
New Central Subway	1,300	—	—	—	—	—	—	—
Subtotal PTSB02	2,500	1	—	—	—	—	—	1
Trolley Overhead Reconstruction	2,267	—	—	—	1	—	—	1
Mid-Life Rehabilitation of Neoplan Buses	733	—	—	—	—	—	—	—
New Propulsion Rehabilitation Campaign	—	6	—	—	—	—	(6)	—
Subtotal PTSB03	3,000	6	—	—	1	—	(6)	1
STA Prop 1B, FY0708, Farebox Rehab	—	3	—	—	2	—	—	5
Operator-Restroom	—	—	—	27	—	—	(27)	—
Farebox Rehabilitation	19,590	—	—	—	—	—	—	—
Neoplan Life Cycle Rehabilitation	223	—	—	—	—	—	—	—
Vehicle Video Surveillance Replacement	80	—	—	—	—	—	—	—
14 Mission Customer First	80	—	—	—	—	—	—	—
Transportation Capital Infrastructure Account	27	27	—	(27)	—	—	—	—
New Propulsion Rehabilitation Campaign	—	38	—	—	—	—	(38)	—
Subtotal PTSB04	20,000	68	—	—	2	—	(65)	5
STA Prop 1B, FY0708, Geneva	—	—	—	—	3	—	—	3
Historic Streetcar Shed	6,092	—	—	—	—	—	—	—
New Central Subway	1,200	—	—	—	—	—	—	—
14 Mission Customer First	208	—	—	—	—	—	—	—
New Propulsion Rehabilitation Campaign	—	108	—	—	—	—	(108)	—
Subtotal PTSB05	7,500	108	—	—	3	—	(108)	3
Total First Allocation Fiscal Year 2007–2008	36,700	2,648	—	—	21	—	(296)	2,373
Second Allocation Fiscal Year 2007–2008								
STA Prop 1B, FY0708, Metro East LRV	—	5	—	—	8	—	—	13
New Third Street Light Rail	8,052	—	—	—	—	—	—	—
FY10 TSGP Subway CCTV Surveillance System	700	—	—	—	—	—	—	—
Vehicle Video Surveillance Replacement	607	607	—	—	—	—	—	607
Capital Program Controls System Procurement	—	6	—	—	—	—	—	6
14 Mission Customer First	341	—	—	—	—	—	—	—
LRV ATCS Antenna Replacement	—	221	—	—	—	—	(165)	56
New Propulsion Rehabilitation Campaign	—	27	—	—	—	—	(27)	—
Subtotal PTSB06	9,700	866	—	—	8	—	(192)	682
STA Prop 1B, FY0708, Operator Restroom	—	22	—	—	5	—	—	27
Operator Restrooms	2,165	—	—	—	—	—	—	—
Wood Lifts Heavy Maintenance Shop	10	—	—	—	—	—	—	—
Cable Car Safety & Reliability Improvement	422	422	—	—	—	—	—	422
Transportation Capital Infrastructure Account	368	368	—	—	—	—	—	368
Subtotal PTSB07	2,965	812	—	—	5	—	—	817
STA Prop 1B, FY0708, Wysd Fare Collct Eq	—	35	—	—	—	—	—	35
Wayside Fare Collection	1,000	—	—	—	—	—	—	—
New Propulsion Rehabilitation Campaign	—	10	—	—	—	—	(10)	—
Subtotal PTSB08	1,000	45	—	—	—	—	(10)	35
Total Second Allocation Fiscal Year 2007–2008	$ 13,665	1,723	—	—	13	—	(202)	1,534

(Continued)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2016

(In thousands)

Project Title	Allocation	Beginning Balance July 1, 2015	Additions	Reassigned Allocation	Interest Earned	Reassigned Interest Earnings	Expenditures	Ending Balance June 30, 2016
First Allocation Fiscal Year 2008–2009								
STA Prop 1B, FY0910, Central Subway	$ —	34	—	—	23	—	—	57
Operator-Restroom	—	—	—	19	—	—	(16)	3
New Central Subway	20,000	—	—	—	—	—	—	—
Wayside/Central Train Control System	3,345	1,834	—	—	—	—	(350)	1,484
Mid-Life Rehabilitation of Neoplan Buses	1,424	79	—	(19)	—	—	(60)	—
Subway CCTV Surveillance System	1,169	79	—	—	—	—	—	79
Vehicle Video Surveillance Replacement	1,144	682	—	—	—	—	(18)	664
14 Mission Customer First	786	—	—	96	—	—	—	96
Fall Protection Scaffolding	825	52	—	(50)	—	—	—	2
8X Customer First	562	—	—	—	—	—	—	—
Safer Market Street	745	745	—	(96)	—	—	(641)	8
Flynn Lift	—	—	—	50	—	—	(20)	30
Subtotal PTSB11	30,000	3,505	—	—	23	—	(1,105)	2,423
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 Rl Op Cont Ctr	—	58	—	—	—	—	—	58
Central Control and Communications Program	1,300	—	—	—	—	—	—	—
Subtotal PTSB13	1,300	58	—	—	—	—	—	58
STA Prop 1B, FY0809, Persia Triangle	—	7	—	—	1	—	—	8
Persia Triangle Improvements	127	114	—	—	—	—	—	114
Subtotal PKSB01	127	121	—	—	1	—	—	122
STA Prop 1B, FY0809, Randolph/Farallones	—	3	—	—	—	—	—	3
Randolph/Farallones/Orizaba	85	4	—	—	—	—	—	4
Subtotal PKSB01	85	7	—	—	—	—	—	7
Total First Allocation Fiscal Year 2008–2009	31,912	3,710	—	—	24	—	(1,105)	2,629
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
STA Prop 1B, FY0910, Central Subway	—	—	—	—	1	—	—	1
New Central Subway	352	—	—	—	—	—	—	—
Subtotal PTSB15	352	—	—	—	1	—	—	1
STA Prop 1B, FY0910, High Speed Connectivity	—	25	—	—	—	—	—	25
Central Control & Comm (C3) Program	817	17	—	—	—	—	—	17
Sub-total PTSB16	817	42	—	—	—	—	—	42
Total Third Allocation Fiscal Year 2007–2008 and Second Allocation 2008–2009	4,807	56	—	—	1	—	—	57
Third Allocation Fiscal Year 2008–2009								
STA Prop 1B, FY0809, LRV Rehabilitation	—	110	—	—	4	—	—	114
LRV Safety Mods and Overhaul Project	5,262	35	—	—	—	—	(35)	—
Capital Program Controls Syst Procurement	—	61	—	—	—	—	(1)	60
Subtotal PTSB18	5,262	206	—	—	4	—	(36)	174
STA Prop 1B, FY0809, LRV Restoration Prgm	—	44	—	—	—	—	—	44
LRV Collision Repairs	3,831	—	—	—	—	—	—	—
Subtotal PTSB19	3,831	44	—	—	—	—	—	44
STA Prop1B, FY0809, Central Subway	—	—	—	—	1	—	—	1
New Central Subway	719	—	—	—	—	—	—	—
Subtotal PTSB20	719	—	—	—	1	—	—	1
Total Third Allocation Fiscal Year 2008–2009	$ 9,812	250	—	—	5	—	(36)	219

(Continued)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2016

(In thousands)

Project Title	Allocation	Beginning Balance July 1, 2015	Additions	Reassigned Allocation	Interest Earned	Reassigned Interest Earnings	Expenditures	Ending Balance June 30, 2016
First Allocation Fiscal Year 2009–2010								
STA Prop 1B, FY0910, PTMISEA Funds	$ —	18	—	—	8	(8)	—	18
New Central Subway	20,216	—	—	—	—	—	—	—
LRV Collision Repairs	770	—	—	—	—	—	—	—
Mid-life Rehabilitation of Neoplan Buses	700	—	—	—	—	—	—	—
Balboa Park Station Eastside Connection	864	680	—	—	—	—	(85)	595
Capital Program Controls System Procurement	—	103	—	—	—	—	(2)	101
LRV ATCS Antenna Replacement	—	72	—	—	—	—	(20)	52
Hunters View Revitalize Transit Stop Connection	510	13	—	—	—	—	—	13
New Propulsion Rehabilitation Campaign	—	3	—	—	—	—	(3)	—
Safer Market Street	—	—	—	—	—	8	—	8
Subtotal PTSB22	23,060	889	—	—	8	—	(110)	787
Total First Allocation Fiscal Year 2009–2010	23,060	889	—	—	8	—	(110)	787
Second Allocation Fiscal Year 2009–2010								
STA Prop 1B, FY0910, PTMISEA Funds	—	3	—	—	4	—	—	7
New Central Subway	16,045	—	—	—	—	—	—	—
Capital Program Controls System Procurement	—	54	—	—	—	—	(1)	53
LRV ATCS Antenna Replacement	—	208	—	—	—	—	(57)	151
Subtotal PTSB23	16,045	265	—	—	4	—	(58)	211
STA Prop 1B, FY0910, Randolph/Farallones	—	9	—	—	1	—	—	10
1115I/686A26 Randolph/Farallones/Orizaba	395	122	—	—	—	—	(122)	—
Subtotal PKSB03	395	131	—	—	1	—	(122)	10
Total Second Allocation Fiscal Year 2009–2010	16,440	396	—	—	5	—	(180)	221
Third Allocation Fiscal Year 2009–2010								
STA Prop1B, Central Subway & Persia	—	5	—	—	10	—	—	15
Persia Triangle Improvements	676	405	—	—	—	—	(314)	91
New Central Subway	48,400	—	—	—	—	—	—	—
Central Subway Goodwill	—	55	—	—	—	—	—	55
Capital Program Controls System Procurement	—	14	—	—	—	—	—	14
LRV ATCS Antenna Replacement	—	512	—	—	—	—	(405)	107
UCSF Platform Extension and Crossover Track	—	63	—	—	—	—	—	63
Subtotal PTSB24	49,076	1,054	—	—	10	—	(719)	345
Total Third Allocation Fiscal Year 2009–2010	49,076	1,054	—	—	10	—	(719)	345
First Allocation Fiscal Year 2010–2011								
STA Prop1B, FY1213, PTMISEA Fnds Central	—	275	—	—	225	(95)	—	405
New Central Subway	117,681	46,186	—	—	—	—	(46,186)	—
FY10 TSGP Subway CCTV Surveillance System	—	—	—	—	—	95	—	95
LRV 2/3 ATCS Antenna Replacement	—	680	—	—	—	—	(680)	—
New Propulsion Rehab Campaign	—	377	—	—	—	—	(377)	—
UCSF Platform Ext and Crossover Track	—	377	—	—	—	—	—	377
Subtotal PTSB26	117,681	47,895	—	—	225	—	(47,243)	877
Total First Allocation Fiscal Year 2010–2011	$ 117,681	47,895	—	—	225	—	(47,243)	877

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2016

(In thousands)

Project Title		Allocation	Beginning Balance July 1, 2015	Additions	Reassigned Allocation	Interest Earned	Reassigned Interest Earnings	Expenditures	Ending Balance June 30, 2016
Second Allocation Fiscal Year 2010–2011									
STA Prop 1B, FY13, PTMISEA Mission Mobility	$	—	67	—	—	26	—	—	93
14 Mission Customer First		836	811	—	—	—	—	(286)	525
Muni Forward-West Portal/St Francis Circle		1,743	1,700	—	—	—	—	(353)	1,347
Cable Car Safety and Reliability Improvement		978	615	—	—	—	—	(228)	387
Muni Forward-Lower Haight Street (71)		1,500	1,428	—	—	—	—	(28)	1,400
Subtotal PTSB27		5,057	4,621	—	—	26	—	(895)	3,752
STA Prop 1B, FY13, PTMISEA 8X Mobility Max		—	65	—	—	20	—	—	85
8X Customer First		1,763	1,504	—	—	—	—	(40)	1,464
Operator Restrooms		186	5	—	—	—	—	(5)	—
FY10 TSGP Subway CCTV Surveillance System		1,060	—	—	—	—	—	—	—
Balboa Park Station Area and Plaza Improvement		1,460	955	—	—	—	—	(202)	753
Transportation Capital Infrastructure		816	816	—	(216)	—	—	—	600
New Propulsion Rehab Campaign		—	—	—	—	—	—	—	—
Potrero Hill Pedestrian Safety & Transit Improv		—	—	—	216	—	—	(13)	203
Subtotal PTSB28		5,285	3,345	—	—	20	—	(260)	3,105
STA Prop 1B, FY13, PTMISEA Mission Bay Loop		—	17	—	—	6	—	—	23
Mission Bay Transit Loop		1,382	1,046	—	—	—	—	(149)	897
Subtotal PTSB29		1,382	1,063	—	—	6	—	(149)	920
Total Second Allocation Fiscal Year 2010–2011		11,724	9,029	—	—	52	—	(1,304)	7,777
First Allocation Fiscal Year 2013–2014									
STA Prop 1B, FY14, LRV Procurement		—	16	—	—	38	—	—	54
Van Ness Bus Rapit Transit		—	—	—	639	—	—	—	639
Procurement of New Light Rail Vehicles		6,580	6,580	—	(6,580)	—	—	—	—
Elevator Safety & Reliability Project		—	—	—	2,200	—	—	—	2,200
Transportn Capital Infrastructure Acct		—	—	—	3,741	—	—	—	3,741
Sub-total PTSB31		6,580	6,596	—	—	38	—	—	6,634
STA Prop1B, FY14, Central Subway		—	203	—	—	475	—	—	678
New Central Subway		81,880	81,880	—	—	—	—	(12,839)	69,041
Sub-total PTSB33		81,880	82,083	—	—	475	—	(12,839)	69,719
Van Ness Bus Rapit Transit		5,550	—	5,550	—	14	—	—	5,564
Sub-total PTSB36		5,550	—	5,550	—	14	—	—	5,564
Total First Allocation Fiscal Year 2013–2014		94,010	88,679	5,550	—	527	—	(12,839)	81,917
Grand Total	$	408,887	156,329	5,550	—	891	—	(64,034)	98,736

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, 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 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 year then ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2016. Our report includes a reference to other auditors who audited the financial statements of certain entities to the SFMTA financial statements. Our report included an emphasis of matter paragraph related to the SFMTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and Statement No. 82, *Pension Issues.* The financial statements of the City of San Francisco Portsmouth Plaza Parking Corporation were not audited in accordance with *Government Auditing Standards*.

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) to determine the 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 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 determination of financial statement amounts. 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
October 21, 2016

APPENDIX B

CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES

This Appendix contains information that is current as of May 11, 2017.

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

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in this Appendix 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. The information contained in this Official Statement, including this Appendix B, speaks only as of its date, and the information herein is subject to change. Prospective investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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CITY GOVERNMENT

City Charter

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

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

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

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

Mayor and Board of Supervisors

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

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

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Board of Supervisors

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

Other Elected and Appointed City Officers

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

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

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

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

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

CITY BUDGET

Overview

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

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

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

Budget Process

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

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

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

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

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

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

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

Proposition A requires four significant changes:

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

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

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

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

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

Role of Controller; Budgetary Analysis and Projections

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

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

General Fund Results: Audited Financial Statements

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

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

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TABLE A-2

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

	FY 2012-13 Final Revised Budget	FY 2013-14 Final Revised Budget	FY 2014-15 Final Revised Budget	FY 2015-16 Final Revised Budget	FY 2016-17 Original Budget [2]	FY 2017-18 Original Budget [3]
Prior-Year Budgetary Fund Balance & Reserves	$557,097	$674,637	$941,702	$1,236,090	$178,109	$195,221
Budgeted Revenues						
Property Taxes	$1,078,083	$1,153,417	$1,232,927	$1,291,000	$1,412,000	$1,468,000
Business Taxes	452,853	532,988	572,385	634,460	669,450	697,887
Other Local Taxes	733,295	846,924	910,430	1,062,535	1,117,245	1,262,875
Licenses, Permits and Franchises	25,378	25,533	27,129	27,163	28,876	29,187
Fines, Forfeitures and Penalties	7,194	4,994	4,242	4,550	4,580	4,578
Interest and Investment Earnings	6,817	10,946	6,853	10,680	13,970	14,353
Rents and Concessions	21,424	23,060	22,692	15,432	16,140	15,828
Grants and Subventions	721,837	799,188	856,336	900,997	959,099	978,866
Charges for Services	169,058	177,081	210,020	219,628	236,102	236,786
Other	13,384	14,321	21,532	31,084	61,334	27,821
Total Budgeted Revenues	$3,229,323	$3,588,452	$3,864,545	$4,197,529	$4,518,796	$4,736,181
Bond Proceeds & Repayment of Loans	627	1,105	1,026	918	881	881
Expenditure Appropriations						
Public Protection	$1,058,324	$1,102,667	$1,158,771	$1,211,007	$1,298,185	$1,323,268
Public Works, Transportation & Commerce	68,351	79,635	89,270	138,288	176,768	165,498
Human Welfare & Neighborhood Development	670,958	745,277	828,555	892,069	970,679	1,009,995
Community Health	635,960	703,092	703,569	751,416	786,218	824,100
Culture and Recreation	105,580	112,624	119,051	125,253	158,954	158,979
General Administration & Finance	190,151	199,709	214,958	235,647	349,308	333,291
General City Responsibilities[1]	86,527	86,516	116,322	113,672	154,344	164,895
Total Expenditure Appropriations	$2,815,852	$3,029,520	$3,230,496	$3,467,352	$3,894,456	$3,980,026
Budgetary reserves and designations, net	$4,191	$0	$39,966	$9,907	$58,469	$61,014
Transfers In	$195,388	$242,958	$199,175	$235,416	$161,995	$159,211
Transfers Out	(646,018)	(720,806)	(873,592)	(962,511)	(906,856)	(1,050,454)
Net Transfers In/Out	($450,630)	($477,848)	($674,417)	($727,095)	($744,861)	($891,243)
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	$516,375	$756,825	$862,394	$1,230,182	$0	$1
Variance of Actual vs. Budget	146,901	184,184	373,696	$296,673		
Total Actual Budgetary Fund Balance[3]	$663,276	$941,009	$1,236,090	$1,526,855	$0	$1

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

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

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

TABLE A-3

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

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

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

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2016 and prior years' audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

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

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

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

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

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

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

Five-Year Financial Plan

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

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

The updated Plan projects continued growth in General Fund revenues of 11%, primarily composed of growth in local tax sources, offset by projected expenditure increases of 30%, primiarly composed of growth in employee salaries and benefits, citywide operating expenses, and Charter mandated baselines and reserves. The Plan presents an array of fiscal strategies to constrain this increase in expenditures and bring revenues and expenditures into balance. To the extent budgets are balanced with ongoing savings or revenues, future shortfalls are would decrease.

The City currently projects growth in General Fund sources of $541 million over the Plan period, and expenditure growth of $1.4 billion. Growth in salaries and benefits account for 51% or $732 million of the cumulative five year shortfall. Growth in citywide operating costs account for 31% or $451 million of the cumulative five year shortfall. Growth in Charter mandated baselines and reserves account for 15% or $214 million of the cumulative five year shortfall. Growth in individual department costs account for 4% or $52.4 million of the cumulative five year shortfall. These figures incorporate the key assumptions from the December 2016 plan, including:

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Budget Updates

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

Impact of the State of California Budget on Local Finances

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

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

On January 10, 2017, the Governor released the fiscal year 2017-18 Proposed State Budget, which discontinues the In-Home Supportive Services Maintenance-of-Effort (IHSS MOE) agreement negotiated in 2012, returning the program to prior state-county sharing ratios. If implemented as proposed, this would shift $626.2 million in State General Fund costs to counties, including over $40 million in costs to San Francisco. The Governor has indicated his willingness to work with counties to modify the proposal. The

Proposed Budget also assumes slower revenue growth than prior forecasts. Fiscal year 2017-18 overall revenue is 2.1% lower than projected in the Governor's fiscal year 2016-17 Adopted Budget. Notably, sales tax – which underlies the County's 1991 and 2011 realignment funds – is expected to be 3.9% lower in fiscal year 2017-18 compared to the fiscal year 2016-17 Adopted Budget.

On May 11, 2017, the Governor released the May Revision to the Governor's Budget (the "May Revision"). The May Revision contains proposals to reduce the impact of the IHSS cost shift from the January budget, including $1.1 billion in State general fund contributions over the next four years to mitigate the cost shift to counties. The City is currently evaluating the impact of the May Revision on the City's finances.

Impact of Federal Government on Local Finances

The City is assessing the potential material adverse changes in current and anticipated federal funding under the new presidential administration and Congress. These changes include, for example, potential increased costs associated with changes to or termination or replacement of the Affordable Care Act, potential withholding of federal grants or other funds flowing to "sanctuary jurisdictions" and suspension or termination of other federal grants for capital projects. The scope and timing of such changes will not be known until the administration concretely proposes specific changes or Congress acts on such proposals, as applicable. As to potential withholding of funds for "sanctuary cities" the City has challenged in federal court the Presidential Executive Order that would cut funding from "sanctuary jurisdictions." On April 24, 2017, the U.S. District Court for the Northern District of California granted the City's motion for a nationwide preliminary injunction, enjoining enforcement of the provisions of the Executive Order relating to the withholding of federal funds from "sanctuary jurisdictions." The fiscal year 2016-17 Original Budget includes about $1.2 billion in federal payments, of which about $1 billion is for entitlement programs mostly administered by the City's Human Services Agency and Department of Public Health. The City also receives about $800 million in multi-year federal grants. The City will continue to monitor federal budget and policy changes, but the City cannot at this time determine the financial impacts of any proposed federal budget changes or executive actions, or predict the outcome of challenges and litigation relating to such matters.

Budgetary Reserves

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

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

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the

Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget for fiscal years 2016-17 and 2017-18 includes $16.6 million in fiscal year 2016-17 and $19.3 million in fiscal year 2017-18), and the Litigation Reserve (Original Budget for fiscal years 2016-17 and 2017-18 includes $11 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

Rainy Day Reserve

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

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

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

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

Budget Stabilization Reserve

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

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

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

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

THE SUCCESSOR AGENCY

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

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

Authority and Personnel

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

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

Effect of the Dissolution Act

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

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

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

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

Oversight Board

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

Department of Finance Finding of Completion

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

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

State Controller Asset Transfer Review

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

Continuing Activities

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

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

PROPERTY TAXATION

Property Taxation System – General

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

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

Assessed Valuations, Tax Rates and Tax Delinquencies

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

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

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

TABLE A-5

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

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

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

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

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

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

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

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

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

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

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

TABLE A-6

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

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

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

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

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

Tax Levy and Collection

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

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

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

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

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

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

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

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

TABLE A-7

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

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

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

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

TABLE A-8

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

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

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

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

Taxation of State-Assessed Utility Property

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

OTHER CITY TAX REVENUES

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

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

Business Taxes

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

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

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

TABLE A-9

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

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

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

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

Transient Occupancy Tax (Hotel Tax)

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

San Francisco and a number of other jurisdictions in California and the United States are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. On February 6, 2013, the Los Angeles Superior Court issued a summary judgment concluding that the online travel companies had no obligation to remit hotel tax to San Francisco. The City has received approximately $88 million in disputed hotel taxes paid by the companies. Under State law, the City is required to accrue interest on such amounts. The portion of these remittances that will be retained or returned (including legal fees and interest) will depend on the ultimate outcome of these lawsuits. San Francisco has appealed the judgment against it. That appeal has been stayed pending the California Supreme Court's decision in a similar case between the online travel companies and the City of San Diego.

TABLE A -10

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

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

[1]Figures for fiscal year 2011-12 through fiscal year 2015-16 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.
[2]Amounts in fiscal year 2012-13 and FY 2014-15 are substantially adjusted due to multi-year audit and litgation resolutions.

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

Real Property Transfer Tax

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

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

TABLE A-11

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

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

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

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

Sales and Use Tax

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

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

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

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

TABLE A-12

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

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

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

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

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

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

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

Utility Users Tax

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

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

Emergency Response Fee; Access Line Tax

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone line in the City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenue for fiscal year 2015-16 was $44 million, a $5 million (-11%) decrease over the previous fiscal year due to a large one-time payment in fiscal year 2014-15 related to a prior year audit finding. In fiscal year 2016-17, the Access Line Tax revenue is budgeted at $47 million, a $3 million (-8%) decrease from fiscal year 2015-16 revenue. Fiscal year 2017-18 revenue is budgeted at $48 million a $1 million (3%) increase from fiscal year 2016-17 budget. Budgeted amounts in fiscal year 2016-17 and fiscal year 2017-18 assume annual inflationary increases to the access line tax rate as required under Business and Tax Regulation Code Section 784.

Sugar Sweetened Beverage Tax

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

Parking Tax

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

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

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

INTERGOVERNMENTAL REVENUES

State – Realignment

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

> **1991 Health & Welfare Realignment**. In fiscal year 2015-16, the General Fund share of 1991 realignment revenue was $176 million. In fiscal year 2016-17, it is budgeted at $180 million, or $3 million (2%) more than the fiscal year 2015-16 actual. This growth is attributed to a $6 million (5%) increase in sales tax distribution and a $3 million (8%) decrease in the VLF distribution due to the base allocation changes and projected fiscal year 2015-16 growth payments. The fiscal year 2017-18 General Fund share of revenue is budgeted at $176 million, a net annual decrease of $3 million (-2%) in sales tax and VLF distributions based on the projected growth payments.
>
> Increases in both years are net of State allocation reductions due to implementation of the Affordable Care Act (ACA) equal to assumed savings for counties as a result of treating fewer uninsured patients. The State's fiscal year 2015-16 Budget included assumed Statewide county savings of $742 million and the fiscal year 2016-17 Budget included assumed savings of $565 million as a result of ACA implementation, and redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund.

Reductions to the City's allocation are assumed equal to $11.9 million in both years. Future budget adjustments could be necessary depending on final State determinations of ACA savings amounts, which are expected in January 2017 and January 2018 for fiscal year 2014-15 and fiscal year 2015-16, respectively.

Public Safety Realignment. Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. In fiscal year 2015-16, this revenue source totaled $40 million. Based on the State's budget, this revenue is budgeted at $41 million in fiscal year 2016-17, a $1 million (2%) increase over the fiscal year 2015-16 actual. This increase reflects increased State funding to support implementation of AB109. The fiscal year 2017-18 budget assumes a $2 million (6%) increase from fiscal year 2016-17 budget.

Public Safety Sales Tax

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

Other Intergovernmental Grants and Subventions

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

Charges for Services

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

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

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

General Fund Expenditures by Major Service Area

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

TABLE A-13

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

Major Service Areas	FY 2011-12 Original Budget	FY 2012-13 Original Budget	FY 2013-14 Original Budget	FY 2014-15 Original Budget	FY 2015-16 Original Budget	FY 2016-17 Original Budget	FY 2017-18 Original Budget
Public Protection	$998,237	$1,058,689	$1,130,932	$1,173,977	$1,223,981	$1,298,185	$1,323,268
Human Welfare & Neighborhood Development	672,834	670,375	700,254	799,355	857,055	176,768	165,498
Community Health	575,446	609,892	701,978	736,916	787,554	970,679	1,009,995
General Administration & Finance	199,011	197,994	244,591	293,107	286,871	786,218	824,100
Culture & Recreation	100,740	111,066	119,579	126,932	137,062	158,954	158,979
General City Responsibilities	110,725	145,560	137,025	158,180	186,068	349,308	333,291
Public Works, Transportation & Commerce	51,588	67,529	80,797	127,973	161,545	154,344	164,895
Total*	$2,708,581	$2,861,106	$3,115,155	$3,416,440	$3,640,137	$3,894,456	$3,980,026

*Total may not add due to rounding

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

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

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

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

Baselines

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

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO

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

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

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

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

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

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

Labor Relations

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

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

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

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

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

Pursuant to Charter Section 8A.104, the MTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units. These contracts are subject to approval by the MTA Board. In May 2014, the MTA and the union representing the transit operators (TWU, Local 250-

A) agreed to a three-year contract that runs through June 30, 2017. Provisions in the contract include 14.25% in wage increases in exchange for elimination of the 7.5% employer retirement pick-up.

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

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

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO (All Funds)

Employee Organizations as of July 1, 2016

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

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

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

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

History and Administration

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

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

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

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

Membership

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

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

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

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

TABLE A-16

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

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

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

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

Funding Practices

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

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

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

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

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

Employer Contribution History and Annual Valuations

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

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

TABLE A-17

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

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

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

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

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

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

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

GASB Disclosures

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement was first implemented by the Retirement System in fiscal year 2013-14. The City discloses accounting and financial information about the Retirement System under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This accounting statement was first effective in fiscal year 2014-15. These accounting statements separated financial reporting from funding and required additional disclosures in the notes to the financial statements and required supplemental information. In general, the City's funding of its pension obligations are not affected by the GASB 68 changes to the reporting of the City's pension liability. Funding requirements are specified in the City Charter and are described in "Funding Practices" above.

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

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

TABLE A-17A

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

As of 30-Jun	Collective Total Pension Liability (TPL)	Discount Rate	Plan Fiduciary Net Position	Plan Net Position as % of TPL	Collective Net Pension Liability (NPL)	City and County's Proportionate Share of NPL
2013	$20,785,417	7.52%	$17,011,545	81.8%	$3,773,872	$3,552,075
2014	21,691,042	7.58%	19,920,607	91.8%	1,770,435	1,660,365
2015	22,724,102	7.46%	20,428,069	89.9%	2,296,033	2,156,049
2016	25,967,281	7.50%	20,154,503	77.6%	5,812,778	5,476,653

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

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

Asset Management

The assets of the Retirement System, (the "Fund") are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. Although the Fund did not hold hedge funds as of June 30, 2016, the Board approved a 5% allocation to absolute return/hedge funds at its February 2015 meeting. Implementation of this new allocation began during fiscal year 2016-17.

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

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

Recent Voter Approved Changes to the Retirement Plan

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

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

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

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

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

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

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

A retiree organization has brought a legal action against the requirement in Proposition C that SFERS be fully funded in order to pay the Supplemental COLA. In that case, *Protect our Benefits (POB) v. City of San Francisco* (1st DCA Case No. A140095), the Court of Appeals held that changes to the Supplemental COLA adopted by the voters in November 2011 under Proposition C could not be applied to current City and County employees and those who retired after November 1996 when the Supplemental COLA provisions were originally adopted, but could be applied to SFERS members who retired before November 1996. This decision is now final and its implementation increased the July 1, 2016 unfunded actuarial liability by $429.3 million for Supplemental COLAs granted retroactive to July 1, 2013 and July 1, 2014.

On July 13, 2016, the SFERS Board adopted a Resolution to exempt members who retired before November 6, 1996, from the “fully funded” provision related to payment of Supplemental COLAs under Proposition C. The Resolution directed that retroactive payments for Supplemental COLAs be made to these retirees. After the Board adopted the Resolution, the Retirement System published an actuarial study on the cost to the Fund of payments to the pre-1996 retirees. The study reports that the two retroactive supplemental payments will trigger immediate payments of $34 million, create additional liability for continuing payments of $114 million, and cause a new unfunded liability of $148 million. This liability does not include the Supplemental COLA payments that may be triggered in the future. Under the cost sharing formulas in Proposition C, the City and its employees will pay for these costs in the form of higher yearly contribution rates. The Controller has projected the future cost to the City and its employees to be $260 million, with over $200 million to be paid in the next five fiscal years. The City has taken legal action to obtain an injunction to prevent SFERS from making Supplemental COLA payments to these members who retired before November 6, 1996 and seeking a judicial determination as to the authority of the Board in this matter. On October 5, 2016, the Superior Court of California granted the City’s motion for preliminary injunction, which enjoins SFERS from making such payments pending final court ruling on the matter.

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

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

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

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

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

Other Employee Retirement Benefits

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

Medical Benefits

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

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

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

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

Determination of Employer and Employee Contributions for Medical Benefits

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

In the Memoranda of Understandings negotiated through collective bargaining in June 2014, the 10-CountyAverage was eliminated in the calculation of premiums for active employees represented by most unions, and exchanged for a percentage based employee premium contribution. The long term impact of the premium contribution model is anticipated to be a reduction in the relative proportion of the projected increases in the City's contributions for healthcare, stabilization of the medical plan membership and maintenance of competition among plans. The contribution amounts are paid by the City into the Health Service Trust Fund. The 10-County Average is still used as a basis for calculating all retiree premiums. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by HSS Beneficiaries or, if elected by the Health Service Board, from net assets also held in the Health Service Trust Fund. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "– *Post-Employment Health Care Benefits and GASB 45*."

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

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

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

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

Health Care Reform

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

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

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

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

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

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

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

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

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

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

Local Elections:

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

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

Proposition C (2011) City Pension and Health Care Benefit

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

Employer Contributions for San Francisco Health Service System Benefits

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

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

Post-Employment Health Care Benefits and GASB 45

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

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

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

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

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

GASB 45 Reporting Requirements.

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

City's Estimated Liability.

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

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

TABLE A-18

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

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

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

Total City Employee Benefits Costs

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

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

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

TABLE A-19

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

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

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

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

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

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

INVESTMENT OF CITY FUNDS

Investment Pool

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

Investment Policy

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

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

Investment Portfolio

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

TABLE A-20

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

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

January 2017 Earned Income Yield: 0.899%

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

TABLE A-21

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

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

Weighted Average Maturity: 412 Days

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

Further Information

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

CAPITAL FINANCING AND BONDS

Capital Plan

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

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

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

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

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

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

Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of May 5, 2017, the City had approximately $2.25 billion aggregate principal amount of general obligation bonds outstanding.

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

TABLE A-22

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of May 5, 2017 [1] [2]

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

[1] This table does not reflect any debt other than City direct tax-supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.
[2] Totals reflect rounding to nearest dollar.
[3] Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency indebtedness.

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

General Obligation Bonds

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

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

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

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

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

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

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

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

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

Refunding General Obligation Bonds

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

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Refunding Bonds
As of May 5, 2017

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

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

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

Table A-24 below lists for each of the City's voter-authorized general obligation bond programs the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of May 5, 2017, the City had authorized and unissued general obligation bond authority of approximately $1.37 billion.

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TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds
As of May 5, 2017

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

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

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

Lease Payments and Other Long-Term Obligations

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

Table A-25 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of May 5, 2017.

Note that the annual payment obligations reflected in Table A-25 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of May 5, 2017

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

[1] Totals reflect rounding to nearest dollar.

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

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

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

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

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed $20.0 million, with such amount increasing by five percent each fiscal year. As of May 5, 2017 the total authorized amount for such financings was $67.7 million. The total principal amount outstanding as of May 5, 2017 was $2.00 million.

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

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

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

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

Commercial Paper Program

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

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

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

Board Authorized and Unissued Long-Term Obligations

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

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

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

Overlapping Debt

Table A-26 shows bonded debt and long-term obligations as of May 5, 2017 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

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TABLE A-26

CITY AND COUNTY OF SAN FRANCISCO

Statement of Direct and Overlapping Debt and Long-Term Obligations

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

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

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

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

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

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

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

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

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

MAJOR ECONOMIC DEVELOPMENT PROJECTS

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

Completion of development in each case may depend on the local economy, the real estate market, the financial health of the developer and others involved in the project, specific features of each development and its attractiveness to buyers, tenants and others, as well as the financial health of such buyers, tenants, and others. Completion and success of each development will also likely depend on other factors unknown to the City.

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

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

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

Treasure Island

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

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

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

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

Transbay

The Transbay Project Redevelopment Project Area was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State in order to generate funding for the new Transbay Transit Center. In 2012 the Transit Center District Plan, the guiding document for the area surrounding the Transit Center, was approved by the Planning Commission and by the Board of Supervisors. The Transit Center District Plan includes additional funding sources for the Transbay Transit Center. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub and extend the Caltrain commuter rail line underground 1.3 miles into the Financial District. The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open by the end of 2017. Demolition of existing structures on the site was completed in August 2011.

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

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

Mission Bay

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

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

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

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

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

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

Pier 70

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

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

Moscone Convention Center

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

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

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

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

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

Article XIIIA of the California Constitution

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

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

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

Article XIII of the California Constitution

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

Articles XIIIC and XIIID of the California Constitution

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

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

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

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

Statutory Limitations

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

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

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

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

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

Proposition 1A

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

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

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

Proposition 22

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

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

Proposition 26

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

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

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

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

Future Initiatives and Changes in Law

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

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

LITIGATION AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City. Included among these are a number of actions which if successful would be payable from the City’s General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on the Certificates, its General Fund lease or other debt obligations, nor materially impair the City's ability to fund current operations.

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

The TJPA began excavation and construction of the Transbay Transit Center in 2010, after the Millennium Tower was completed. In brief, the Lehman Lawsuit claims that the construction of the Transbay Transit Center harmed the Millennium Tower by causing it to settle into the soil more than planned and tilt toward the west/northwest, and the owners claim unspecified monetary damages for inverse condemnation and nuisance. The TJPA has said that the Millennium Tower was already sinking more than planned and tilting before the TJPA began construction of the Transbay Transit Center and that the TJPA took precautionary efforts to avoid exacerbating the situation. The City expects that other lawsuits will be filed against the TJPA relating to the subsidence and tilting of the Millennium Tower. Since the Lehman Lawsuit, the City has been named as a defendant in one other lawsuit related to the Millennium Tower the Buttery Lawsuit. The Buttery Lawsuit alleges that the City failed to inform buyers of various conditions of the Millennium Tower property. The City continues to evaluate the lawsuits, and the subject matter of the lawsuits, but cannot now make any prediction as to the outcome of the lawsuits, or whether the lawsuits, if determined adversely to the TJPA or the City, would have a material adverse impact on City finances.

Risk Retention Program

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

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

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

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

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 May 2016

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 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 non-negotiable time deposits (CDs) that are FDIC insured or fully collateralized in approved financial institutions.

The Treasurer's Office will invest in FDIC-insured CDs only with those firms having at least one branch office within the boundaries of the City and County of San Francisco.

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 federal deposit insurance. The Treasurer's Office shall have a signed agreement with any depository accepting City funds per Government Code Section 53649.

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 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	No Limit	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 second highest ranking or better (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 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 Funds	10% of total Pool assets	N/A	5%	N/A (397-day mandated final maturity maximum)
Institutional Prime Funds	5% of total Pool assets	N/A	N/A	60-day maximum final maturity

Issuer Minimum Credit Rating: Fund rating must be rated in at least the second highest rating category from two NRSRO or independent investment research firms (e.g. Morningstar or Lipper).

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
5%	None	None	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term 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)(l)(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 and deferred deposit (payday-lending) businesses. 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: (l) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FDIC DEPOSIT INSURANCE COVERAGE: The FDIC is an independent agency of the United States government that protects against the loss of insured deposits if an FDIC-insured bank or savings association fails. Deposit insurance is backed by the full faith and credit of the United States government. Since the FDIC was established, no depositor has ever lost a single penny of FDIC-insured funds. FDIC insurance covers funds in deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit (CDs). FDIC insurance does not, however, cover other financial products and services that insured banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or municipal securities. There is no need for depositors to apply for FDIC insurance or even to request it. Coverage is automatic. To ensure funds are fully protected, depositors should understand their deposit insurance coverage limits. The FDIC provides separate insurance coverage for deposits held in different ownership categories such as single accounts, joint accounts, Individual Retirement Accounts (IRAs) and trust accounts.
Basic FDIC Deposit Insurance Coverage Limits*
Single Accounts (owned by one person) $250,000 per owner
Joint Accounts (two or more persons) $250,000 per co-owner
IRAs and certain other retirement accounts $250,000 per owner
Trust Accounts $250,000 per owner per beneficiary subject to specific limitations and requirements**
*The financial reform bill, officially named the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, made the $250,000 FDIC coverage limit permanent.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest that depository institutions lend monies overnight to other depository institutions. Also referred to as the overnight lending rate.This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market. Congress defined this mission in (their) 1970 charter. Freddie Mac buys mortgage loans from banks, thrifts and other financial intermediaries, and re-sells these loans to investors, or keeps them for their own portfolio, profiting from the difference between their funding costs and the yield generated by the mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

GOVERNMENT SECURITIES: Obligations of the U.S. Government and its agencies and instrumentalities.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

NRSRO: Nationally Recognized Statistical Rating Organization; Credit rating agencies that are registered with the SEC. Such agencies provide an opinion on the creditworthiness of an entity and the financial obligations issued by an entity.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE: The principal amount of a bond returned by the maturity date.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC TIME DEPOSITS (Term Certificates Of Deposit): Time deposits are issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE l5(C))3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

APPENDIX D

SUMMARY OF THE LEGAL DOCUMENTS

The following is a summary of certain of the definitions and terms of the Master Indenture, First Supplemental Indenture, Second Supplemental Indenture, Third Supplemental Indenture and Fourth Supplemental Indenture. The 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, First Supplemental Indenture, Second Supplemental Indenture, and Third Supplemental Indenture are on file with the Trustee. Following delivery of the Series 2017 Bonds, the Fourth 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);

(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.

“First Supplemental Indenture” shall mean the First Supplement to Indenture of Trust, dated as of July 1, 2012, 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.

“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 has been amended by the First Supplemental Indenture and Second Supplemental Indenture and 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;

(iv) 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

(v) 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 depositary, 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.

“Prior Obligations” shall mean the Parking Authority of the City and County of San Francisco Parking Meter Revenue Refunding Bonds, Series 1999-1; Parking Authority of the City and County of San Francisco Lease Revenue Bonds Series 2000A (North Beach Parking Garage Project); City of San Francisco Ellis-O’Farrell Parking Corporation Parking Revenue Refunding Bonds, Series 2002; City of San Francisco Uptown Parking Corporation Parking Revenue Bonds (Union Square), Series 2001; and City of San Francisco Downtown Parking Corporation Parking Revenue Refunding Bonds, Series 2002.

“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.

"Second Supplemental Indenture" shall mean the Second Supplement to Indenture of Trust, dated as of December 1, 2013, by and between the SFMTA and the Trustee.

"Series of Bonds" or "Bonds of a Series" or "Series" shall mean a series of Bonds issued pursuant to the Indenture.

"Series 2012 Bonds" shall mean the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2012A and the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2012B.

"Series 2012A Bonds" shall mean the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2012A issued pursuant to the terms of the Indenture and the First Supplemental Indenture.

"Series 2012B Bonds" shall mean the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2012B issued pursuant to the terms of the Indenture and the First Supplemental Indenture.

"Series 2012A Debt Service Account" means the account within the Debt Service Fund created pursuant to the First Supplemental Indenture.

"Series 2012B Debt Service Account" means the account within the Debt Service Fund created pursuant to the First Supplemental Indenture.

“Series 2012 Reserve Requirement” shall mean, as of any date of calculation, the least of (i) an amount equal to Maximum Annual Debt Service with respect to the Series 2012 Bonds, (ii) 125% of average annual debt service on the Series 2012 Bonds, or (iii) 10% of the Outstanding Principal Amount of Series 2012 Bonds. A future Series of Bonds may be designated in a Supplemental Indenture to benefit from and participate in the Series 2012 Reserve Account. In such event, the foregoing definition shall be applicable to such Series of Bonds but shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

“Series 2012 Reserve Account” shall mean the Series 2012 Reserve Account in the Reserve Fund established pursuant to the First Supplemental Indenture.

“Series 2013 Bonds” shall mean the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2013 issued pursuant to the terms of the Indenture and the Second Supplemental Indenture.

“Series 2013 Debt Service Account” shall mean the account within the Debt Service Fund created pursuant to the Second Supplemental Indenture.

“Series 2013 Reserve Account” shall mean the Series 2013 Reserve Account in the Reserve Fund established pursuant to the Second Supplemental Indenture.

“Series 2013 Reserve Requirement” shall mean, as of any date of calculation, the least of (i) an amount equal to Maximum Annual Debt Service with respect to the Series 2013 Bonds, (ii) 125% of average annual debt service on the Series 2013 Bonds, or (iii) 10% of the Outstanding Principal Amount of Series 2013 Bonds. A future Series of Bonds may be designated in a Supplemental Indenture to benefit from and participate in the Series 2013 Reserve Account. In such event, the foregoing definition shall be applicable to such Series of Bonds but shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

“Series 2014 Bonds” shall mean the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2014 issued pursuant to the terms of the Indenture and the Third Supplemental Indenture.

“Series 2014 Debt Service Account” shall mean the account within the Debt Service Fund created pursuant to the Third Supplemental Indenture.

“Series 2014 Reserve Account” shall mean the Series 2014 Reserve Account in the Reserve Fund established pursuant to the Third Supplemental Indenture.

“Series 2014 Reserve Requirement” shall mean, as of any date of calculation, the least of (i) an amount equal to Maximum Annual Debt Service with respect to the Series 2014 Bonds, (ii) 125% of average annual debt service on the Series 2014 Bonds, or (iii) 10% of the Outstanding Principal Amount of Series 2014 Bonds. A future Series of Bonds may be designated in a Supplemental Indenture to benefit from and participate in the Series 2014 Reserve Account. In such event, the foregoing definition shall be applicable to such Series of Bonds but shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

"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.

"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.

"Third Supplemental Indenture" shall mean the Third Supplement to Indenture of Trust, dated as of December 1, 2014, by and between the SFMTA and the Trustee.

"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 SFTMA.

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) <u>Private Activity</u>. 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.

FIRST SUPPLEMENT TO INDENTURE OF TRUST

The following is a summary of certain provisions of the First Supplemental Indenture.

Series 2012 Interest and Principal Accounts. The SFMTA shall transfer Pledged Revenues to the Trustee for deposit in the Debt Service Fund as provided in the Master Indenture and the First Supplemental Indenture; provided, that the following accounts are created in the Debt Service Fund held by the Trustee with respect to the Series 2012 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 2012 Bonds or otherwise, the deposits below need not be made:

Series 2012A Debt Service Account and Series 2012B Debt Service Account. On or before the Business Day prior to each Series 2012 Payment Date, the Trustee shall transfer from the Debt Service Fund to the Series 2012A Debt Service Account and Series 2012B Debt Service Account within the Debt Service Fund (which accounts are created under the First Supplemental Indenture), the interest and Principal Amount to become due on such Series 2012 Bonds on such Series 2012 Payment Date; provided that the SFMTA need not transfer any moneys at such time as the balance in said Series 2012A Debt Service Account and said Series 2012B Debt Service Account shall be equal to the aggregate amount of interest and Principal Amount becoming due and payable on the then Outstanding Series 2012A Bonds and Series 2012B Bonds, respectively, on such Series 2012 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.

Series 2012 Reserve Account.

(a) The Series 2012 Reserve Account in the Reserve Fund is established with the Trustee under the First Supplemental Indenture. The Reserve Requirement for the Series 2012 Bonds shall be the Series 2012 Reserve Requirement. The Series 2012 Reserve Account shall benefit only the Series 2012 Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2012 Reserve Account shall secure on a parity basis the Series 2012 Bonds and any additional Series of Bonds so designated in a Supplemental Indenture. In the event an additional Series of Bonds is designated in a Supplemental Indenture to benefit from the Series 2012 Reserve Account, the definition of Series 2012 Reserve Requirement shall be applicable to such Series of Bonds but shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

(b) If on any Series 2012 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2012 Bonds on such Series 2012 Payment Date (or any Series of Bonds

designated in a Supplemental Indenture on its Payment Dates), then the Trustee shall withdraw the amount of any such deficiency from the Series 2012 Reserve Account and deposit such amount in the Debt Service Fund.

(c) All money on deposit in the Series 2012 Reserve Account in excess of the Series 2012 Reserve Requirement shall be transferred to the SFMTA or to such account as an Authorized SFMTA Representative may designate; and for this purpose all investments in the Series 2012 Reserve Account shall be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest).

(d) The Trustee shall deposit moneys received from the SFMTA pursuant to the Master Indenture in the Series 2012 Reserve Account, in an amount equal to that sum, if any, necessary to restore the Series 2012 Reserve Account to an amount equal to the Series 2012 Reserve Requirement. The obligation to make the foregoing transfers to the Series 2012 Reserve Account shall be on a parity without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. If provided for in a Supplemental Indenture, the obligation to make the foregoing transfers shall be on a parity with the obligation to fund any separate reserve accounts within the Reserve Fund henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter 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.

SECOND SUPPLEMENT TO INDENTURE OF TRUST

The following is a summary of certain provisions of the Second Supplemental Indenture.

Series 2013 Interest and Principal Accounts. The SFMTA shall transfer Pledged Revenues to the Trustee for deposit in the Debt Service Fund as provided in the Indenture; provided, that the following account is created in the Debt Service Fund held by the Trustee with respect to the Series 2013 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 2013 Bonds or otherwise, the deposits below need not be made:

Series 2013 Debt Service Account. On or before the Business Day prior to each Series 2013 Payment Date, the Trustee shall transfer from the Debt Service Fund to the Series 2013 Debt Service Account within the Debt Service Fund (which account is created under the Second Supplemental Indenture), the interest and Principal Amount to become due on such Series 2013 Bonds on such Series 2013 Payment Date; provided that the SFMTA need not transfer any moneys at such time as the balance in said Series 2013 Debt Service Account shall be equal to the aggregate amount of interest and Principal Amount becoming due and payable on the then Outstanding Series 2013 Bonds on such Series 2013 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, 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.

Series 2013 Reserve Account.

(a) The Series 2013 Reserve Account in the Reserve Fund is established with the Trustee under the Second Supplemental Indenture. The Reserve Requirement for the Series 2013 Bonds shall be the Series 2013 Reserve Requirement. The Series 2013 Reserve Account shall benefit only the Series 2013 Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2013 Reserve Account shall secure on a parity basis the Series 2013 Bonds and any additional Series of Bonds so designated in a Supplemental Indenture. In the event an additional Series of Bonds is designated in a Supplemental Indenture to benefit from the Series 2013 Reserve Account, the definition of Series 2013 Reserve Requirement shall be applicable to such Series of Bonds but shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

(b) If on any Series 2013 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2013 Bonds on such Series 2013 Payment Date (or any Series of Bonds

designated in a Supplemental Indenture on its Payment Dates), then the Trustee shall withdraw the amount of any such deficiency from the Series 2013 Reserve Account and deposit such amount in the Debt Service Fund.

(c) All money on deposit in the Series 2013 Reserve Account in excess of the Series 2013 Reserve Requirement shall be transferred to the SFMTA or to such account as an Authorized SFMTA Representative may designate; and for this purpose all investments in the Series 2013 Reserve Account shall be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest).

(d) The Trustee shall deposit moneys received from the SFMTA pursuant to the Master Indenture in the Series 2013 Reserve Account, in an amount equal to that sum, if any, necessary to restore the Series 2013 Reserve Account to an amount equal to the Series 2013 Reserve Requirement. The obligation to make the foregoing transfers to the Series 2013 Reserve Account shall be on a parity with the obligation to make transfers to the Series 2012 Reserve Account without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. If provided for in a Supplemental Indenture, the obligation to make the foregoing transfers shall be on a parity with the obligation to fund any separate reserve accounts within the Reserve Fund henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter 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.

THIRD SUPPLEMENT TO INDENTURE OF TRUST

The following is a summary of certain provisions of the Third Supplemental Indenture.

Series 2014 Interest and Principal Accounts. The SFMTA shall transfer Pledged Revenues to the Trustee for deposit in the Debt Service Fund as provided in the Indenture; provided, that the following account is created in the Debt Service Fund held by the Trustee with respect to the Series 2014 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 2014 Bonds or otherwise, the deposits below need not be made:

Series 2014 Debt Service Account. On or before the Business Day prior to each Series 2014 Payment Date, the Trustee shall transfer from the Debt Service Fund to the Series 2014 Debt Service Account within the Debt Service Fund (which account is created under the Third Supplemental Indenture), the interest and Principal Amount to become due on such Series 2014 Bonds on such Series 2014 Payment Date; provided that the SFMTA need not transfer any moneys at such time as the balance in said Series 2014 Debt Service Account shall be equal to the aggregate amount of interest and Principal Amount becoming due and payable on the then Outstanding Series 2014 Bonds on such Series 2014 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 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.

Series 2014 Reserve Account.

(a) The Series 2014 Reserve Account in the Reserve Fund is established with the Trustee under the Third Supplemental Indenture. The Reserve Requirement for the Series 2014 Bonds shall be the Series 2014 Reserve Requirement. The Series 2014 Reserve Account shall benefit only the Series 2014 Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2014 Reserve Account shall secure on a parity basis the Series 2014 Bonds and any additional Series of Bonds so designated in a Supplemental Indenture. In the event an additional Series of Bonds is designated in a Supplemental Indenture to benefit from the Series 2014 Reserve Account, the definition of Series 2014 Reserve Requirement shall be applicable to such Series of Bonds but shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

(b) If on any Series 2014 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2014 Bonds on such Series 2014 Payment Date (or any Series of Bonds

designated in a Supplemental Indenture on its Payment Dates), then the Trustee shall withdraw the amount of any such deficiency from the Series 2014 Reserve Account and deposit such amount in the Debt Service Fund.

(c) All money on deposit in the Series 2014 Reserve Account in excess of the Series 2014 Reserve Requirement shall be transferred to the SFMTA or to such account as an Authorized SFMTA Representative may designate; and for this purpose all investments in the Series 2014 Reserve Account shall be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest).

(d) The Trustee shall deposit moneys received from the SFMTA pursuant to the Master Indenture in the Series 2014 Reserve Account, in an amount equal to that sum, if any, necessary to restore the Series 2014 Reserve Account to an amount equal to the Series 2014 Reserve Requirement. The obligation to make the foregoing transfers to the Series 2014 Reserve Account shall be on a parity with the obligation to make transfers to the Series 2012 Reserve Account without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. If provided for in a Supplemental Indenture, the obligation to make the foregoing transfers shall be on a parity with the obligation to fund any separate reserve accounts within the Reserve Fund henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter 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.

FOURTH SUPPLEMENT TO INDENTURE OF TRUST

The following is a summary of certain provisions of the Fourth Supplemental Indenture.

Series 2017 Interest and Principal Accounts. The SFMTA shall transfer Pledged Revenues to the Trustee for deposit in the Debt Service Fund as provided in the Indenture; provided, that the following 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 (which account is created under the Third Supplemental Indenture), 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.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY REVENUE BONDS, SERIES 2017

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 Fourth Supplement to Indenture of Trust dated as of June 1, 2017 between the SFMTA and the Trustee (the "Fourth Supplemental Indenture" and, together with the Master Indenture, the "Indenture"), Ordinance No. 57-12 of the Board of Supervisors adopted on April 19, 2012, Resolution No. 231-16 of the Board of Supervisors adopted on June 7, 2016 and signed by the Mayor on June 17, 2016, and Resolution No. 16-044 of the Board of Directors of the SFMTA (the "Board") adopted on April 5, 2016 in connection with the issuance of the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2017 (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. 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.

"Holder" shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at http://emma.msrb.org.

"Participating Underwriter" shall mean any of the original underwriters or purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The SFMTA shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the SFMTA's Fiscal Year (which is June 30), commencing with the report for the 2016-17 Fiscal Year (which is due not later than March 27, 2018), 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(c).

(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, as required by the Rule:

(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:

(i) TABLE 2 – HISTORIC FIXED ROUTE RIDERSHIP BY MODE;

(ii) TABLE 6 – SFMTA HISTORICAL OPERATING REVENUES AND EXPENSES;

(iii) TABLE 7 – PLEDGED REVENUES;

(iv) TABLE 9 – FARE REVENUE, RIDERSHIP AND AVERAGE FARES PER PASSENGER; and

(v) TABLE 17 – SFMTA OPEB ALLOCATIONS AND CONTRIBUTIONS.

In addition, if the City and County of San Francisco 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 City and County of San Francisco 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 events numbered 1-9 with respect to the Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB) or adverse tax opinions;

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The SFMTA shall give, or cause to be given, notice of the occurrence of any of the following events numbered 10 16 with respect to the Bonds not later than ten business days after the occurrence of the event, if material:

10. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

11. Modifications to rights of Bond holders;

12. Unscheduled or contingent Bond calls;

13. Release, substitution, or sale of property securing repayment of the Bonds;

14. Non-payment related defaults;

15. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

16. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The 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).

(d) Whenever the SFMTA obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the SFMTA shall determine if such event would be material under applicable federal securities laws.

(e) If the SFMTA learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the 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 subsection 5(b)(12) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The SFMTA's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the SFMTA shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

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 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 the Bonds or (ii) does not, in the opinion of the SFMTA 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 Underwriter, 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.

Date: June 7, 2017.

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 2017
Date of Issuance:	JUNE 7, 2017

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 2017 Bonds, payment of principal, interest and other payments on the Series 2017 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series 2017 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 2017 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2017 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2017 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 ("DTC"), New York, NY, will act as securities depository for the securities (the "Bonds"). The Series 2017 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 the Series 2017 Bonds, in the aggregate principal amount of such issue, 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 Bonds 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 rating from Standard & Poor's 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 2017 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 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 2017 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 Bonds unless authorized by a Direct Participant in accordance with

DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2017 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 SFMTA or 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, Trustee, or SFMTA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of SFMTA or 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 2017 Bonds at any time by giving reasonable notice to SFMTA or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

SFMTA may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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APPENDIX G

PROPOSED FORM OF LEGAL OPINION OF CO BOND COUNSEL

June 7, 2017

San Francisco Municipal Transportation Agency
San Francisco, California

$177,830,000
San Francisco Municipal Transportation Agency
Revenue Bonds, Series 2017

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 its $177,830,000 San Francisco Municipal Transportation Agency Revenue Bonds, Series 2017 (the "Series 2017 Bonds"). The Series 2017 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. 16-044 duly adopted by the SFMTA on April 5, 2016 (the "SFMTA Resolution"), Resolution No. 231-16, duly adopted by the Board of Supervisors of the City on June 7, 2016 and signed by Mayor Edwin M. Lee on June 17, 2016 (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 supplemented by a First Supplement to Indenture of Trust, dated as of July 1, 2012, a Second Supplement to Indenture of Trust, dated as of December 1, 2013, a Third Supplement to Indenture of Trust, dated as of December 1, 2014, and a Fourth Supplement to Indenture of Trust, dated as of June 1, 2017 (collectively, the "Indenture"), providing for the issuance of the Series 2017 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 Resolution, the City Resolution, the Indenture and the proceedings of the SFMTA in connection with the issuance of the Series 2017 Bonds. We have also examined such certificates of officers of the SFMTA and others as we have considered necessary for the purposes of this opinion. This opinion is limited to the laws of the State of California and the federal laws of the United States of America.

Based upon the foregoing, we are of the opinion that:

1. The Series 2017 Bonds constitute valid and binding special limited obligations of the SFMTA and are payable solely from Pledged Revenues and certain other amounts held under the Indenture.

2. The Indenture has been duly and validly authorized, executed and delivered by the SFMTA and, assuming the Indenture constitutes a legal valid and binding obligation of the Trustee, constitutes a legal, valid and binding obligation of the SFMTA, enforceable against the SFMTA in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal and interest on the Series 2017 Bonds, of the Pledged Revenues of the SFMTA, and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. Under existing statutes, regulations, rulings and court decisions, interest on the Series 2017 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein after the date hereof, interest on the Series 2017 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes and will not be included in computing the federal alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Series 2017 Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the federal alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed. The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2017 Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the interest on the Series 2017 Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Series 2017 Bonds. Pursuant to the Indenture and a tax certificate pertaining to arbitrage and other matters under sections 103 and 141-150 of the Code being delivered by the SFMTA in connection with the issuance of the Series 2017 Bonds (the "Tax Certificate"), the SFMTA is making representations relevant to the determination of, and is undertaking certain covenants regarding or affecting, the exclusion of interest on the Series 2017 Bonds from the gross income of the owners thereof for federal income tax purposes.

In reaching our opinions described in the immediately preceding paragraph, we have assumed the accuracy of and have relied upon such representations and the present and future compliance by the SFMTA with such covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal, state, or local tax consequence of the receipt or accrual of interest on, or the ownership or disposition of, the Series 2017 Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequence with respect to the Series 2017 Bonds, or the interest thereon, if any action is taken with respect to the Series 2017 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel. Ownership of tax-exempt obligations such as the Series 2017 Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the Series 2017 Bonds may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Series 2017 Bonds is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in the State of California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2017 Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

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