

In the opinion of Hawkins Delafield & Wood LLP and Rosales Law Partners LLP, San Francisco, Co-Bond Counsel to the SFMTA, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2013 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2013 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of the alternative minimum tax imposed on such corporations. In addition, in the opinion of Co-Bond Counsel to the SFMTA, under existing statutes, interest on the Series 2013 Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.



SFMTA
Municipal Transportation Agency

\$75,440,000

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY
REVENUE BONDS, SERIES 2013**

Dated: Date of Delivery

Due: March 1, as shown on the inside cover

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

The San Francisco Municipal Transportation Agency Revenue Bonds, Series 2013 (the "Series 2013 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"), the 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 Second Supplement to Indenture of Trust dated as of December 1, 2013 (collectively, the "Indenture") between the SFMTA and the Trustee. The Series 2013 Bonds are being issued to (i) finance a portion of the costs of various capital projects for the SFMTA as described herein; (ii) make a deposit to the Series 2013 Reserve Account of the Reserve Fund established under the Indenture for the Series 2013 Bonds; and (iii) pay a portion of the costs of issuance of the Series 2013 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Interest on the Series 2013 Bonds will be payable on March 1, 2014 and on each September 1 and March 1 thereafter until their respective stated maturity dates. The Series 2013 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, New York, New York ("DTC"), to which payments of principal of and interest on the Series 2013 Bonds will be made. Individual purchases of the Series 2013 Bonds will be made in bookentry form only, in denominations of \$5,000 or any integral multiple thereof. Beneficial Owners of the Series 2013 Bonds will not receive physical delivery of bond certificates. Payment of principal of the Series 2013 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 2013 Bonds. See Appendix F—"DTC AND THE BOOKENTRY ONLY SYSTEM" herein.

The Series 2013 Bonds are subject to optional 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 Bonds, which consist of all outstanding parity revenue bonds issued under the Indenture, including the Series 2013 Bonds, subject to the flow of funds contained in the Indenture.

THE SERIES 2013 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 2013 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 2013 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 2013 BONDS. THE SERIES 2013 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 2013 Bonds are offered when, as, and if issued by the SFMTA and accepted by the purchasers, subject to approval of legality by Hawkins Delafield & Wood LLP, San Francisco, California, and Rosales Law Partners, LLP, San Francisco, California, Co-Bond Counsel. Certain legal matters will be passed upon for the SFMTA by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Disclosure Counsel to the SFMTA, and the City Attorney of the City and County of San Francisco, and for the Underwriters by their counsel, Kutak Rock LLP. It is expected that the Series 2013 Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about December 4, 2013.

J.P. Morgan
Morgan Stanley

RBC Capital Markets
Siebert Brandford Shank & Co., L.L.C.

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.

Certain information has come from other sources that are not developed by the SFMTA, and the SFMTA presents that information for convenience only. The SFMTA does not guarantee the accuracy of any such information and undertakes no responsibility to verify any of that information. Links to other websites similarly are provided for convenience; the SFMTA takes no responsibility for the accuracy of such information.

THIS IS NOT AN OFFER TO SELL BONDS. Information in this document is not an offer to sell securities or the solicitation of an offer to buy securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Viewers acknowledge that: (1) the SFMTA is not now by this document and the information shown herein offering any bonds, notes or other obligations, nor soliciting an offer to buy any such securities; (2) this document and the information herein shall not be construed as any description of the SFMTA, any departments thereof or the programs of the SFMTA in conjunction with any offering of bonds, notes or other obligations; (3) the information in this document is subject to change without notice, and no one shall assume from the availability of this document and the information herein that the affairs of the SFMTA and/or the programs of the SFMTA have not changed since the date of this information; (4) no representation is made as to the propriety or legality of any secondary market trading of the bonds, notes or other obligations of the SFMTA by anyone in any jurisdiction, (5) the information in this document speaks as of its date, and the SFMTA does not hereby obligate itself in any manner to periodically or otherwise update this information or to maintain the availability of this information.

All information in this document has been obtained by the SFMTA from sources believed to be reliable but no representation or warranty is made by the SFMTA as to its accuracy or completeness. Neither the SFMTA, nor any of its agencies or departments nor any of its officers or employees, shall be held liable for any use of the information described and/or contained in this document. In no event shall the SFMTA or its agencies or departments, officers or employees be liable for any direct, indirect, incidental, special, exemplary or consequential damages however caused and on any theory of liability, whether in contract, strict liability or tort (including negligence or otherwise) arising in any way out of the use of this document, even if advised of the possibility of such damage. This disclaimer of liability applies to any and all damages and injuries, including, but not limited to those caused by any failure of performance, error, omission, interruption, deletion, defect, delay in operation or transmission, computer virus, communication line failure, theft or destruction or unauthorized access to, alteration of, or use of any record, whether for breach of contract, tortious behavior, negligence or under any other cause of action. This disclaimer applies to both isolated and aggregate uses of the information in this document.

Any addresses or links to other websites which may be contained in this document are given only for the convenience of the viewer. The SFMTA has not participated in the preparation, collection, compilation or selection of information on any such other website and assumes no responsibility or liability for the contents of such websites. Due to the dynamic nature of the internet, resources that are free and publicly available one day may require a fee or restricted access the next, and the location of items may change as menus, homepages and files are reorganized. If you obtain any information from this document from any source other than this document, please be aware that electronic data can be altered subsequent to original distribution. Data can also quickly become out of date. It is recommended that careful attention be paid to any data associated with a file, and that the originator of the data or information be contacted with any questions regarding appropriate use.

Choice of Law Construction of the disclaimers above and resolution of disputes regarding such disclaimers are governed by the laws of the State of California. The laws of the State of California shall apply to all uses of this document and the information contained in this document.

Viewer Acknowledgement and Agreement. The viewer acknowledges and agrees that the information provided in this document is provided by the SFMTA for convenience. By viewing this document and the information contained herein, the viewer acknowledges and agrees that any use of the document and information contained herein shall conform to all applicable laws and regulations and that the viewer shall not violate the rights of any third parties and agrees to all of the terms, conditions and provisions set forth above under "Notice to Readers," "THIS IS NOT AN OFFER TO SELL BONDS" and "Choice of Law."

MATURITY SCHEDULE

Series 2013 Bonds

(Base CUSIP* Number: 797686)

\$75,440,000 Serial Bonds

<u>Maturity (March 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP* Suffix</u>
2014	\$2,580,000	1.50%	0.16%	BJ0
2015	2,530,000	3.00	0.23	BK7
2016	2,605,000	4.00	0.39	BL5
2017	2,710,000	5.00	0.65	BM3
2018	2,845,000	3.00	1.05	BN1
2019	2,930,000	4.00	1.49	BP6
2020	3,050,000	5.00	1.98	BQ4
2021	3,200,000	4.00	2.44	BR2
2022	3,330,000	5.00	2.75	BS0
2023	3,495,000	5.00	3.02	BT8
2024	3,670,000	5.00	3.24 [†]	BU5
2025	3,855,000	5.00	3.44 [†]	BV3
2026	4,045,000	5.00	3.61 [†]	BW1
2027	4,250,000	5.00	3.83 [†]	BX9
2028	4,460,000	5.00	3.97 [†]	BY7
2029	4,685,000	5.00	4.09 [†]	BZ4
2030	4,920,000	5.00	4.20 [†]	CA8
2031	5,165,000	5.00	4.29 [†]	CB6
2032	5,420,000	5.00	4.38 [†]	CC4
2033	5,695,000	5.00	4.44 [†]	CD2

* Copyright 2013, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Global Services, managed for the American Bankers Association by Standard & Poor's Financial Services LLC. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the SFMTA nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

[†] Yield to par call on March 1, 2023.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized. 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 2013 Bonds by a 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 has been obtained from the SFMTA, the City and other sources which are believed to be reliable but it 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 or the City since the date hereof.

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

The information and expression of opinions 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 information provided herein since the date hereof.

The City maintains a website at <http://www.sfgov.org> and the SFMTA maintains a website at <http://www.sfmta.com>. The information contained in such websites is not incorporated by reference herein and should not be relied upon in making an investment in the Series 2013 Bonds.

The issuance and sale of the Series 2013 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 THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2013 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2013 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE FRONT COVER HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

This Official Statement is not to be construed as a contract with the purchaser or purchasers of the Series 2013 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.

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.

(THIS PAGE INTENTIONALLY LEFT BLANK)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

BOARD OF DIRECTORS

Tom Nolan, *Chairman*
Cheryl Brinkman, *Vice-Chair*
Malcolm Heinicke, *Director*
Jerry Lee, *Director*
Joél Ramos, *Director*
Cristina Rubke, *Director*

SFMTA STAFF

Edward Reiskin, *Director of Transportation*
Sonali Bose, *Chief Financial Officer*
John H. Haley, *Director, Transit*
Vince Harris, *Director, Capital Programs & Construction*
Bond Yee, *Director, Sustainable Streets*

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

David Chiu, <i>Board President, District 3</i>	
Eric Mar, <i>District 1</i>	Norman Yee, <i>District 7</i>
Mark Farrell, <i>District 2</i>	Scott Wiener, <i>District 8</i>
Katy Tang, <i>District 4</i>	David Campos, <i>District 9</i>
London Breed, <i>District 5</i>	Malia Cohen, <i>District 10</i>
Jane Kim, <i>District 6</i>	John Avalos, <i>District 11</i>

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

CITY CONTROLLER

Benjamin Rosenfield

PROFESSIONAL SERVICES

Co-Bond Counsel

Hawkins Delafield & Wood LLP
San Francisco, California

Rosales Law Partners LLP
San Francisco, California

Co-Financial Advisors

Backstrom McCarley Berry & Co., LLC
San Francisco, California

Public Financial Management, Inc.
San Francisco, California

Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

TABLE OF CONTENTS

	Page
INTRODUCTION	1
The San Francisco Municipal Transportation Agency	1
Authority for Issuance	1
Purpose	2
Security and Sources of Payment for the Bonds	2
Other Obligations Secured by Pledged Revenues	3
Continuing Disclosure and Additional Information	3
TERMS OF THE SERIES 2013 BONDS	4
General	4
Form and Registration	4
Redemption Provisions	5
ESTIMATED SOURCES AND USES OF FUNDS	6
DEBT SERVICE SCHEDULE	7
SERIES 2013 PROJECTS	8
Bond Oversight Committee	9
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS	9
Special, Limited Obligations	9
Pledge of Pledged Revenues Under the Indenture	9
Application of Pledged Revenues and Enterprise Account	10
Bond Reserve Account	12
Permitted Investments	12
Covenant to Adopt a Balanced Budget and Maintain Adequate Pledged Revenues	12
Other Obligations Secured by Pledged Revenues	13
Additional Bonds and Other Indebtedness	13
THE CITY AND COUNTY OF SAN FRANCISCO	15
THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY	16
Organization and Purpose	16
Board of Directors	18
Management	18
Transit	19
Parking and Traffic Functions	23
Financial Operations	27
Operating Revenues	28
Interest Income	33
Federal, State, Regional and Local Grants	33

TABLE OF CONTENTS
(continued)

	Page
City General Fund Transfers	35
Appropriated Prior Year Fund Balance	36
Contingency Reserve Policy	36
Operating and Maintenance Expenses.....	36
Fiscal Year 2012-13 and Fiscal Year 2013-14 Budget.....	39
Labor Relations	40
Capital Program.....	43
Outstanding Debt.....	57
Commercial Paper Program	57
Future Debt Issuance	57
Lease/Leaseback Transactions	57
Risk Management and Insurance.....	58
Investment of SFMTA Funds.....	59
CERTAIN RISK FACTORS	60
Series 2013 Bonds Limited Obligations.....	60
Limitation on Remedies	60
Reliance Upon Grants and City General Fund Transfers	60
Physical Condition of the SFMTA Assets.....	61
Construction Risk.....	61
Increased Operation and Maintenance Expenses	62
Labor Actions.....	62
Statutory and Regulatory Compliance.....	62
Safety and Security.....	62
Casualty Losses	62
Seismic Risks	63
State Law Limitations on Appropriations	63
Constitutional and Statutory Restrictions	63
Change in Law; Local Initiatives	64
Impact of a City Bankruptcy	64
Loss of Tax Exemption/Risk of Tax Audit of Municipal Issuers.....	65
Change in Tax Law	65
Failure to Maintain Credit Ratings	65
Secondary Market	65
Uncertainties of Projections, Forecasts and Assumptions	66
Other Risks.....	66

TABLE OF CONTENTS
(continued)

	Page
AUDITED FINANCIAL STATEMENTS	66
CONTINUING DISCLOSURE.....	66
TAX MATTERS	67
Opinion of Co-Bond Counsel.....	67
Certain Ongoing Federal Tax Requirements and Covenants.....	67
Certain Collateral Federal Tax Consequences.....	67
Original Issue Discount.....	68
Bond Premium.....	68
Information Reporting and Backup Withholding.....	68
Miscellaneous.....	69
RATINGS.....	69
UNDERWRITING	69
ABSENCE OF LITIGATION	70
CERTAIN LEGAL MATTERS	70
ROLE OF THE FINANCIAL ADVISORS.....	71
MISCELLANEOUS.....	71
APPROVAL AND EXECUTION.....	72
APPENDIX A SFMTA AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013.....	A-1
APPENDIX B CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES.....	B-1
APPENDIX C CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER INVESTMENT POLICY	C-1
APPENDIX D SUMMARY OF THE LEGAL DOCUMENTS.....	D-1
APPENDIX E FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	E-1
APPENDIX F DTC AND THE BOOK-ENTRY ONLY SYSTEM	F-1
APPENDIX G PROPOSED FORM OF LEGAL OPINION OF CO-BOND COUNSEL	G-1

(THIS PAGE INTENTIONALLY LEFT BLANK)

OFFICIAL STATEMENT

\$75,440,000

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY REVENUE BONDS, SERIES 2013

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 \$75,440,000 aggregate principal amount of its San Francisco Municipal Transportation Agency Revenue Bonds, Series 2013 (the “Series 2013 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 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 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 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.

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 40 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 2013 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 Second Supplement to Indenture of Trust dated as of December 1, 2013 between the SFMTA and the Trustee (the “Second 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. 13-205 of the Board of Directors of the SFMTA (the “Board”) adopted on September 3, 2013, and Resolution No. 337-13 of the Board of Supervisors adopted on September 24, 2013. The Series 2013 Bonds together with the SFMTA’s Revenue Bonds, Series 2012A and Series 2012B (the “Series 2012 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 2013 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; (ii) to make a deposit to the Series 2013 Reserve Account of the Reserve Fund established under the Indenture for the Series 2013 Bonds; and (iii) to pay a portion of the costs of issuance of the Series 2013 Bonds. See “SERIES 2013 PROJECTS” and “ESTIMATED SOURCES AND USES OF FUNDS” herein for a further description of the expected application of proceeds of the Series 2013 Bonds.

Security and Sources of Payment for the Bonds

The Series 2013 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 2013 Bonds, subject to the flow of funds contained in the Indenture. See “—Other Obligations Secured by Pledged Revenues.” The Series 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 Bonds. The Series 2013 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.”

Upon the issuance of the Series 2013 Bonds, the SFMTA will fund the Series 2013 Reserve Account relating to the Series 2013 Bonds in an amount equal to the Series 2013 Reserve Requirement (defined herein). Moneys on deposit in the Series 2013 Reserve Account will be used and withdrawn for the purpose of paying principal of and interest on the Series 2013 Bonds in the event Pledged Revenues deposited with the Trustee is

insufficient therefor. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Bond Reserve Account.”

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 2013 Bonds.

Other Obligations Secured by Pledged Revenues

The Series 2013 Bonds are payable from Pledged Revenues under the Indenture on a parity with the SFMTA’s Revenue Bonds, Series 2012A and Series 2012B, outstanding in the aggregate principal amounts of \$34,885,000 and \$25,835,000, 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 will support 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 does not anticipate issuing any CP Notes until early 2014. See “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY—Commercial Paper Program.”

Continuing Disclosure and Additional Information

The SFMTA will covenant in a Continuing Disclosure Certificate, to be executed and delivered by the SFMTA concurrently with the issuance of the Series 2013 Bonds, to provide certain financial information and operating data relating to the SFMTA and notices of certain enumerated events, in certain cases only if material. 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.

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 2013 Bonds, the Indenture, the security and sources of payment for the Series 2013 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 2013 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 2013 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 2013 BONDS

General

The Series 2013 Bonds will be executed and delivered only as one fully-registered Series 2013 Bond for each maturity shown on the inside cover hereof. The Series 2013 Bonds will be delivered only in denominations of \$5,000 or an integral multiple thereof and interest on the Series 2013 Bonds shall be payable on each March 1 and September 1, commencing March 1, 2014, so long as any Series 2013 Bonds are outstanding (each an "Interest Payment Date"). Interest on the Series 2013 Bonds shall be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Series 2013 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 2013 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 2013 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC," together with any successor securities depository, the "Securities Depository"). DTC will act as initial Securities Depository for the Series 2013 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 2013 Bonds. So long as Cede & Co. is the registered owner of the Series 2013 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 2013 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 2013 Bonds.

So long as Cede & Co. is the registered owner of the Series 2013 Bonds, all payments of principal and interest on the Series 2013 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 2013 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 2013 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 2013 Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Series 2013 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 2013 Bonds maturing on or before March 1, 2023 are not subject to optional redemption prior to maturity. The Series 2013 Bonds maturing on or after March 1, 2024 are subject to optional redemption prior to maturity on or after March 1, 2023 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 2013 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.

Notice of Redemption. The Trustee is required to send a Notice of redemption to the Owners of any Series 2013 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 2013 Bond to be redeemed, to the Holder of such Series 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 Bonds. Whenever provision is made in the Indenture for the redemption of the Series 2013 Bonds and less than all of the Outstanding Series 2013 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 2013 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 2013 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 2013 Bonds selected for redemption will cease to accrue, and all such Series 2013 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 2013 Bonds. The SFMTA may at any time purchase Series 2013 Bonds and such Series 2013 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 2013 Bonds

in lieu of redemption. The remarketing or resale of any Series 2013 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 Bonds, and other available amounts, are expected to be applied approximately as set forth below:

<i>Sources</i>	
Bond Principal	\$ 75,440,000.00
Original Issue Premium	6,803,318.60
<i>Total Sources of Funds</i>	<hr/> \$ 82,243,318.60
<i>Uses</i>	
Deposit to Series 2013 Project Costs Account	\$ 75,000,000.00
Deposit to Series 2013 Reserve Account	5,980,000.00
Costs of Issuance ⁽¹⁾	1,012,194.00
Underwriter's Discount	251,124.60
<i>Total Uses of Funds</i>	<hr/> \$ 82,243,318.60

⁽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 2013 Bonds.

DEBT SERVICE SCHEDULE

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

Fiscal Year	Series	Series 2013 Bonds		Total
<u>Ending June 30</u>	<u>2012 Bonds⁽¹⁾</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service⁽¹⁾</u>
2014	\$ 6,158,831	\$ 2,580,000	\$ 842,655	\$ 9,581,486
2015	6,159,381	2,530,000	3,448,150	12,137,531
2016	6,162,781	2,605,000	3,372,250	12,140,031
2017	6,145,031	2,710,000	3,268,050	12,123,081
2018	5,749,281	2,845,000	3,132,550	11,726,831
2019	4,874,081	2,930,000	3,047,200	10,851,281
2020	4,885,581	3,050,000	2,930,000	10,865,581
2021	2,979,581	3,200,000	2,777,500	8,957,081
2022	2,976,581	3,330,000	2,649,500	8,956,081
2023	2,795,831	3,495,000	2,483,000	8,773,831
2024	2,796,081	3,670,000	2,308,250	8,774,331
2025	2,798,581	3,855,000	2,124,750	8,778,331
2026	2,795,881	4,045,000	1,932,000	8,772,881
2027	2,795,381	4,250,000	1,729,750	8,775,131
2028	2,796,894	4,460,000	1,517,250	8,774,143
2029	2,795,131	4,685,000	1,294,250	8,774,381
2030	2,795,056	4,920,000	1,060,000	8,775,056
2031	2,796,956	5,165,000	814,000	8,775,956
2032	2,795,125	5,420,000	555,750	8,770,875
2033	2,795,000	5,695,000	284,750	8,774,750
2034	2,799,250	-	-	2,799,250
2035	2,799,000	-	-	2,799,000
2036	2,799,250	-	-	2,799,250
2037	2,799,750	-	-	2,799,750
2038	2,795,250	-	-	2,795,250
2039	2,795,750	-	-	2,795,750
2040	2,795,750	-	-	2,795,750
2041	2,795,000	-	-	2,795,000
2042	2,798,250	-	-	2,798,250
TOTAL⁽¹⁾	\$102,024,300	\$75,440,000	\$41,571,605	\$219,035,906

⁽¹⁾ Totals may not add due to rounding.

SERIES 2013 PROJECTS

The SFMTA expects to apply a portion of the proceeds of the Series 2013 Bonds to finance the planning, design, acquisition, construction, reconstruction, rehabilitation or improvement of certain projects briefly described below (the “Series 2013 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 may substitute other projects for some or all of the Series 2013 Projects.

ANTICIPATED APPLICATION OF BOND PROCEEDS FOR SERIES 2013 PROJECTS

Projects	Bond Proceeds
Pedestrian Safety and Traffic Signal Improvements	\$ 5,000,000
Transit System Safety and Other Transit Improvements	11,000,000
Street Capital Improvements	9,000,000
Facility Improvements	7,000,000
Transit Fixed Guideway Improvements	30,500,000
Light Rail Vehicle Procurement	12,500,000
<i>Total Uses of Funds</i>	<u>\$75,000,000</u>

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 Other Transit Improvements. The Transit System Safety and Other Transit 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 of the transit priority toolkit.

Street Capital Improvements. The 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.

Transit Fixed Guideway Improvements. Transit Fixed Guideway Improvements is a capital program intended to address certain transit operational issues and maintenance needs, and to increase system reliability. It

includes project development and costs relating to: replacement of overhead wires and related poles and traction power systems serving light rail and trolley coach lines; improvement to the transportation central control facility and systems; replacement of the trackway and related systems serving the light rail and cable car lines to mitigate excessive noise and/or vibration.

Light Rail Vehicle Procurement. Under the Light Rail Vehicle Procurement program, SFMTA will purchase replacement light rail vehicles along with new vehicles to provide for growth in transit service.

Bond Oversight Committee

The Board has established the SFMTA Bond Oversight Committee to oversee the expenditure of bond proceeds funded by SFMTA revenue bonds and other forms of indebtedness to ensure that bond proceeds are spent on permitted purposes and that prudent internal controls are established. The Bond Oversight Committee 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").

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Special, Limited Obligations

THE SERIES 2013 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 2013 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 2013 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 2013 BONDS. THE SERIES 2013 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 the Series 2013 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 2013 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.

The Series 2013 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. See "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY—Parking and Traffic Functions—Parking Garages."

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 2013 Debt Service Account. Moneys held by the Trustee in the Debt Service Fund are to be transferred to the Series 2013 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 2013 Payment Date, the Trustee is required to transfer from the Debt Service Fund to the Series 2013 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 2013 Bonds on such Series 2013 Payment Date; provided that the SFMTA need not transfer any moneys at such time as the balance in the Series 2013 Debt Service Account is 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 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."

Bond Reserve Account

The Indenture establishes a Series 2013 Reserve Account within the Reserve Fund for the Series 2013 Bonds.

Series 2013 Reserve Account. Upon delivery of the Series 2013 Bonds, the Series 2013 Reserve Account within the Reserve Fund will be funded in an amount equal to \$5,980,000.00, which is equal to the initial Series 2013 Reserve Requirement for the Series 2013 Bonds. Moneys in the Series 2013 Reserve Account will be held in trust for the benefit and security of the Holders of the Series 2013 Bonds. As provided in a Supplemental Indenture, the Series 2013 Reserve Account may secure additional Series of Bonds issued in the future to the extent provided in a Supplemental Indenture, and the definition of Series 2013 Reserve Requirement would generally be applicable to such Series of Bonds.

The Series 2013 Reserve Requirement is defined under the Indenture to mean, as of any date of calculation, the least of (i) an amount equal to the Maximum Annual Debt Service with respect to the Series 2013 Bonds, (ii) 125% of the average annual debt service on the Series 2013 Bonds, or (iii) 10% of the total 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. See “SUMMARY OF THE LEGAL DOCUMENTS—DEFINITIONS”, “SUMMARY OF THE LEGAL DOCUMENTS—THE MASTER INDENTURE—Funds—Reserve Fund” and “SUMMARY OF THE LEGAL DOCUMENTS—SECOND SUPPLEMENT TO INDENTURE OF TRUST—Series 2013 Reserve Account” in Appendix D herein.

The Series 2013 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 under the terms and conditions set forth in the Indenture. See Appendix D—“SUMMARY OF THE LEGAL DOCUMENTS—THE MASTER INDENTURE—Funds—Reserve Fund” set forth herein. Upon issuance, the Series 2013 Reserve Requirement will be fully funded with a portion of the proceeds of the Series 2013 Bonds.

Series 2012 Reserve Account. In connection with the issuance of the Series 2012 Bonds, the Series 2012 Reserve Account was established within the Reserve Fund and funded in an amount equal to \$4,510,774.87, which was equal to the initial Series 2012 Reserve Requirement. Moneys on deposit in the Series 2012 Reserve Account are held in trust for the benefit and security of the Holders of the Series 2012 Bonds, provided that such Series 2012 Reserve Account may secure additional Series of Bonds in the future in accordance with the Indenture. Amounts in the Series 2012 Reserve Account do not secure and are not available to pay principal of or interest on the Series 2013 Bonds, and amounts in the Series 2013 Reserve Account do not secure nor are they available to pay principal of or interest on Series 2012 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 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 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 2013 Bonds are payable from Pledged Revenues under the Indenture on a parity with the SFMTA’s Revenue Bonds, Series 2012A and Series 2012B, outstanding in the aggregate principal amounts of \$34,885,000 and \$25,835,000, respectively. The SFMTA expects to issue approximately \$75 million of additional Bonds during 2014 and \$150 million of additional Bonds during 2016-2017. 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 does not anticipate issuing any CP Notes until early 2014. 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 2013 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 most recently completed and adopted Comprehensive Annual Financial Report (the “CAFR”) for its fiscal year 2011-12 estimated the City’s fiscal year 2011-12 population at 820,466.

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 2011, approximately 16.35 million people visited the City and spent an estimated \$8.46 billion during their stay. 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 CAFR estimates that per-capita personal income of the City for fiscal year 2011-12 was \$74,040. The San Francisco Unified School District operates 71 elementary and K-8 school sites, 13 middle schools, 17 senior high schools (including two continuation schools and an independent study school), and 36 State-funded preschool sites, and sponsors 9 independent charter schools. Higher education institutions located in the City include the University of San

Francisco, California State University-San Francisco, University of California-San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy and the Academy of Art University.

San Francisco International Airport (“SFO”), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation’s principal gateways for Pacific traffic. In fiscal year 2011-12, SFO serviced approximately 43.1 million passengers and handled 385,113 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (“BART”) (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 SFMTA service area. Muni, operated by the SFMTA, provides bus and streetcar service within the City. The Port of San Francisco (the “Port”), which administers 7.5 miles of Bay waterfront held in “public trust” by the Port on behalf of the people of the State, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities and natural resource protection.

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 in November 2011. The City’s budget for fiscal years 2013-14 and 2014-15 totals \$7.91 billion and \$7.93 billion, respectively. The City’s General Fund portion of each year’s budget is \$3.95 billion in fiscal year 2013-14 and \$4.05 billion in fiscal year 2014-15, with the balance being allocated to all other funds, including enterprise fund departments, such as the SFMTA, SFO, the Port and the San Francisco Public Utilities Commission (the “SFPUC”). The City’s CAFR estimates that the City employed approximately 28,073 full-time-equivalent employees at the end of fiscal year 2011-12. According to the Controller, fiscal year 2013-14 total net assessed valuation of taxable property in the City is approximately \$172.5 billion.

In January 2013, the Mayor established a Transportation Task Force (the “Task Force”) charged with prioritizing San Francisco’s transportation system needs and identifying funding sources to realize them. The Task Force, which is currently in an information gathering stage, convened its third session on April 30, 2013. The Task Force expects to provide recommendations regarding the needs of the Transportation System and other regional carriers, and potential revenues and sources of funding to meet such needs, to the Mayor by the end of 2013.

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 and updated as of August 15, 2013.

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.

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 “an effective, efficient and safe transportation system...” to support “its goals for quality of life, environmental sustainability, public health, social justice, and economic growth.” This “Transit First Policy” further requires that “public transit, [and travel] 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 seventh 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 40 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 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.

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 San Francisco; and 4. Create a workplace that delivers outstanding service.

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

Transit Division. 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.

Sustainable Streets Division. The Sustainable Streets Division manages non-transit modes of transportation, including bicycles, pedestrians, and vehicles other than taxis. The Division’s mission is to provide multi-modal transportation planning, engineering and operational improvements to the City’s transportation system to support sustainable community and economic development. The Division is responsible for the City’s traffic signs, pavement markings, pedestrian, traffic calming, bicycle and school area safety programs, and management of the parking garages, planning, and Traffic Engineering. The Division is also responsible for overseeing the enforcement of San Francisco’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 seven-member Board of Directors (the “Board”), 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. As of October 25, 2013, there was one vacant seat on the Board.

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

<u>Name and Title:</u>	<u>Originally Appointed</u>	<u>Term Expires</u>
Tom Nolan, Chairman	May 10, 2006	March 1, 2017
Cheryl Brinkman, Vice Chair	September 1, 2010	February 28, 2014
Malcolm Heinicke	February 22, 2008	March 1, 2016
Jerry Lee	February 15, 2008	February 29, 2016
Joél Ramos	May 23, 2011	February 28, 2015
Cristina Rubke	June 5, 2012	March 1, 2016

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. 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.

Vince Harris. Vince Harris is Director of Capital Programs and Construction. Prior to joining the SFMTA, Mr. Harris was the Executive Director of the Stanislaus Council of Governments, the Metropolitan Planning Organization for the Stanislaus Region, responsible for developing and delivering the Regional Transportation Plan, including a diverse mix of transit highway and local street and road projects to be delivered in Stanislaus County over the next 23 years. In this capacity he was responsible for all agency functions including regional transportation planning, program administration, financial management and budget control. He is also the former Executive Director of the Alameda County Transportation Authority, in which capacity he managed a \$1.0 billion Transportation Improvement Program with the delivery of over \$100 million of completed capital projects in 10 years. Mr. Harris' career spans 30 years, with transportation assignments in both the public and private sector in California, Texas, Utah and Washington, D.C. He holds a Bachelor of Science Degree in Civil Engineering Technology from the University of Pittsburgh and a Masters in Public Administration from California State University in Hayward.

John Haley. John Haley is Director of Transit. 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.

Bond Yee. Bond Yee is the Director of Sustainable Streets. Mr. Yee has worked for the City since 1982, starting with the Department of Public Works' Traffic Engineering Bureau, and then joining the Department of Parking and Traffic ("DPT") at its inception in 1990. Mr. Yee served as Director of DPT until it was formally merged into the SFMTA in July 2002 under Proposition E. Mr. Yee has been practicing professionally for 37 years, initially working in the private sector as a transportation engineer with the firm of Parsons, Brinckerhoff, Quade and Douglas (PBQ&D), where he worked on various transportation and transit projects such as BART, Metropolitan Atlanta Rapid Transit Authority, Portland's starter light rail line, Kansas City Transit Master Plan and Fullerton's Multimodal Transportation Center facility. Mr. Yee earned his Bachelor of Science Degree in Civil Engineering from the University of California at Berkeley and a Master's Degree in Transportation from the University of California at Berkeley's Institute of Transportation Studies. He holds licenses in civil and traffic engineering from the State of California and is a Professional Traffic Operations Engineer licensed by the Transportation Professional Certification Board. He also is a Fellow of the Institute of Transportation Engineers.

Transit

Background and History. The San Francisco Municipal Railway (the "Municipal Railway") began service in 1912 as one of the first publicly owned and operated transit systems in the United States, competing with privately operated systems, and initiating service to areas of the City not served by those systems. In 1944, the Municipal Railway absorbed the much larger, privately owned Market Street Railway Company, creating a combined system that was about three times as large as the prior Municipal Railway system. The City's acquisition of the California Street Railroad in 1952 conveyed to public control all transit services within San Francisco. From 1932 until 1994, the SFPUC governed the Municipal Railway. In 1993, the City's voters passed Proposition M, which created the Public Transportation Commission and the Public Transportation Department, and removed the Municipal Railway from the authority of the SFPUC. Governance of Muni changed again in 1999 with the passage of Proposition E, which created the SFMTA and consolidated the management of Muni with the parking and traffic related functions performed by the previous Department of Parking and Traffic (the "DPT").

Transit Operations. The SFMTA operates Muni, which is the City’s public transportation system. Muni operates 365 days a year, and connects with regional transportation services, such as those provided by the BART, the Peninsula Corridor Joint Powers Board (“PCJPB”), the San Mateo County Transit District (“SamTrans”), and the Alameda-Contra Costa Transit District (“AC Transit”). Based on ridership, Muni is the seventh largest system in the United States and the Bay Area’s largest and most heavily used public transit system, transporting approximately 43 percent of all transit passengers in the region with more than 700,000 boardings every weekday (about 214 million trips per year). By way of comparison, BART carries approximately 350,000 daily passengers, AC Transit carries approximately 240,000 daily passengers and SamTrans carries approximately 70,000 daily 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 a historic streetcar line. 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 OCTOBER 1, 2013

Motor Buses	521 vehicles ⁽¹⁾
Trolley Buses	301 vehicles
Light Rail Vehicles	149 vehicles
Historic Streetcars	40 vehicles
Cable Cars	40 vehicles

⁽¹⁾ The SFMTA is in the process of acquiring 112 new buses during 2013, including 95 that will replace motor buses currently operating in the SFMTA’s fleet. In-service numbers will vary slightly as certain motor buses are retired and others are added to service. Following completion of these acquisitions and replacements, the SFMTA expects to have 521 motor buses operating in its fleet as shown in Table 1.

Source: SFMTA

Of Muni’s four fixed route modes of service, motorbuses serve the highest number of passengers, followed by trolley buses, light rail and cable car. During the five-year period from Fiscal Year 2008-09 through Fiscal Year 2012-13, annual Muni ridership varied between approximately 214 million and 226 million boardings.

TABLE 2
HISTORIC FIXED ROUTE RIDERSHIP BY MODE
(ANNUAL BOARDINGS IN THOUSANDS)
(FISCAL YEARS ENDED JUNE 30)

Mode	2009	2010	2011	2012	2013⁽¹⁾
Motor Bus	95,190	91,609	89,451	95,625	97,181
Trolley Bus	72,142	66,968	66,233	67,545	65,248
Light Rail ⁽²⁾	50,745	49,397	51,022	43,608	45,359
Street Rail ⁽²⁾	N/A	N/A	N/A	8,078	8,390
Cable Car	7,913	8,008	7,042	7,270	6,813
Total Ridership	225,990	215,982	213,748	222,126	222,991

⁽¹⁾ Fiscal Year 2012-13 ridership numbers have not yet been approved by the Federal Transit Administration and the National Transit Database (“NTD”).

⁽²⁾ Effective Fiscal Year 2011-12, the NTD reports Street Rail data separately from Light Rail data.

Source: SFMTA

The SFMTA’s transit fleet is one of the most diverse in the nation and includes a variety of vehicles which incorporate technologies designed to provide operational and environmental benefits, such as: reductions in tailpipe emissions and other forms of pollution, decreased energy consumption, and increased vehicle in-service time. The SFMTA has set a sustainability goal for itself of achieving zero fleet emissions by 2020. More than 50 percent of the SFMTA’s fleet of buses and rail vehicles are already powered by City-owned zero emission hydroelectric power, and as a whole the SFMTA’s fleet of buses and rail vehicles produces low per-passenger emissions. The SFMTA’s fleet also includes a large number of biodiesel vehicles powered by advanced hybrid-electric motors fueled with the City’s recycled restaurant oils. This “liquid solar” biodiesel is made from restaurant grease collected and produced locally as part of the City’s “fryer to fuel tank” energy sustainability program, saving the SFMTA fuel costs while avoiding emissions from “upstream” fuel transportation. In Fiscal Year 2011-12, the SFMTA purchased approximately 6.1 million gallons of fuel for its motor fleet and approximately 104.7 million kWh of electricity for its electric vehicles. In Fiscal Year 2012-13, the SFMTA purchased approximately 5.4 million gallons of fuel for its motor fleet and approximately 109.9 million kWh of electricity for its electric vehicles. See “—Operating and Maintenance Expenses—Fuel, Lubricants and Electricity Costs.”

As part of its efforts to improve transit system service reliability, the SFMTA is focused on improving vehicle performance. The majority of system delays are caused by vehicle issues. In Fiscal Year 2012-13, contracts were awarded to rehabilitate more than 80 SFMTA motor coaches. In addition to the motor coach rehabilitation, the SFMTA is also undertaking light rail vehicle rehabilitation, with rehabilitation complete on approximately one-third of the light rail fleet as of June 1, 2013. In mid-2013, SFMTA began replacing 112 motor buses operating past their useful life. SFMTA also expects to begin replacing 60 articulated trolley coaches in late 2013.

As of July 1, 2012, SFMTA began to offer all door boarding on all buses and trains system-wide, installing fare card readers at the rear doors of every vehicle. Initial results of this initiative show that half of customers are now boarding through the rear doors at high usage transit stops and that dwell times are down four seconds per stop on average. The SFMTA is engaged in a full evaluation of this initiative which is scheduled to be completed in 2014.

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 OCTOBER 1, 2013

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	1,196
Bike lanes and shared use paths	217 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. And 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.”

The SFMTA has completed a real estate study to determine the SFMTA’s long-term facility needs, including potential transit-oriented development projects. The results of the study are in the process of being transferred into an implementation plan and incorporated into the Agency’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 21 surface parking lots in the City, which account for nearly 15,000 parking spaces; manages on-street parking through the use of approximately 25,000 single space parking meters and 447 multi space pay stations covering approximately 3,000 spaces, color curbs, 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, 1,184 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 June 1, 2013:

TABLE 4
SFMTA-MANAGED PARKING GARAGES
AS OF OCTOBER 1, 2013

<u>Facility Name</u>	<u>Number of Spaces</u>	<u>Year Opened</u>
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	[Not Available]
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 11 years to 72 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 amounts applied to pay for operating costs (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 compliance with ADA regulations as well as addressing planning, building and fire code issues.

Certain 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 and, upon their issuance, the Series 2013 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.

Surface Parking Lots, Parking Meters and Parking Enforcement. The SFMTA also manages 21 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 OCTOBER 1, 2013

<u>Facility Name</u>	<u>Number of Spaces</u>
Pierce-Lombard	116
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
Phelan Loop & Ocean	21
7th & Harrison	101
Total	683

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 24,730 single space parking meters and 470 multi-space pay stations covering approximately 3,240 spaces (a total of 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* pilot 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. Following ten rounds of demand-based rate changes, rates in SF*park* pilot areas now range from \$0.25 to \$6.00/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). Effective January 1, 2013, these meters began to operate on Sundays. In Fisherman's Wharf (Rate Area 4), meters are in operation from 7 a.m. to 7 p.m. seven days per week. Beginning in April 2013, SFMTA implemented special event pricing during events at AT&T Park that range from \$5.00 to \$7.00 per hour.

All SFMTA meters accept coins and prepaid SFMTA parking cards as payment. Payment by credit card is now available at approximately 7,000 meters and payment by phone for metered parking has been implemented.

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.

SFpark. As part of a new approach to parking management, the SFMTA has established a pilot demonstration of a series of planned improvements to the SFMTA's management of paid parking. The goal of the SFpark 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 SFMTA expects not only to improve driver convenience, but also to accomplish a host of other goals, such as improving the speed and reliability of Muni service on surface streets, reducing traffic congestion, reduce accidents, improve economic vitality and reducing transportation-related greenhouse gas emissions.

While several cities have implemented programs with elements similar to SFpark, 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 SFpark project comes 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 SFpark pilot demonstration is expected to be completed by late 2014.

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 San Francisco taxi industry. More than 8,000 taxi drivers operate nearly 1,800 taxis in the City, including 100 wheelchair accessible vehicles. By the end of 2014, there are expected to be over 2,000 vehicles in the taxicab fleet. 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 (CNG) vehicles. This number does not include the 100 Ramp Taxi vehicles in the fleet, for which there are no alternative fuel options. Some drivers holding taxi medallions are independent operators, while others work for the 29 taxi companies that operate medallions. The SFMTA is currently engaged in a comprehensive study of taxi industry best practices.

The SFMTA currently derives a limited amount of Pledged Revenues from a recently enacted program providing for transfer and lease of taxi medallions to individual and color scheme (taxi company) permittees. See "Table 7—PLEDGED REVENUES." Taxi drivers who favor the previous approach of distributing taxi medallions on a first come, first served basis challenged this recently enacted program in San Francisco Superior Court. The challengers seek declaratory relief, an injunction preventing continuation of the transfer and lease program, and an order compelling the SFMTA to issue medallions under the previous system. The City Attorney's Office is defending the new medallion program and the SFMTA has not made any changes to the program as a result of the litigation. The SFMTA cannot at this time predict what impact, if any, such lawsuit will have on revenues derived from the program.

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

The SFMTA also administers the San Francisco Bicycle Program, dedicated to improving and enhancing bicycling safety and viability as a transportation option through planning, engineering and implementing bicycle facilities and educating the community and relevant agencies about bicycle transportation. Since 2008, the SFMTA has installed 20 miles of bicycle lanes and designated 41 miles of shared use paths, for a citywide network comprising 217 total miles. The SFMTA has also installed 1400 additional bicycle racks on sidewalks and in bicycle corrals, for a total of nearly 8,800 racks Citywide.

The SFMTA is also participating in the Bay Area Bike Share system. The first phase of this pilot project launched in August 2013 with 700 bicycles at 70 kiosk stations deployed in the cities of San Francisco, Redwood City, Palo Alto, Mountain View and San Jose for a 12 to 24 month pilot period. The Bay Area Air Quality Management District has also secured additional funding to increase the system fleet size by an additional 300 bicycles and 30 stations during the first quarter of 2014, resulting in an increase in the pilot program in the City alone to a total of 500 bikes.

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 the heading “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY—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.

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.

TABLE 6
SFMTA HISTORICAL OPERATING REVENUES AND EXPENSES
(FISCAL YEARS ENDING JUNE 30)

	2009	2010	2011	2012	2013
Operating Revenues					
Passenger Fares (fixed route & paratransit)	\$153,011,068	\$187,628,510	\$191,626,285	\$202,272,010	\$220,090,131
Fines, Fees, & Permits	110,445,114	106,626,573	123,326,527	120,313,199	126,835,008
Parking Meters	32,468,579	38,868,351	40,530,598	47,138,412	53,856,002
Parking Garage	30,534,468	32,079,597	46,025,396	44,024,673	56,572,912
General Fund Transfer No. 2 ⁽¹⁾	51,774,048	53,190,000	58,190,000	61,320,000	65,320,000
Other (includes rent, advertising & interest)	20,785,588	20,336,101	23,734,857	23,638,801	26,275,183
Operating Grants:					
Regional Grants (AB 1107, TDA, Bridge Tolls)	\$ 66,735,979	\$ 60,102,028	\$ 64,854,252	\$66,512,285	\$79,608,421
State Transit Assistance (STA)	15,487,938	-	36,344,667	31,044,664	46,576,187
Gas Tax Adjustment	6,704,668	3,353,616	3,173,568	2,979,709	3,055,028
Restricted Paratransit Grants (5307, Prop K, STA, Other)	18,632,349	14,028,740	9,978,723	14,776,767	14,767,218
Subtotal Operating Grants	\$107,560,934	\$ 77,484,384	\$114,351,210	\$115,313,425	\$144,006,854
General Fund Transfer No. 1 ⁽¹⁾	177,880,000	183,730,000	196,700,000	212,640,000	222,390,000
Appropriated Fund Balance	30,220,854	41,840,121	-	-	-
TOTAL OPERATING REVENUES	\$714,680,653	\$741,783,637	\$794,484,873	\$826,660,520	\$915,346,090
Operating Expenses					
Salaries	\$368,007,109	\$366,686,250	\$360,199,083	\$365,402,874	\$367,955,701
Less: Overhead/Recoveries	(24,807,684)	(41,319,807)	(33,560,836)	(26,091,232)	(28,945,005)
Net Salaries	\$343,199,425	\$325,366,443	\$326,638,247	\$339,311,642	\$339,010,696
Fringe Benefits:					
Pension	\$ 28,723,827	\$ 42,161,528	\$ 50,572,435	\$63,557,023	\$65,627,360
Medical	63,348,746	67,871,784	72,150,750	82,321,832	85,429,332
Less: Overhead/Recoveries	(7,410,087)	(12,342,280)	(10,024,665)	(7,793,485)	(8,645,911)
Net Pension & Medical	\$ 84,662,486	\$ 97,691,032	\$112,698,520	\$138,085,370	\$142,410,781
All Other Fringe Benefits	\$ 34,881,466	\$ 31,441,484	\$ 29,342,159	\$33,063,255	28,782,621
Fuel & Lubricants	15,851,837	13,015,737	16,109,183	19,486,160	19,474,408
All Other Materials and Supplies	49,888,338	47,602,192	48,887,647	51,796,213	55,265,880
Paratransit Service Contract	20,083,243	18,580,657	16,993,086	18,140,982	17,893,750
All Other Professional Services	22,338,671	21,659,345	31,530,326	31,547,683	47,761,971
Service of Other City Departments ⁽²⁾	49,773,810	49,317,582	45,287,150	52,662,798	55,278,596
Rent and Buildings	13,587,328	14,683,304	16,449,535	14,386,146	15,435,334
Insurance and Claims	39,922,731	43,299,618	39,006,208	44,121,393	32,729,884
Payments to Other Governmental Entities	20,344,022	17,945,920	19,206,675	22,261,080	24,710,321
Debt Service	7,465,181	3,741,819	2,690,890	2,685,035	5,886,249
Subtotal Operating Expenses before Transfers	\$701,998,538	\$684,345,133	\$704,839,626	\$767,547,757	\$784,640,491
Transfers:					
Transfers to Current Capital Projects	149,037	22,769,830	17,742,000	3,074,716	5,790
Transfers to Future Capital Projects and Net Changes to Operating Carryforwards	9,778,398	32,331,800	29,261,264	30,765,000	69,927,137
Transfers to Reserves	-	-	20,000,000	8,000,000	17,000,000
TOTAL OPERATING EXPENSES & TRANSFERS	\$711,925,973	\$739,446,763	\$771,842,890	\$809,387,473	\$871,573,418

⁽¹⁾ See "—City General Fund Transfers."

⁽²⁾ Service of Other City Departments includes amounts paid to the SFPUC for electricity. See "—Operating and Maintenance Expenses—Fuel, Lubricants and Electricity Costs."

Source: SFMTA

The amounts in Table 7 (extracted from Table 6) represent the SFMTA revenues that constituted “Pledged Revenues” in Fiscal Year 2012-13 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 would not have constituted “Pledged Revenues” under the Indenture.

TABLE 7

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

REVENUE SOURCE	FY2009	FY2010	FY2011	FY2012	FY2013
Passenger Fares (fixed route & paratransit) ⁽¹⁾	\$153,011	\$187,629	\$191,626	\$202,272	\$220,090
Fines, Fees, Permits & Taxis ^{(1), (2)}	110,445	106,627	123,327	120,313	126,835
Parking Meters ^{(1), (3)}	32,469	38,868	40,531	47,138	53,856
Parking Garages ^{(1), (4)}	30,534	32,080	46,025	44,025	56,573
Other (includes rent, advertising & interest)	20,786	20,336	23,735	23,639	26,275
AB 1107	30,767	27,767	30,145	32,501	34,812
State Transit Assistance (STA) ⁽⁵⁾	15,488 ⁽⁶⁾	— ⁽⁶⁾	36,345 ⁽⁶⁾	31,045	46,576
TDA	33,282	29,647	32,021	31,324	42,108
Total Pledged Revenues⁽⁷⁾	\$426,782	\$442,954	\$523,755	\$532,257	\$607,125

⁽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⁾ The SFMTA assumed responsibility for regulating the San Francisco taxi industry on March 1, 2009. Increase in Fiscal Year 2010-11 is due to the implementation of a medallion sales pilot program. See “—Parking and Traffic Functions—Other Programs.”

⁽³⁾ 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 October 1, 2013, 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.”

⁽⁴⁾ Net of operating and maintenance expenses of the Parking Corporations. See “—Parking and Traffic Functions—Parking Garages.”

⁽⁵⁾ 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.

⁽⁶⁾ Annual amounts have varied as a result of legislative action. See “—Federal, State, Regional and Local Grants—State, Regional and Local Grants.”

⁽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 \$2.00 for regular service, which includes fixed route service on motorbuses, trolley buses, light rail and historic streetcars, but excludes cable cars. Transfers are issued for each cash fare paid for regular Muni service and are valid for 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. 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. SFMTA anticipates that revenue losses and incremental costs of this program to the SFMTA will total approximately \$9.4 million during its 16-month term, approximately half of which is expected to be offset by funds for the program to be provided by MTC, the San Francisco County Transportation Authority (the "County Transportation Authority"), and the San Francisco Unified School District.

The following table presents Muni's basic adult cash fares and adult monthly passes in force since Fiscal Year 2002-03:

TABLE 8
BASIC ADULT FARES

<u>Effective Date</u>	<u>Adult Cash Fare</u>	<u>Adult Monthly Pass</u>
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 of San Francisco (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 San Francisco.

Source: SFMTA

Since Fiscal Year 2002-03, Muni's adult cash fare, the cost of an adult monthly pass and Muni's average fare per passenger have increased, but annual ridership has remained relatively stable.

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⁾
2013	\$220,090	222,991 ⁽³⁾	0.4%	\$0.99	8.4%
2012	202,272	222,126	3.9	0.91	1.6
2011	191,626	213,748	-1.0	0.90	3.2
2010	187,629	215,982	-4.4	0.87	28.3
2009	153,011	225,990	2.7	0.68	-1.6
2008	151,455	220,046	6.6	0.69	-0.7
2007	143,078	206,459	-2.1	0.69	7.2
2006	136,329	210,848	-2.8	0.65	16.8
2005	120,072	216,918	0.6	0.55	3.4
2004	115,467	215,744	0.1	0.54	18.6
2003	97,291	215,594	N/A	0.45	N/A

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

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

(3) Fiscal Year 2012-13 ridership numbers 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 21 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, 2014. 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)

	2009	2010	2011	2012	2013
Rents and Concessions	\$3.6	\$2.9	\$3.1	\$3.4	\$3.2
Advertising	13.0	13.5	14.9	15.1	17.8
Charges for Services & Other	0.8	2.2	3.4	3.3	4.1

Source: SFMTA

Interest Income

The SFMTA invests operating cash balances in the City Treasurer’s pooled funds and earned \$3.4 million, \$1.8 million, \$2.3 million, \$1.9 million, and \$1.2 million in fiscal years 2008-09 through 2012-13, 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 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.

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 \$33.7 million in LTF funds each year since Fiscal Year 2008-09. 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 receive a total of approximately \$261 million of such funds for capital projects in 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.

Instead of eliminating the program or continuing diversions of these funds to other General Fund programs, the State Legislature, in its Eighth Extraordinary Session in 2010, passed Assembly Bill 6 (“AB 6”) and Assembly Bill 9 (“AB 9”), which restructured and further protected sources of transit-related STA funds. Among other changes, these bills allocated approximately \$400 million in funding to the STA program for the State’s fiscal years 2009-10 and 2010-11, and AB 9 provided that approximately 75% of the proceeds of the State’s sales tax on diesel fuel would be allocated to STA funding thereafter. AB 6 also increased the sales tax rate on diesel fuel as of July 1, 2011. The STA program is now funded by tax receipts from the Statewide sales tax applied to diesel fuel (at a rate of 7.50% as of October 25, 2013) and the additional sales tax imposed pursuant to AB 6 specifically for the STA and related transit programs (at a rate of approximately 2% as of October 25, 2013). Additionally, STA funding is no longer subject to direct annual appropriation by the State Legislature; rather, the appropriate revenues from the diesel fuel sales tax are directed automatically, pursuant to AB 9, to the STA program, which is in turn allocated automatically by the Controller each quarter to local transit agencies in the State. Additionally, Proposition 22, adopted by State voters in November 2010, contained provisions further limiting the State’s authority to use STA program funds to pay debt service on transportation bonds and restricting the State’s ability to borrow or otherwise divert funds from the STA program for other uses. The State has estimated that the approximately 75% of total diesel fuel sales tax revenues affected by AB 9 and Proposition 22 will amount to between \$370 million and \$390 million in Statewide STA program funds annually over the next 3 years.

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.

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)

	2009	2010	2011	2012	2013
AB 1107	\$ 30.8	\$27.8	\$ 30.1	\$ 32.5	\$34.8
State Transit Assistance (STA)	15.5 ⁽¹⁾	-(¹⁾	36.4 ⁽¹⁾	31.0	46.6
Transportation Development Act (TDA)	33.3	29.6	32.0	31.3	42.1
MTC Bridge Tolls	2.7	2.7	2.7	2.7	2.7
Gas Tax Adjustment/Revenue	6.7	3.3	3.2	3.0	3.1
Restricted Paratransit Grants (5307, Prop K, STA, other)	18.6	14.0	10.0	14.8	14.8
<i>Total Operating Grants</i>	<u>\$107.6</u>	<u>\$77.5</u>	<u>\$114.4</u>	<u>\$115.3</u>	<u>\$144.1</u>

⁽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 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.

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)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Fund Transfer No. 1	\$177.9	\$183.7	\$196.7	\$212.6	\$222.4
General Fund Transfer No. 2	51.8	53.2	58.2	61.3	65.3

Source: SFMTA

Appropriated Prior Year Fund Balance

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

Contingency Reserve Policy

In 2007, the Board approved a Contingency Reserve Policy, which directed the establishment of an operating reserve with the goal of setting aside a total of 10% of operating expenditures over a ten-year period by adding 1% to the reserve in each Fiscal Year. Based on Fiscal Year 2012-13, the current target amount is \$85 million. The funds in the reserve are to be used to cover risks or losses related to torts, destruction of assets, natural disasters and other one-time emergencies. Amounts in the reserve are not pledged to secure payment of the Bonds. Each year, during its annual budget process, the Board reviews the adequacy of the reserves. As of June 30, 2012, the SFMTA held \$45.4 million on deposit in the contingency reserve fund. Sufficient revenues were available in Fiscal Year 2012-13 for SFMTA to increase the contingency reserve fund balance. The SFMTA had a contingency reserve fund balance of approximately \$89.2 million at the end of Fiscal Year 2012-2013, which met the Board required target. The Fiscal Year 2013-2014 budget includes an additional \$10 million in cash to build up the contingency reserve.

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 "SFMTA Capital Improvement 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 2008-09 and Fiscal Year 2012-13, the SFMTA's total operating and maintenance expenses increased by \$82.6 million or 11.8 percent, from approximately \$702.0 million to approximately \$784.6 million. Such increase was due primarily to increased benefit costs, including pension and health care benefits.

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	Total Personnel Costs⁽¹⁾ (in Thousands)	Percentage Change in Operating Expenses	Percentage Change in Personnel Costs (Salaries & Fringes)
2013	\$784,640	5,034	\$547,795	2.23%	0.63%
2012	767,548	4,853	544,345	8.90	6.26
2011	704,840	4,852	512,264	2.99	0.81
2010	684,345	4,794	508,161	(2.51)	2.67
2009	701,999	5,003	494,961	5.36	3.23

⁽¹⁾ Includes gross salaries and fringe benefits.

Source: SFMTA

Recent ballot measures passed by the voters have also provided some opportunities for controlling personnel costs for both the City and the SFMTA, including Proposition B, passed in 2008 (“Proposition B”), Proposition D, passed in June 2010 (“Proposition D”), Proposition G, passed in November 2010 (“Proposition G”), and Proposition C, passed in November 2011 (“Proposition C”). Proposition B reduces health benefits and requires employer and employee prefunding contributions for new hires to a health care trust fund (the “RHCTF”) established to pay for future costs relating to retiree health care; however, it also increases maximum pension benefits for employees retiring at and after age 60 and enhances cost of living increases. More than 10% of the City’s payroll is now covered by this lower cost RHCTF alternative. A proposed Charter amendment on the November 2013 ballot would prohibit 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.

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 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 62% of Muni's buses operate on diesel, while the remaining 38% 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)

	2009	2010	2011	2012	2013
Fuels & Lubricants ⁽¹⁾	\$15.9	\$13.0	\$16.1	\$19.5	\$19.5
Electricity ⁽²⁾	4.9	4.9	4.7	4.7	5.1

⁽¹⁾ Includes purchases of natural gas. In Fiscal Year 2012-13, such purchases amounted to approximately \$305,000.

⁽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 2008-09 through 2012-13, 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, 2013, the SFMTA paid approximately \$0.0425/kWh for power purchased from the SFPUC as compared to PG&E's rate of \$0.16977/kWh. In 2012, the SFPUC notified the SFMTA that it will increase the electricity rates it charges its municipal customers, including the SFMTA, by \$0.005/kWh each year for four years. The first two rate increases became effective June 1, 2012 and June 1, 2013, respectively.

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 \$7.6 million for operating needs in Fiscal Year 2012-13, \$4.9 million in Fiscal Year 2011-12, and \$6.5 million in Fiscal Year 2010-11. 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 \$49.8 million in Fiscal Year 2008-09 to \$55.3 million in Fiscal Year 2012-13. These payments include non-service items such as utilities, technology and rent.

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 2012-13 and Fiscal Year 2013-14 Budget

In May 2012, the Board approved its Fiscal Year 2012-13 and Fiscal Year 2013-14 budget (the "2014 Budget") and submitted it to the Mayor and Board of Supervisors prior to April 30, 2012. See "—Financial Operations—Budget Process." The Fiscal Year 2012-13 and Fiscal Year 2013-14 capital budgets total \$582.3 million and \$477.8 million, respectively. The Fiscal Year 2012-13 and Fiscal Year 2013-14 operating budgets total \$828.2 million and \$851.1 million respectively.

The Fiscal Year 2012-2013 and Fiscal Year 2013-2014 operating budget increases by \$22.8 million over the two years. It includes additional revenues derived mainly from increases in transfers from the City's General Fund, parking citations and taxis, and reflects increased expenditures primarily relating to an increase in the number of front-line, service-related positions. In addition to managing expenditures, including projected concessions from labor contracts and reductions in overtime and management staffing, the 2014 Budget includes several operational changes and revenue initiatives to address projected operating shortfalls. These operational changes and revenue initiatives include extending the hours and days during which metering is in force, increasing parking citation fees to recover certain State-imposed surcharges and implementing all-door boarding on buses to decrease loading, unloading and overall trip times. The 2014 Budget is intended to begin to address previously deferred maintenance and allocates funds to several maintenance projects, including the Transit Effectiveness Project ("TEP"), designed to increase Transportation System reliability and efficiency. See "—Capital Program—Current Projects—Transit Effectiveness Project."

The SFMTA is projected to end the 2012-13 Fiscal Year with a net operating surplus of approximately \$43.8 million, resulting in a projected year-end fund balance of approximately \$89.2 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 September 27, 2013, the SFMTA employed 5,050 Full-Time Equivalent employees. 5,020 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.

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 September 27, 2013.

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,	230	June 30, 2014
International Brotherhood of Electrical Workers, Local 6	434	June 30, 2014
Transport Workers Union, Local 200	245	June 30, 2014
Transport Workers Union, Local 250-A, Automotive Service Workers	78	June 30, 2015
Transport Workers Union, Local 250-A, Transit Fare Inspectors	53	June 30, 2014
Transport Workers Union, Local 250-A, Transit Operators	2200	June 30, 2014
Service Employees International Union, Local 1021,	563	June 30, 2014
MEA, Municipal Executives Association	96	June 30, 2014
Total Critical Service Employee Count	3899	

⁽¹⁾ As of September 27, 2013. 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 September 27, 2013.

Source: SFMTA

The following table summarizes the number of City employees allocated to the SFMTA under the City’s collective bargaining agreements as of September 27, 2013, and the expiration date of such collective bargaining agreements as of September 27, 2013.

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	13	June 30, 2014
Glaziers, Local 718	3	June 30, 2014
International Federation of Professional And Technical Engineers, Local 21	504	June 30, 2014
Laborers, Local 261	59	June 30, 2014
Operating Engineers, Local 3	3	June 30, 2014
Painters, Local 1176	38	June 30, 2014
Plumbers, Local 38	2	June 30, 2014
Service Employees International Union, Local 1021,	432	June 30, 2014
Sheet Metal Workers, Local 104	3	June 30, 2014
Stationary Engineers, Local 39	35	June 30, 2014
Teamsters, Local 853	8	June 30, 2014
Teamsters, Local 856	21	June 30, 2014
Unrepresented Employees (Misc)	30	N/A
Total Employee Count	1151	

⁽¹⁾ As of September 27, 2013. 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 September 27, 2013.

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 (as such term is defined in Appendix B) of SFMTA employees as a percentage of the aggregate Pensionable Salary of all plan beneficiaries.

Retirement System Plan Description. The SFMTA participates in the City's single-employer defined benefit retirement plan (the "Plan"), which is administered by the San Francisco City and County Employees' Retirement System (the "Retirement System"). The Plan covers substantially all full-time employees of the SFMTA along with all other employees of the City. The Plan provides basic service retirement, disability and death benefits based on specific percentages of final average salary and also provides cost of living adjustments after retirement. The Plan also provides pension continuation benefits for qualified survivors. The Charter and the Administrative Code of the City are the authority that established and amended the benefit provisions and employer obligations of the Plan. See Appendix B—"CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—Employment Costs; Post-Retirement Obligations—San Francisco Employees' Retirement System." The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA, 94102, or by calling (415) 487-7020. Such report is not incorporated by reference herein.

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 2012-13 varied from 7.5% to 8% as a percentage of Pensionable Salary. For Fiscal Year 2012-13, the actuarially determined rate as a percentage of Pensionable Salary was 20.71% and for Fiscal Year 2013-14 the actuarially

determined rate as a percentage of Pensionable Salary is 24.82%. The SFMTA's required contribution was approximately \$41.7 million in Fiscal Year 2010-11, \$56.4 million in Fiscal Year 2011-12 and \$58.8 million in Fiscal Year 2012-13. SFMTA's budgeted contribution in Fiscal Year 2013-14 is \$82.9 million. 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 \$85.9 million in Fiscal Year 2012-13, is determined by a Charter provision based on similar contributions made by the ten most populous counties in the State. The SFMTA's budgeted annual contribution for Fiscal Year 2013-14 is \$84.1 million.

Included in these amounts is \$26.0 million for Fiscal Year 2012-13 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 and the City does not allocate additional costs to the SFMTA for City 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, 2013 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 and June 30, 2013, the amounts contributed to the plan and changes in the net OPEB obligations.

TABLE 17

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

	2011 ⁽¹⁾	2012 ⁽²⁾	2013
Annual Required Contribution	\$ 50,338	\$ 51,232	\$ 52,025
Interest on net OPEB Obligation	4,747	6,017	7,297
Adjustment to ARC	(3,721)	(4,987)	(6,050)
Annual Net OPEB Cost	51,364	52,262	53,272
Contribution Made	(24,898)	(25,352)	(25,984)
Increase in net OPEB Obligation	26,466	26,910	27,288
Net OPEB Obligation at beginning of Fiscal Year	99,993	126,459	153,369
Net OPEB Obligation at end of Fiscal Year	126,459	153,369	180,657

⁽¹⁾ In Fiscal Year 2010-11, the City had 27,994 funded positions and the SFMTA had 4,528 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 2011-12, the City had 28,073 funded positions and the SFMTA had 4,539 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 2012-13, the City had 28,410 funded positions and the SFMTA had 4,443 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, 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.”

Every two years, the 2-year Capital Budget is approved by the Board consistent with the CIP. The 2-year Capital Budget lays out the expected expenditures for projects to rehabilitate, replace, enhance or expand SFMTA capital assets for 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 2012-13 to Fiscal Year 2016-17, was adopted by the Board on April 17, 2012. The two-year capital budget described above further refines the five-year CIP to account for the timing of budget allocations, individual capital grants and the availability of capital project implementation resources. It is presented to the Board for approval on a two-year cycle, concurrent with the SFMTA's operating budget. See "—Fiscal Year 2012-13 to Fiscal Year 2013-14 Capital Improvement Budget: State of Good Repair and Enhancement/Expansion Project."

Capital resources in place as of January 2012 totaled approximately \$591 million. New capital revenues projected for the five-year CIP beginning in Fiscal Year 2012-13 are estimated at \$2.47 billion, resulting in estimated total expenditures over the five-year period of \$3.06 billion. Of that amount, approximately \$1.06 billion is expected to be expended on the Central Subway Project (as defined below), approximately \$627 million on other transit expansion/enhancement projects and approximately \$1.37 billion on State of Good Repair projects. See "—Current Projects—Central Subway" 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 2012-13 THROUGH 2016-17)
(IN MILLIONS)

Source	Projected Funding Amount
Federal Funding Sources	
FTA Section 5307, Urbanized Area Formula Program	\$294
FTA Section 5309, Fixed Guideway Modernization Program	209
FTA Section 5309 New Starts Program ⁽¹⁾	835
Other Federal Funds ⁽²⁾	90
State Funding Sources	
State Infrastructure Bond Funds (Proposition 1A and Proposition 1B)	316
Other State Grant Funds	16
Local Funding Sources	
Proposition K Sales Tax Proceeds	261
AB 664-Bridge Tolls	16
Other MTC Funding	50
Transfer from Operating Revenues	8
Prop AA Vehicle Registration Fee	13
Other Local Capital Funds	20
Debt Financing Proceeds	
SFMTA Debt	154
2011 San Francisco Streets Bonds ⁽³⁾	30
San Francisco General Obligation Bond ⁽⁴⁾	150

⁽¹⁾ Annual grant reimbursements are expected to be capped at \$150 million per year from Fiscal Year 2012-13 through Fiscal Year 2015-16.

⁽²⁾ Includes FTA Section 5309 Bus/Alternative Fuels, Section 5303 Planning, Congestion Mitigation and Air Quality Improvement Program, Federal Transportation Enhancement Activities, Federal Transit Administration Small Starts/Very Small Starts programs, State of Good Repair Grant Program.

⁽³⁾ \$248 million Street Repair Bond was approved in November 2011 and included \$20 million in Transit Street Signal Infrastructure and an estimated \$10 million for bicycle and pedestrian projects. In late 2012, total funding from the Street Repair Bond was increased to \$38 million and a technical adjustment was made by the Director of Transportation to the five-year CIP to reflect such funding amounts.

⁽⁴⁾ Subject to voter approval in a future election. The Mayor's Transportation Task Force which is expected to complete its recommendations on ballot measure funding sources by late 2013 is considering several revenue measures for transportation, including general obligation bonds, vehicle license fees, sales taxes, and ticket event surcharges.

Source: SFMTA Capital Budget adopted April 2012.

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 from 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 will support 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 does not anticipate issuing any CP Notes until early 2014. 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 2012-13 to Fiscal Year 2013-14 Capital Improvement Budget: State of Good Repair and Enhancement/Expansion Projects. In May 2012, the Board adopted the 2-year Capital Program, covering the period from Fiscal Year 2012-13 to Fiscal Year 2013-14. The Fiscal Year 2012-13 to Fiscal Year 2013-14 Capital Budget included \$582.3 million for Fiscal Year 2012-13 and \$477.8 million for Fiscal Year 2013-14. The table below breaks down the annual capital expenditure limits between spending on State of Good Repair projects and Enhancement/Expansion projects.

TABLE 19

**TWO-YEAR CAPITAL BUDGET, FISCAL YEAR 2012-13 TO FISCAL YEAR 2013-14
BREAKDOWN OF CAPITAL BUDGET BETWEEN
STATE OF GOOD REPAIR AND ENHANCEMENT/EXPANSION
(IN MILLIONS)
(FISCAL YEARS ENDING JUNE 30)**

	2013 (Budgeted)	2014 (Budgeted)
State of Good Repair Projects	\$275.7	\$158.5
Enhancement/Expansion Projects	306.6	319.3
Total	\$582.3	\$477.8

(1) 2013 and 2014 Budgeted.

Source: SFMTA. Capital Budget adopted April 2012.

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. 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 State of Good Repair Report (the "SOGR Report"). The SOGR 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 SFMTA's current asset replacement value is approximately \$13.4 billion (in 2010 dollars). The table below summarizes the breakdown of the SFMTA's current asset replacement costs by asset category.

TABLE 20

**\$13.4 BILLION TOTAL CAPITAL ASSET REPLACEMENT VALUE
BY ASSET CATEGORY**

Overhead Wires	30%
Stations	15%
Facilities	12%
Parking and Traffic	9%
Light Rail Vehicles	8%
Other Systems and Vehicles	6%
Track	6%
Train Control and Communications	5%
Motor Coach Vehicles	5%
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 SOGR 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.

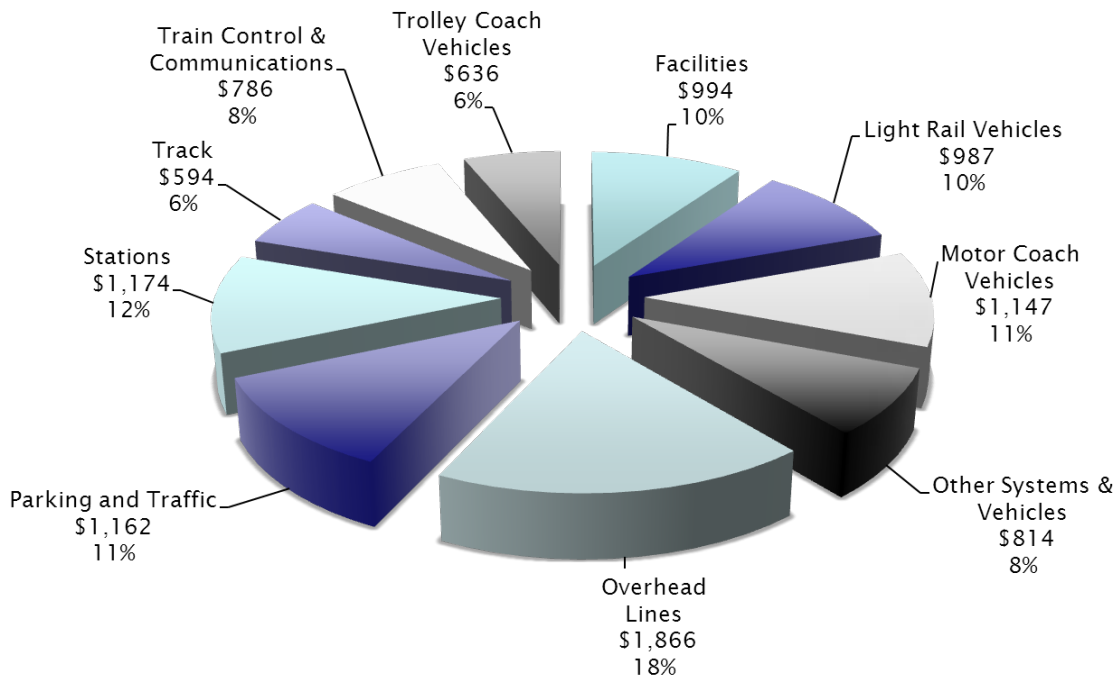
The SOGR Report indicated a backlog of asset replacement of approximately \$2.2 billion as of August 2010 based on accounting asset life. Eliminating the backlog over twenty years was calculated to cost approximately \$510 million annually. Maintaining the backlog at the level exiting as of August 2010 would require annual capital expenditures of approximately \$366 million per year, according to the report. It is projected that the SFMTA will be able to invest approximately \$250 million toward SOGR Report projects annually, which would result in a total backlog of non-service critical assets of approximately \$4.5 billion at the end of 20 years.

The SOGR Report analysis includes the needs created by expansion projects, such as the Central Subway Project, once the asset has reached its scheduled replacement date. Since the Central Subway (as defined below) is not expected to enter revenue service the end of 2018, the end of the eighth year of the 20-year outlook, very few of the Central Subway assets will have exhausted their accounting life.

During Fiscal Years 2008-09 through 2012-13, the SFMTA expended an average of \$134 million per year on capital projects, not including the large capital enhancement projects such as the Central Subway. The breakdown of the 20-year estimated state of good repair needs by asset category is shown in the following table.

TABLE 21

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



Source: SFMTA, 2010 State of Good Repair Report (August 2010)

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 downtown San Francisco 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 will be purchased in 2016 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 tunnels are being constructed using two tunnel boring machines (“TBMs”), a technology used for large sewer systems, water transport and transit subway infrastructure. Deep TBM tunneling generally minimizes surface construction disruption and trucking of soil, reduces utility relocations and shortens construction time. In collaboration with the Federal Transit Administration’s formal Risk Management Program, the SFMTA is carrying out an extensive risk management process 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 for the previous 19 months. All 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. 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 ⁽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 24, 2013, the SFMTA received the federal fiscal year 2013 New Starts Program allocation in the amount of \$141.766 million, bringing total New Starts grants received by the SFMTA to \$319.181 million as of October 15, 2013.

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 the SFMTA FFGA requirements have not been met or Central Subway Project costs incurred are ineligible, the SFMTA would be responsible for paying or reimbursing the Federal Transit Administration for such costs.

A smaller, targeted, federal funds source, the Congestion Mitigation and Air Quality Program, also committed \$41.0 million to the Central Subway Project, of which 100% has been received by the SFMTA and expended on 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.”

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.

Caltrans has allocated approximately \$307.5 million in PTMISEA funds to the SFMTA. To date, the SFMTA has received approximately \$225.9 million in PTMISEA funds. 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, develops 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. 2014-2018. The County Transportation Authority has committed \$88 million in RTIP funds to the Central Subway Project. The first tranche of approximately \$12.5 million of STIP funds will likely be programmed in the 2014 STIP, now being developed, with the funds anticipated to be allocated to the SFMTA in 2018. The SFMTA is working with the County Transportation Authority and the CTC to accelerate the receipt of these funds to 2016. 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 are now directed to the Central Subway Project Tunnel Contract and Station Contract, and are currently part of the Central Subway Project’s Fiscal Year 2013-14 cash flow. However, issuance of the Proposition 1A Bonds and the funding plan proposed by the High-Speed Rail Authority are each the subject of active litigation and there can be no assurance that the State will ultimately be able to issue such bonds and fund projects pursuant to the proposed funding plan. See “—Additional Regional and Local Support” and “—Additional Financing.”

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 2013, the total of grants received from all sources is \$784.102 million, or, 49.6% 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 three years of construction. As of June 30, 2013, the total funds allocated to project accounts and available for current billing is \$558.11 million. Concurrently, the remaining available and unallocated cash balance as of June 30, 2013 was \$85 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 April 2016. After April 2016 (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” and “THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY—Commercial Paper Program.”

Central Subway Project Status. The Central Subway Project has numerous 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 will be mapped as the station site is 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. Construction in preparation for the

TBM's to pass through the station areas is ongoing in the South of Market, North Beach, Union Square and Chinatown neighborhoods. On July 26, 2013, the first of the two TBMs began excavating from the south to the north under Fourth Street. The second TBM will commence operations in November 2013. Substantial completion of the tunneling portion of the Central Subway Project is projected to occur 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. SFMTA-contractor team meetings are underway with the contractor revising the 120 Day schedule submittals for initial activities. On September 23, 2013, the contractor began abatement of hazardous building materials prior to demolition of the existing building at the future Chinatown station site in November 2013. Demolition of the existing building at the Yerba Buena/Moscone Station was completed in mid-October 2013.

In late 2012 citizens in the North Beach neighborhood requested relocation of the temporary shaft that will be used to recover the tunnel boring machinery for reuse when the tunnel is completed in 2014. The preferred site for recovery, based on community review in 2008, was on Columbus Avenue in the middle of the street, isolated from businesses and residents. Based on the results of an active public outreach program, the site was relocated to the abandoned Pagoda Theater. Relocating the tunnel boring machines' extraction to this site required the demolition of the Pagoda Theater – a step that had been previously approved by the Planning Department as part of a new condominium development to be built in 2014-15. To track and control the special tasks in demolition of the Pagoda Theater, a project-separate account was established by the SFMTA that is funded from sources other than the Central Subway Project budget, including SFMTA operating funds. Demolition of the Pagoda Theater commenced in July 2013 and was complete in September 2013.

As of October 20, 2013, remaining total cost contingency for the Central Subway Project is approximately \$67.2 million. Such contingency amount is below the target standard of \$160 million established by the Federal Transit Administration for the Central Subway Project at this stage, largely as a result of receipt of higher than expected bids on the Station Contract. Cost contingency recovery efforts are being evaluated and developed for review and approval by Federal Transit Administration. The schedule for commencement of revenue service in December 2018 is currently unchanged. Schedule contingency, however, is at 4.7 months, a level below the minimum of 10 months established by the Federal Transit Administration for the Central Subway Project at this stage. Schedule contingency recovery efforts are also being evaluated and developed for review and approval by Federal Transit Administration. Such cost and schedule contingency discussions with the Federal Transit Administration could result in an increase in the Central Subway Project budget and/or 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 December 2018 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: TBM failure or other tunneling delays, subsidence resulting from tunneling activities, adverse impacts on existing utility and transit services in the construction area, 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 expects this process 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. For example, with respect to risks relating to excavation by the TBMs, including tunneling delays and subsidence and other adverse impacts on existing underground utility and transit services in the construction area, multiple soil samples have been obtained along the alignment and analyzed in order to assess soil and groundwater conditions. BIH is nearing completion of the preconditioning of the ground above the tunnel path using compensation grouting, a method of injecting the soil with grouting material to reduce or eliminate the potential for subsidence from the tunnel boring process. The Tunneling Contract provides for progress payments to be made to BIH against specified milestones in the tunneling process previously agreed to by SFMTA and BIH, which should act to limit construction losses to SFMTA in case of any delay or default by BIH. Further, the Tunneling Contract obligates BIH to pay liquidated damages of \$50,000 per day, to a maximum of \$23.4 million, to the SFMTA in case of certain delays in the tunneling process, including by reason of TBM failure. BIH's performance, including payment of such liquidated damages, is secured by payment and performance bonds issued by Federal Insurance Company, Fidelity & Deposit Company of Maryland and Zurich American Insurance Company to the benefit of SFMTA in the aggregate amount of \$233,584,015.

With respect to subsidence resulting from tunneling activities 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 the 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 relocation of the tunnel boring machine extraction site to the Pagoda Theater. See “—Central Subway Project Status.”

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 expects to undertake an additional project, 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 downtown San Francisco prior to arriving at the terminus of the Third Street LRT line at the Sunnysdale 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. The FTA delivered its Finding of No Significant Impact with respect to the MBL’s Environmental Assessment on July 30, 2013. As of October 2013, the SFMTA has obtained and received funding for the MBL pursuant to a Federal Transit Administration Tiger Grant. The SFMTA expects to achieve substantial completion of the MBL in late 2014 with operations on the MBL commencing in December 2015.

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. See “CERTAIN RISK FACTORS.”

Transit Effectiveness Project. The TEP is the first comprehensive effort in over 25 years to review Muni and recommend ways to transform it into a faster, more reliable and more efficient public transit system for the City. The TEP data collection phase included an unprecedented level of ridership data collection and best practice

research from other transit systems. Extensive public outreach to community stakeholders, policy makers and SFMTA employees helped shape the recommendations for improvements in key routes and identified needed investments to ensure cost-effective customer service.

Informed by these efforts, the SFMTA developed a set of proposals designed to improve reliability, reduce transit travel delays and update routes to better meet current and projected travel patterns throughout the City. The TEP proposals include service improvements and complementary capital investments (such as overhead wire projects) that will support these service changes. The TEP also identifies a number of capital projects along corridors on the most highly used routes designed to reduce transit travel time and prioritize transit in these corridors. In combination, the service changes and capital improvements would improve service reliability, reduce travel time and support customer safety and comfort.

The environmental review process for the TEP is in progress. The SFMTA released its Draft Environmental Impact Report for the TEP on July 11, 2013 (the “Draft EIR”). The public comment period for the draft EIR ended on August 26, 2013. The SFMTA anticipates releasing its Final Environmental Impact Report (the “EIR”) in early 2014, with Planning Commission certification to follow thereafter. In anticipation of EIR certification, the SFMTA has begun the conceptual engineering of the highest priority projects. These travel time projects are expected to be implemented over an approximately three year period and have an anticipated cost of approximately \$120 million. The remaining capital projects are outside of the current five-year CIP and are anticipated to cost approximately \$178 million, for a total TEP capital cost of \$298 million. The route restructuring is expected to be implemented as resources become available beginning with the Fiscal Year 2014-15 and Fiscal Year 2015-16 two year budget. Collectively, these changes are designed to improve Muni service by directing resources where they are most needed, reducing travel times, improving reliability and making the service more cost effective.

Transportation Management Center. 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 downtown San Francisco 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 are underway and are expected to be completed by the end of 2013. Existing command and control functions are expected to move into the Transportation Management Center once construction is complete.

Van Ness Avenue Bus Rapid Transit. The SFMTA and the County Transportation Authority are collaborating on the proposed Van Ness Avenue Bus Rapid Transit project, which covers approximately 2 miles, from Mission St. to Lombard St. on 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 San Francisco’s Rapid Transit Network. The project is estimated to cost approximately \$125 million (in 2014 dollars).

The County Transportation Authority adopted a Project Feasibility Study in 2006. 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 have 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 is expected to be issued in November 2013. Upon issuance of such Federal Record of Decision, SFMTA will assume project lead from the County Transportation Authority. Final design would be completed in 2015, with construction expected to occur from 2015-2017, and revenue service beginning in 2018.

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.

Sunset Tunnel Trackway Improvements and Twin Peaks Tunnel Rail Replacement. The Sunset Tunnel Trackway improvements project will replace 9,340 track feet of rail, ballast and ties, the corresponding overhead contact wire system and feeder cables; the curve signaling system; and seismically upgrade the East and West Portal walls. 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.

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 2009-10 to Fiscal Year 2029-30, the SFMTA projects that it could undertake approximately \$13 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 fare revenues to transit operating costs of 31.2% or a ratio of farebox plus local support to operating costs of 64.5% in order to preserve its eligibility for STA and LTF funding. In Fiscal Year 2012-13, the SFMTA's satisfied such requirements with a ratio of fare revenues to transit operating costs of 34%. 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

The SFMTA's outstanding long-term debt obligations consist of the Series 2012 Bonds, with a final scheduled maturity date of March 1, 2042. See "DEBT SERVICE SCHEDULE."

Commercial Paper Program

On June 4, 2013, the Board approved the issuance of and sale by the SFMTA of subordinate CP Notes in an aggregate principal amount not to exceed \$100 million. 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 such CP Notes, 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, will be secured by a pledge of Pledged Revenues that is junior and subordinate to the pledge securing the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." 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 does not anticipate issuing any CP Notes until early 2014.

Future Debt Issuance

In addition to the outstanding Series 2012 Bonds and the Series 2013 Bonds, the SFMTA presently expects to issue approximately \$75 million in additional Bonds during 2014 and approximately \$150 million in additional Bonds during 2016-2017 in order to finance future state of good repair projects and other projects. Also, 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 in subordinate CP Notes. See "—Commercial Paper Program" and "—Capital Program—Current Projects—Central Subway Project). 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, the City, with approval from the Board of Supervisors, entered into a leveraged lease-leaseback transaction in two tranches (collectively, the "Lease Transactions"), the first for 118 Breda light rail vehicles (the "Tranche 1 Equipment"), and the second for an additional 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.

As a result of the Lease Transactions, the SFMTA recorded deferred revenue in Fiscal Year 2001-02 of \$35.5 million and \$4.4 million in Fiscal Year 2002-03. The deferred revenue amount is being amortized over the term of the subleases.

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 November 2026 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.

The SFMTA is required to replace the payment undertaker if the rating of its guarantor, AGM, falls below “BBB+” or “Baa1” by Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business (“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. On January 23, 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. As of September 30, 2013, the scheduled termination value for the Lease Transactions (less the market value of the Equity Securities) was approximately \$92.7 million. As of September 30, 2013, the SFMTA had not received a demand from any 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. The SFMTA has not terminated any of its Lease Transactions to date and cannot predict whether any of the equity investors 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.

In addition to funding an approximate \$20 million reserve in the annual operating budget, the SFMTA self-insures for general liability in part by annually funding an ongoing insurance reserve fund in an amount equal to \$2 million. The reserve was \$10 million at the end of Fiscal Year 2012-13. Additionally, the SFMTA participates in the City master property program for fixed asset protection, including scheduled Breda light rail vehicles. The SFMTA also maintains 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

	<u>Coverage Approach</u>
Primary Risk	
General Liability	Self-insure
Property (including Breda light rail vehicles and parking garages)	Insure (with certain minor exceptions)
Workers' Compensation	Self-insure
Public Official Liability	Purchase insurance
<hr/>	
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 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 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 May 31, 2013, the SFMTA's unrestricted deposits and investments held by the City Treasurer were \$674,810,664.

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 inherent in the purchase of the Series 2013 Bonds. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Series 2013 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 2013 Bonds or lead to a decrease in the market value and/or in the liquidity of the Series 2013 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 2013 Bonds Limited Obligations

The Series 2013 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 2013 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 2013 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 2013 Bonds. The Series 2013 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. 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 recent 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 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 impact 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 2013 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 significant 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 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 significant 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 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 Revenue 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 sue 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 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.”

In April 2008, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (“U.S.G.S.”), the California Geological Society, and the Southern California Earthquake Center) reported that there is a 63% chance that one or more quakes of about magnitude 6.7 or larger will occur in the Bay Area before the year 2038, a period ending prior to the final scheduled maturity of the Series 2013 Bonds. An earthquake of such magnitude or larger would likely be very destructive. For example, the U.S.G.S. predicts a magnitude 7 earthquake occurring today on the Hayward Fault would likely cause hundreds of deaths and almost \$100 billion of damage. 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 negative 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 2013 Bonds may be affected if the City should exceed its appropriations limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See Appendix B—“CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES—Article XIII B of the California Constitution.”

Constitutional and Statutory Restrictions

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

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

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

Change in Law; Local Initiatives

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

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

As described in "THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY—Organization and Purpose," the SFMTA has been the subject of 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 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 2013 Bonds. See, for example, 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 City Bankruptcy

The City is authorized under California law to file for bankruptcy protection under chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"). 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. Third parties cannot bring involuntary bankruptcy proceedings against the City. The SFMTA, being an enterprise department of the City, cannot itself file for bankruptcy protection. Should the City become a debtor in a bankruptcy proceeding, the owners of the Series 2013 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 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 2013 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.

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 2013 Bonds.

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

As discussed under “TAX MATTERS”, interest with respect to the Series 2013 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 2013 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 2013 Bonds are not subject to prepayment or any increase in interest rate.

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (“IRS”), the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division. There is no assurance that, if an IRS examination of the Series 2013 Bonds were undertaken, it would not adversely affect the secondary market value of the Series 2013 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 2013 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.

Failure to Maintain Credit Ratings

Certain rating agencies have assigned ratings to the SFMTA's Series 2013 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 2013 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 an adverse effect on the market price of the Series 2013 Bonds.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2013 Bonds or, if a secondary market exists, that the Series 2013 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” on the inside front cover of this Official Statement.

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 2013 Bonds. There may be other risks inherent in ownership of the Series 2013 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 2013 Bonds.

AUDITED FINANCIAL STATEMENTS

Audited Financial Statements of the SFMTA (the “Financial Statements”) for the Fiscal Year ended June 30, 2013 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, 2013”. Such financial statements have been audited by KPMG LLP (“KPMG”), independent certified public accountants. The SFMTA prepares financial statements that are audited annually.

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 2013 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 2013-14 (the “Annual Report”) and to provide notices of the occurrence of certain enumerated events, if material. 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 material events is summarized in Appendix E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE”. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The SFMTA is not in default with respect to any previous undertaking made with regard to said Rule.

The SFMTA has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual financial information or notices of material 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

Opinion of Co-Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP and Rosales Law Partners LLP, Co-Bond Counsel to the SFMTA, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2013 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2013 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering their opinion, Co-Bond Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the SFMTA in connection with the Series 2013 Bonds, and Co-Bond Counsel have assumed compliance by the SFMTA with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2013 Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Co-Bond Counsel to the SFMTA, under existing statutes, interest with respect to the Series 2013 Bonds is exempt from personal income taxes imposed by the State.

Co-Bond Counsel express no opinion regarding any other federal or state tax consequences with respect to the Series 2013 Bonds. Co-Bond Counsel render their opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Co-Bond Counsel express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2013 Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2013 Bonds in order that interest on the Series 2013 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2013 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2013 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The SFMTA has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2013 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2013 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2013 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2013 Bonds.

Prospective owners of the Series 2013 Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Series 2013

Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2013 Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2013 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2013 Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Co-Bond Counsel further is of the opinion that, for any Series 2013 Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Series 2013 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2013 Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2013 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2013 Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2013 Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2013 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is

required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2013 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2013 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2013 Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2013 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2013 Bonds.

Prospective purchasers of the Series 2013 Bonds should consult their own tax advisors regarding the foregoing matters.

RATINGS

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business (“S&P”), have assigned their municipal bond ratings of “Aa3” and “A+”, respectively, to the Series 2013 Bonds. Moody’s and S&P’s rating outlooks with respect to the Series 2013 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 2013 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 2013 Bonds.

UNDERWRITING

The Series 2013 Bonds are being purchased by J.P. Morgan Securities LLC, RBC Capital Markets, LLC, Morgan Stanley & Co., LLC and Siebert Brandford Shank & Co., LLC (collectively, the “Underwriters”). The Underwriters have agreed to purchase the Series 2013 Bonds at a purchase price of \$81,992,194.00 (comprised of the principal amount of the Series 2013 Bonds, plus a reoffering premium on the Series 2013 Bonds of \$6,803,318.60, less an underwriter’s discount in the amount of \$251,124.60).

The purchase contract pursuant to which the Series 2013 Bonds are being sold provides that the Underwriters will purchase all of the Series 2013 Bonds if any Series 2013 Bonds are purchased, and the obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Series 2013 Bonds to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

The Underwriters provided the information contained in this paragraph and the following paragraph for inclusion in this Official Statement and the SFMTA does not take any responsibility for or make any representation as to its accuracy or completeness. The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities.

Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the SFMTA, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the SFMTA.

J.P. Morgan Securities LLC (“JPMS”) provided the information contained in this paragraph for inclusion in this Official Statement and the SFMTA does not take any responsibility for or make any representation as to its accuracy or completeness. JPMS, one of the underwriters of the Series 2013 Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, including the Series 2013 Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Series 2013 Bonds from JPMS at the original issue prices less a negotiated portion of the selling concession applicable to any Series 2013 Bonds that such firm sells.

Morgan Stanley & Co. LLC provided the information contained in this paragraph for inclusion in this Official Statement and the SFMTA does not take any responsibility for or make any representation as to its accuracy or completeness. Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an Underwriter of the Series 2013 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2013 Bonds.

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 2013 Bonds are to be issued,
- (ii) the validity of any provision of the Series 2013 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 2013 Bonds as they become due.

CERTAIN LEGAL MATTERS

The validity of the Series 2013 Bonds and certain other legal matters are subject to the approving opinions of Hawkins Delafield & Wood LLP, San Francisco, California, and Rosales Law Partners LLP, San Francisco, 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 Underwriters of the Series 2013 Bonds at the time of the

original delivery of the Series 2013 Bonds. None of Co-Bond Counsel, Disclosure Counsel or Underwriters' Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the SFMTA by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel to the SFMTA. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP.

Orrick, Herrington & Sutcliffe LLP has served as disclosure counsel to the SFMTA and in such capacity has advised the SFMTA with respect to applicable securities laws and participated with responsible SFMTA officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement and has not undertaken to independently verify any of such statements or information. Rather, the SFMTA is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the issuance of the Series 2013 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 the attorneys at such firm rendering legal services in connection with such firm's role as Disclosure Counsel which caused them to believe that this Official Statement as of its date and as of the date of issuance of the Series 2013 Bonds contained or contains any untrue statement of a material fact 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 2013 Bonds, or other person or party other than the SFMTA, will be entitled to or may rely on such letter of Orrick, Herrington & Sutcliffe LLP's having acted in the role of Disclosure Counsel to the SFMTA.

ROLE OF THE FINANCIAL ADVISORS

Backstrom McCarley Berry & Co., LLC, San Francisco, California and Public Financial Management, Inc., San Francisco, California are acting as co-financial advisors to the SFMTA with respect to the Series 2013 Bonds (collectively, the "Financial Advisors"). The Financial 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 2013 Bonds. The Financial 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 Financial Advisors assume no responsibility for the accuracy or completeness of any of the information contained herein. The Financial Advisors will not purchase or make a market in any of the Series 2013 Bonds.

A portion of the compensation to be received by the Financial Advisors from the SFMTA for services provided in connection with the planning, structuring, execution and delivery of the Series 2013 Bonds is contingent upon the sale and delivery of the Series 2013 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 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, 2013

(THIS PAGE INTENTIONALLY LEFT BLANK)



SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Financial Statements
and Supplemental Schedules

June 30, 2013

(With Independent Auditors' Report Thereon)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Statements:	
Statement of Net Position – June 30, 2013	15
Statement of Revenues, Expenses, and Changes in Net Position – Year ended June 30, 2013	17
Statement of Cash Flows – Year ended June 30, 2013	18
Notes to Financial Statements	20
Supplemental Schedules:	
Schedule of Net Position – June 30, 2013	39
Schedule of Revenues, Expenses, and Changes in Net Position – Year ended June 30, 2013	41
Muni Grants – Federal – Year ended June 30, 2013	42
Muni Grants – California Transportation Commission – Year ended June 30, 2013	43
Muni Grants – Metropolitan Transportation Commission – Year ended June 30, 2013	44
Muni Grants – San Francisco County Transportation Authority – Year ended June 30, 2013	45
Muni Grants – Others – Year ended June 30, 2013	47
Sustainable Streets Grants – Federal – Year ended June 30, 2013	48
Sustainable Streets Grants – California Transportation Commission – Year ended June 30, 2013	49
Sustainable Streets Grants – Metropolitan Transportation Commission – Year ended June 30, 2013	50
Sustainable Streets Grants – San Francisco County Transportation Authority – Year ended June 30, 2013	51
Sustainable Streets Grants – Others – Year ended June 30, 2013	52
Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)	53
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 <i>Government Auditing Standards</i>	55



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) of the City and County of San Francisco, California (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the SFMTA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the City of San Francisco Uptown Parking Corporation, the City of San Francisco Japan Center Garage Corporation, the City of San Francisco Portsmouth Plaza Parking Corporation, the City of San Francisco Ellis-O'Farrell Parking Corporation and the City of San Francisco Downtown Parking Corporation, which statements reflect total assets constituting 1.1%, 0.05%, 0.1%, 0.35%, and 0.57% percent, respectively, of total assets at June 30, 2013, and total revenues constituting 2.3%, 0.33%, 0.33%, 0.13%, and 0.14% percent, respectively, of total revenues for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of San Francisco Uptown Parking Corporation, the City of San Francisco Japan Center Garage Corporation, the City of San Francisco Portsmouth Plaza Parking Corporation, the City of San Francisco Ellis-O'Farrell Parking Corporation, and the City of San Francisco Downtown Parking Corporation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 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 entity's internal



control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SFMTA as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1, the financial statements present only the SFMTA and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 4-14 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of SFMTA 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 taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013 on our consideration of 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

October 25, 2013

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

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, 2013. 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 exceeded their liabilities by \$2,266,437 and \$2,095,480 at the close of fiscal years ended June 30, 2013 and 2012, respectively.
- The SFMTA's total net position increased by \$170,957 in 2013 and increased by \$134,560 in 2012 over the prior fiscal year.
- Total net investment in capital assets were \$2,125,062 and \$2,072,355 at June 30, 2013 and 2012, respectively, an increase of 2.5% over the prior year.

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 financial statements include the San Francisco Municipal Railway (Muni), the operations of the Sustainable Streets (which includes functions of the entity previously named the Department of Parking and Traffic), Taxi regulatory operations, and three nonprofit parking garage corporations. Muni provides transit service within the City and County of San Francisco (the City). The Sustainable Streets operation manages 40 City-owned parking garages, metered parking lots, and all traffic engineering functions with the City. Taxi services regulates the taxi industry in San Francisco. The nonprofit parking garage corporations manage three garages on behalf of the City. As explained in Note 2(a) to the financial statements (found on page 20), the SFMTA applies Governmental Accounting Standards Board (GASB) Statements. The SFMTA is an integral part of the City and these financial statements are included in the City's Comprehensive Annual Financial Report. More information regarding the SFMTA's organization and the basis of presentation are contained in Notes 1 and 2(a).

The statement of net position (found on pages 15 and 16) presents information on all of the SFMTA's assets and liabilities, with the difference between the two reported as net 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, 2013.

The statement of revenues, expenses, and changes in net position (found on page 17) presents information showing how the SFMTA's net position changed during the fiscal year ended June 30, 2013. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The statement of cash flows (found on pages 18 and 19) presents information about the cash receipts and payments of the SFMTA during the fiscal year ended June 30, 2013. 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

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

information in the statement 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.

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 38 of this report.

Other Information

The supplemental schedules found on pages 39 through 54 of this report are presented for the purpose of 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 exceeded liabilities by \$2,266,437 at the close of the most recent fiscal year.

Condensed Summary of Net Position

June 30, 2013, 2012, and 2011

	2013	2012	2011
Assets:			
Total current assets	\$ 851,996	584,797	442,559
Total restricted assets	16,984	17,858	21,064
Total other noncurrent assets	788	1,608	1,817
Capital assets, net	2,192,682	2,115,706	2,029,078
Total assets	<u>\$ 3,062,450</u>	<u>2,719,969</u>	<u>2,494,518</u>
Liabilities:			
Total current liabilities	\$ 420,544	302,190	221,280
Total noncurrent liabilities	375,469	322,299	312,318
Total liabilities	<u>\$ 796,013</u>	<u>624,489</u>	<u>533,598</u>
Net position:			
Net investment in capital assets	\$ 2,125,062	2,072,355	1,982,276
Restricted	15,914	16,617	19,898
Unrestricted	125,461	6,508	(41,254)
Total net position	<u>\$ 2,266,437</u>	<u>2,095,480</u>	<u>1,960,920</u>

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

Fiscal Year 2013

During the fiscal year 2013, current assets increased by \$267 million or 46%. The increase includes unrestricted cash and investments of \$240 million, receivables of \$25 million and \$2 million in inventories. The cash and investments increase is attributable to cash balances from bond issuance, higher net operating revenues, City general fund subsidy, and grants reimbursements received compared to prior year.

The SFMTA's net position increased by 8.2% compared to the prior year. The increase in net position is partly attributable to increases in operating revenues, nonoperating revenues, capital contributions, and transfers, offset by increases in operating expenses.

The largest portion of the SFMTA's net position (\$2,125,062 as of June 30, 2013) 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 \$3,672,714 is offset by accumulated depreciation of \$1,480,032 and related debt of \$67,620. More information can be found in Note 5 on page 26. 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 2012

The SFMTA's net position increased by \$134,560 compared to the prior year. The increase in net position is partly attributable to increases in operating revenues, nonoperating revenues, capital contributions, and transfers, offset by increases in operating expenses.

The largest portion of the SFMTA's net position (\$2,072,355 as of June 30, 2012) reflects its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these assets of \$3,484,694 is offset by accumulated depreciation of \$1,368,988 and related debt of \$43,351. More information can be found in Note 5 on page 26. 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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

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

Years ended June 30, 2013, 2012, and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Total operating revenues	\$ 500,523	457,724	443,946
Total nonoperating revenues, net	145,748	138,056	133,586
Capital contributions:			
Federal	104,062	129,226	134,310
State and others	143,596	87,288	64,671
Total capital contributions	247,658	216,514	198,981
Net transfers	300,913	278,961	253,597
Total revenues and net transfers	1,194,842	1,091,255	1,030,110
Expenses:			
Total operating expenses	1,023,885	956,695	902,671
Change in net position	170,957	134,560	127,439
Total net position – beginning	2,095,480	1,960,920	1,833,481
Total net position – ending	\$ 2,266,437	2,095,480	1,960,920

Fiscal Year 2013

Total revenues and net transfers for the year ended June 30, 2013 were \$1,194,842, an increase of \$103,587 or 9.5%, compared to the prior fiscal year. This is due to increases in all revenue categories (i.e., operating, nonoperating, capital contributions, and net transfers).

Operating revenues increased by \$42,799 or 9.4% compared to prior year. This is comprised mostly of increases in the passenger fares by \$17,967 or 8.9%, parking and transportation revenue by \$12,985 or 11.9%, parking fines by \$8,852 or 10.1%, charges for services by \$5,439 or 43.7%, and for various operating revenue categories (advertising, rents, and permits) totaling to \$4,949 or 15.7% offset by net decrease of \$7,393 or 45.5% in taxi medallion revenues. Fares revenue increases are due to increased ridership, a payment from BART for a renegotiated reimbursement agreement covering multiple years, implementation of an indexing policy that increases fares based on a CPI-based formula, increase usage of smart card technology for fare payment, and improved enforcement. For parking and transportation revenues, the increase in parking meter collections was attributable to implementation of various meter payment methods. Charges for services comprise towing fees, street closure, signs, and curb painting fees.

The nonoperating revenues include operating support received from other sources, primarily federal and state operating grants, transit impact development fees, and interest income. Nonoperating revenues increased by \$7,692 or 5.6%, mostly from operating grants, which were offset by a decrease in interest income.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

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 2013 compared to the prior year. This resulted in the significant increase in capital contribution by \$31,144 or 14.4% when compared to fiscal year 2012. Net transfers increased by \$21,952 or 7.9% in fiscal year 2013 mostly due to the increase in the City's General Fund revenue baseline subsidy and less funding transfers to other City departments compared to prior year.

Total operating expenses for the year ended June 30, 2013 were \$1,023,885, an increase of \$67,190 or 7.0%, compared to the prior year. The resulting net increase is comprised of trend changes from various expense categories. Personnel service costs increased by \$6,763 or 1.1%. Contractual services increased by \$43,575 or 65.8%. This is attributable to costs incurred for major repairs and maintenance of infrastructure. Materials and supplies increase by \$307 or 0.4%. Depreciation expense increased by \$3,961 or 3.3% compared to prior year. General and administrative expenses increased by \$6,719 or 22.1%, mainly due to increase in general liability claims compared to prior year. Services provided by other City departments increased by \$2,744 or 5.1% in fiscal year 2013 mainly for city attorney legal costs. The increase in other operating expense category by \$3,121 or 329.6% is primarily due to decrease in recoverable costs.

Parking fines, licenses, and permit revenues have been reclassified to operating revenues in the prior year information noted above to conform to the current year presentation. There were no changes in prior year net position or change in net position resulting from this reclassification.

Fiscal Year 2012

Total revenues and net transfers for the year ended June 30, 2012 were \$1,091,255, an increase of \$61,145 or 5.9%, compared to the prior year. This is due to increases in all revenue categories (i.e., operating, nonoperating, capital contributions, and net transfers).

Operating revenues increased by \$16,324, or 4.9% compared to prior year. This is comprised mostly of increases in the passenger fares by \$10,791 or 5.7% and parking and transportation revenue category by \$5,831 or 5.6%, offset by \$298 net decrease from the other operating revenue categories. The passenger fares increase is attributable to various factors, including increased ridership, implementation of smart card technology for fare payment, and improved transit enforcement strategies. For parking and transportation revenues, the increase in parking meter collections was attributable to new meters that accepted credit cards and cell phone payments as well as demand-based pricing.

The nonoperating revenues include operating support received from other sources, primarily federal and state operating grants, parking permits, fines, and interest income. Nonoperating revenues slightly increased by \$1,924 or 0.8%, with increase in interest income due to higher cash balances and gain from sale of assets, which were offset by decreases in operating grants and parking fines revenues.

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 were more capital expenditures incurred and billable to the grantors in fiscal year 2012 compared to prior year. This resulted in the significant increase in capital contribution by \$17,533 or 8.8% when compared to fiscal year 2011. Net transfers increased

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

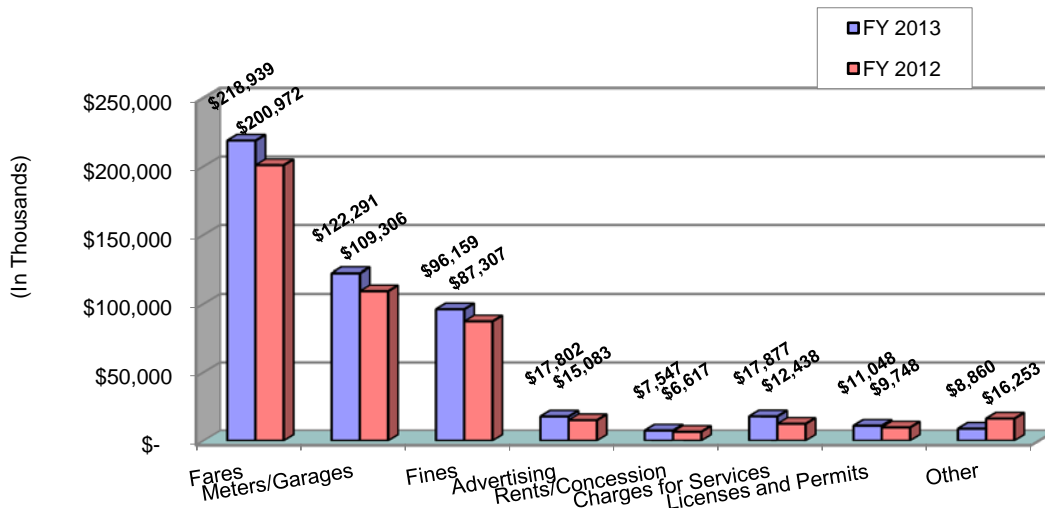
(Dollars in thousands, unless otherwise noted)

by \$25,364 or 10.0% in fiscal year 2012 due to the increase in the City's General Fund and San Francisco County Transportation Authority subsidies compared to the prior year.

Total operating expenses for the year ended June 30, 2012 were \$956,695, an increase of \$54,024 or 6.0%, compared to the prior year. The resulting net increase is comprised of trend changes from various expense categories. Personnel service costs increased by \$32,993 or 5.8%, attributable to higher medical and retirement fringe benefits and other postemployment benefits (OPEB) compared to prior year. Contractual services increased by \$2,453 or 3.8% and were mainly due to repairs and major maintenance of vehicles, and increased costs of security. Materials and supplies increased by \$13,189 or 18.0%, and were mainly in vehicle repair inventory parts or supplies and fuel. Depreciation expense slightly increased by \$1,931 or 1.7%, compared to the prior year. General and administrative expenses decreased by \$6,154 or 16.9%, mainly due to lower judgment and claims costs compared to prior year. Services provided by other City departments increased by \$2,988 or 5.8%, in fiscal year 2012 mainly for police services, allocated share of a citywide payroll project, and citywide telecommunications services. The increase in other operating expense category by \$6,624 or 116.7%, is primarily due to decrease in recoverable costs as well as an increase in paratransit expenses compared to the previous year.

The charts below illustrate the SFMTA's operating revenues by source and expenses by category for FY 2013 and FY 2012.

Operating Revenue Comparative – FY 2013 and FY 2012



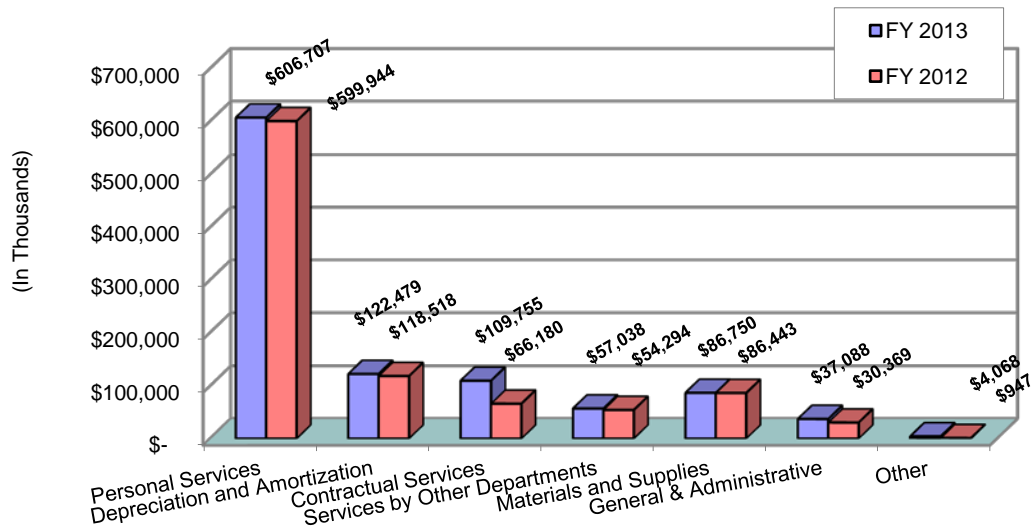
SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

Operating Expenses Comparative - FY 2013 and FY 2012



SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

Capital Assets and Debt Administration

Capital Assets

The SFMTA's investment in capital assets amounts to \$2,192,682 net of accumulated depreciation at June 30, 2013. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles and construction in progress. The increase in capital assets is \$76,976 or 3.6%, compared to the previous year. This increase is attributed to continued construction work for new and existing projects.

Summary of Capital Assets

	<u>Balance, June 30, 2013</u>	<u>Balance, June 30, 2012</u>	<u>Balance, June 30, 2011</u>
Capital assets not being depreciated:			
Land	\$ 41,030	41,495	26,501
Construction in progress	<u>544,592</u>	<u>422,361</u>	<u>286,532</u>
Total capital assets not being depreciated	<u>585,622</u>	<u>463,856</u>	<u>313,033</u>
Capital assets being depreciated:			
Building structures and improvements	667,795	633,377	615,763
Equipment	1,229,299	1,212,258	1,205,228
Infrastructure	<u>1,189,998</u>	<u>1,175,203</u>	<u>1,165,135</u>
Total capital assets being depreciated	<u>3,087,092</u>	<u>3,020,838</u>	<u>2,986,126</u>
Less accumulated depreciation for:			
Building structures and improvements	243,523	227,733	214,419
Equipment	764,580	703,068	651,008
Infrastructure	<u>471,929</u>	<u>438,187</u>	<u>404,654</u>
Total accumulated depreciation	<u>1,480,032</u>	<u>1,368,988</u>	<u>1,270,081</u>
Total capital assets being depreciated, net	<u>1,607,060</u>	<u>1,651,850</u>	<u>1,716,045</u>
Total capital assets, net	<u>\$ 2,192,682</u>	<u>2,115,706</u>	<u>2,029,078</u>

Construction in progress is made up of various transit, pedestrian, and bike projects. The four projects that have the highest balances on June 30, 2013 are the Central Subway, Rail Replacement, Central Control System upgrades and Wayside Fare collection. The Central Subway Project will link the existing 5.2 mile Phase I T-line, beginning at 4th Street and King Streets, to BART, Muni Metro Market Street, Union Square, and Chinatown to the north. Detailed design contracts for the Chinatown, Moscone, and Union Square Market Street Stations are now completed; all advanced utility relocation construction and the Tunnel Boring Machine (TBM) Launch Box construction were also completed this year. The first of two TBMs was installed and began tunneling. The final construction contract for all stations, track, and systems was awarded and issued a Notice to Proceed. The Federal Transit Agency (FTA) executed the Full Funding Grant Agreement dedicating a total of \$942.2 million

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

in federal Section 5309 funds through project completion; this was followed by an FTA allocation of \$85.0 million to the project; the remaining funds will be awarded annually over the next five years. The California Transportation Commission awarded the full amount of \$61.3 million in Proposition 1A Connectivity funds grant for the project tunnel construction and \$117 million in Prop. 1B PTMISEA funds ROW, final design and construction.

The following significant capital asset additions during fiscal year 2013 included:

- Infrastructure – A majority of the \$162.5 million costs incurred is for the new Central Subway Project, Rail Replacement, Phelan Bus Loop Project, and Van Ness Bus Rapid Transit Network implementation. These projects are to upgrade and reconfigure the existing roadway and intersections system and the ongoing program to replace worn parts of the track network.
- Equipment – The cost of \$48.4 million incurred during the fiscal year includes the design costs for the replacement for a new radio communication system on SFMTA fleets and the replacement of the central control and subway communication system. These costs also include continued renovation and rehabilitation of streetcars and midlife rehabilitation of Neoplan buses.
- Building – A total of \$16.4 million was incurred in fiscal year 2013 related to the escalator rehabilitation project, roof rehabilitation at Metro Green facility, and the construction of the Islais Creek bus facility.

Significant capital asset additions during the fiscal year 2012 included:

- Infrastructure – A majority of the \$143.5 million costs incurred is for the new Central Subway Project, Rail Replacement Projects, and reconstruction work on the Overhead Program and Train Control System Projects. These projects are part of the ongoing programs to keep the system in good repair and to replace aging parts of the track network.
- Equipment – The cost of \$33.2 million incurred during the fiscal year includes acquisition and design costs for the refurbishment and modernization of the Farebox Collection System in the subway stations, replacement cost for a new radio communication system on SFMTA fleets, the renovation and rehabilitation of streetcars, and SFpark project costs.
- Building – A total of \$1.4 million was incurred in fiscal year 2012 related to the Escalator Rehabilitation Project.

Debt Administration

At June 30, 2013 and 2012, the SFMTA's debt obligations outstanding totaled \$66,672 and \$43,351, respectively. The following table summarizes the changes in debt between fiscal year 2013 and 2012 and fiscal year 2012 and 2011:

	2013	2012	2011
Bonds payable	\$ 66,672	43,351	46,802
Total	\$ 66,672	43,351	46,802

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

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

The SFMTA's total debt increased by \$23,321 or 53.8% at June 30, 2013. The increase was primarily due to issuance of new revenue bonds. During the fiscal year, SFMTA issued a total of \$63.8 million, \$38 million of which were used to refund the outstanding revenue bonds for economic savings, and \$25.8 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. The SFMTA carried underlying debt ratings of Aa3 from Moody's and A from Standard & Poor's as of June 30, 2013.

The SFMTA's total debt decreased by \$3,451, or 7.4% at June 30, 2012 compared to prior year. The decrease was primarily due to maturities of existing debt. No new bonds were issued during the year ending June 30, 2012.

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

Leveraged Lease-Leaseback of Breda Vehicles

In April 2002, Muni entered into the leveraged lease-leaseback transaction for 118 Breda light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. The sublease provides Muni with an option to purchase the Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment.

Muni received an aggregate of \$388.2 million from the equity investors in full prepayment of the head lease. Muni deposited a portion of this amount into an escrow, and a portion was paid to a debt payment undertaker whose repayment obligation is guaranteed by Assured Guaranty Municipal Corp (AGM) as successor to Financial Security Assurance, Inc., a bond insurance company.

Muni recorded deferred revenue in fiscal year 2002 of \$35.5 million for the difference between the amount received of \$388.2 million and the amount paid to the escrows of \$352.7 million. The deferred revenue amortized in fiscal years 2013 and 2012 amounted to \$1.3 million and \$1.3 million, respectively.

In September 2003, after obtaining final approval from the SFMTA Board of Directors and the City's Board of Supervisors, Muni entered into a second leveraged lease-leaseback transaction for the 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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2013

(Dollars in thousands, unless otherwise noted)

Muni received an aggregate of \$72.6 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. Approximately \$67.5 million of this head lease payment was deposited into two escrows. The deferred revenue amortized in fiscal years 2013 and 2012 amounted to \$0.2 million and \$0.2 million, respectively.

More information can be found in Note 14 of the financial statements.

Economic Factors and Next Year's Budget

The SFMTA Board of Directors approved SFMTA's FY 2013 and FY 2014 two-year budget in April 2012. The final adopted budget for FY 2013 is \$828.2 million and for FY 2014, \$851.1 million. Compared to the FY 2012 Amended Budget, there is a 6.4% increase in FY 2013, and from FY 2013 to FY 2014, the increase is 2.8%.

The expenditure budget increase in FY 2013 and FY 2014 included known and projected cost increases such as salary and fringe benefits, contract services, property and building rental expenses, materials and supplies, and interdepartment work orders. The budget also included \$10 million for rainy day reserve that was not set aside separately in FY 2012.

Revenue items that contribute to the budget increase in FY 2013 and FY 2014 are transit fares, operating grants, parking and traffic fees and fines, transit advertising, and General Fund contribution. The projected revenue increase in transit fares and parking fees and fines is mainly due to approved rate increases in transit fares and parking citation rates.

The SFMTA submitted its FY 2014 Amended Budget in May 2013 for the FY 2014 and FY 2015 budget cycle. The total amount for the FY 2014 Amended Budget remains unchanged from the FY 2014 original budget, with adjustments made to few individual line items based on updated projections.

Requests for Information

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

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

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statement of Net Position

June 30, 2013

(In thousands)

Assets:

Current assets:

Cash and investments with City Treasury	\$ 665,136
Cash and investments held outside City Treasury	3,735
Cash on hand	724

Receivables:

Grants	96,007
Due from the San Francisco County Transportation Authority	6,462
Charges for services (net of allowance for doubtful accounts of \$68 in 2013)	16,262
Interest and other	6,351

Total receivables	<u>125,082</u>
-------------------	----------------

Inventories	56,986
Current deferred charges	333

Total current assets	<u>851,996</u>
----------------------	----------------

Restricted assets:

Cash and investments with City Treasury	8,316
Cash and investments held outside City Treasury	5,530
Other receivables	3,138

Total restricted assets	<u>16,984</u>
-------------------------	---------------

Noncurrent assets:

Deferred charges and other assets	788
Capital assets, net	2,192,682

Total noncurrent assets	<u>2,210,454</u>
-------------------------	------------------

Total assets	<u>\$ 3,062,450</u>
--------------	---------------------

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statement of Net Position

June 30, 2013

(In thousands)

Liabilities:

Current liabilities:

Due to other funds	\$ 33
Accounts payable and accrued expenses	99,631
Accrued payroll	34,107
Accrued vacation and sick leave	17,207
Accrued workers' compensation	14,366
Accrued claims	15,301
Grants received in advance	225,526
Deferred revenue and other deferred credits	9,040
Payable from restricted assets	1,070
Accrued interest payable	948
Bonds, loans, capital leases, and other payables	3,315
Total current liabilities	<u>420,544</u>

Noncurrent liabilities:

Accrued vacation and sick leave, net of current portion	11,947
Accrued workers' compensation, net of current portion	74,836
Accrued claims, net of current portion	22,336
Other postemployment benefits obligation	180,657
Deferred revenue and other deferred credits, net of current portion	22,336
Bonds, loans, capital leases, and other payables, net of current portion	63,357
Total noncurrent liabilities	<u>375,469</u>

Total liabilities

\$ 796,013

Net position:

Net investment in capital assets	\$ 2,125,062
Restricted:	
Debt service	5,530
Other purposes	10,384
Unrestricted	125,461
Total net position	<u><u>\$ 2,266,437</u></u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2013

(In thousands)

Operating revenues:	
Passenger fares	\$ 218,939
Parking and transportation	122,291
Fines, forfeitures, and penalties	96,159
Charges for services	17,877
Licenses, permits, and franchises	11,048
Advertising	17,802
Rents and concessions	7,547
Other	8,860
Total operating revenues	<u>500,523</u>
Operating expenses:	
Personnel services	606,707
Contractual services	109,755
Materials and supplies	86,750
Depreciation and amortization	122,479
Services from other City departments	57,038
General and administrative	37,088
Other operating expenses	4,068
Total operating expenses	<u>1,023,885</u>
Operating loss	<u>(523,362)</u>
Nonoperating revenues (expenses):	
Operating assistance:	
Federal	11,387
State and other grants	133,063
Interest and investment income/loss	(623)
Interest expense	(2,841)
Other, net	4,762
Total nonoperating revenues, net	<u>145,748</u>
Loss before capital contributions and transfers	<u>(377,614)</u>
Capital contributions:	
Federal	104,062
State and others	143,596
Total capital contributions	<u>247,658</u>
Transfers in:	
City and County of San Francisco – General Fund	287,861
San Francisco County Transportation Authority	11,647
City and County of San Francisco – Other City departments	7,588
Total transfers in	<u>307,096</u>
Transfers out:	
City and County of San Francisco – Other City departments	<u>(6,183)</u>
Net transfers	<u>300,913</u>
Change in net position	170,957
Total net position – beginning of year	<u>2,095,480</u>
Total net position – end of year	<u>\$ 2,266,437</u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statement of Cash Flows

Year ended June 30, 2013

(In thousands)

Cash flows from operating activities:	
Cash received from passengers and service contracts	\$ 420,692
Cash received from fines, forfeitures, and penalties	96,159
Cash received from tenants for rent	5,176
Cash paid to employees for services	(570,351)
Cash paid to suppliers for goods and services	(289,505)
Cash paid for judgments and claims	(5,326)
Net cash used in operating activities	<u>(343,155)</u>
Cash flows from noncapital financing activities:	
Operating grants	149,366
Net transfers	301,247
Other noncapital increases	6,079
Net cash provided by noncapital financing activities	<u>456,692</u>
Cash flows from capital and related financing activities:	
Capital grants	325,288
Proceeds from sale of capital assets	4
Acquisition of capital assets	(220,397)
Bond sale proceeds and loans received	70,153
Retirement of capital leases, bonds, and loans	(45,765)
Bond issue cost paid	(643)
Interest paid on long-term debt	(1,773)
Net cash provided by capital and related financing activities	<u>126,867</u>
Cash flows from investing activities:	
Interest income/loss received	(562)
Net cash used in investing activities	<u>(562)</u>
Net increase in cash and cash equivalents	239,842
Cash and cash equivalents – beginning of year	<u>443,599</u>
Cash and cash equivalents – end of year	<u><u>\$ 683,441</u></u>

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Statement of Cash Flows

Year ended June 30, 2013

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (523,362)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	122,479
Provision for doubtful accounts	52
Write-off of assets	33,132
Changes in operating assets and liabilities:	
Receivables, net	(18,000)
Inventories	(2,205)
Deferred charges	200
Accounts payable and accrued expenses	15,990
Accrued payroll	978
Accrued vacation and sick leave	875
Accrued workers' compensation	1,363
Accrued claims	3,906
Other postemployment benefits obligations	27,288
Due to other funds	(3,698)
Deferred revenues and other deferred credits	(2,153)
Net cash used in operating activities	<u>\$ (343,155)</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Deposits with City Treasury:	
Unrestricted	\$ 665,136
Restricted	8,316
Deposits held outside City Treasury:	
Unrestricted	3,735
Restricted	<u>5,530</u>
Total deposits and investments	682,717
Cash on hand	<u>724</u>
Total cash and cash equivalents, end of year	<u><u>\$ 683,441</u></u>

See accompanying notes to financial statements.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

(1) Description of Reporting Entity

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors. The SFMTA financial statements include the entire City and County of San Francisco, California (the City's) surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and 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 fund in the City's Comprehensive Annual Financial Report.

Proposition E passed by the San Francisco voters in November 1999 amended the City Charter, calling for the creation of the SFMTA by consolidating Muni and Department of Parking and Traffic (now named as Sustainable Streets) by July 1, 2002. The incorporations are intended to support the City's TransitFirst Policy. 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 carries more than 200 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 manages 40 City-owned garages and metered parking lots. It also manages all traffic engineering functions within San Francisco, including the placement of signs, signals, traffic striping, curb markings, and parking meters. It also promotes the safe and efficient movement of people and goods throughout the City. 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 nonprofit parking garage corporations operate to provide operational oversight of four garages. Two nonprofit garage corporations (Ellis O'Farrell Parking Corporation and Downtown Parking Corporation) did not enter into a new lease executed by SFMTA in June 2012, and opted to be dissolved. In January 2013, all operations and financial reporting of these two garages have been transferred to Sustainable Streets.

(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 United States generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures, which does not

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

conflict with or contradict other GASB pronouncements. The SFMTA implemented the provisions of this statement effective for the fiscal year ended June 30, 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and renames the resulting measure as net position rather than net assets. The SFMTA implemented the provisions of this statement effective for the fiscal year ended June 30, 2013.

The SFMTA distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses primarily result from providing transportation and street and parking services in connection with the SFMTA's principal ongoing operations. The principal operating revenues are generated from passenger fares, meter parking, garage parking fees, fines, parking permits, and fees collected from advertisements on the SFMTA property. All revenues received that are not part of normal business operations such as operating assistance grants, interest income and transit impact development fees are considered nonoperating revenues. Operating expenses of the SFMTA include employment costs, materials, services, depreciation on capital assets, and other expenses related to the delivery of transportation and parking services. All expenses not meeting this definition are reported as nonoperating expenses.

(b) 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. The SFMTA's portion of this pool is displayed on the statement of net position as "Deposits 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 and losses).

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.

(c) Inventories

Inventories are valued using the average-cost method. Inventories are expensed using the consumption method.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

Rebuilt inventory items include motors, transmission, and other smaller parts that are removed from existing coaches that are overhauled and repaired.

(d) Capital Assets

Capital assets are stated at cost. All construction in progress items over \$100,000 and nonconstruction in progress items over \$5,000 are capitalized. 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, equipment, and infrastructure. Generally, no depreciation is recorded in the year of acquisition, and a full year's depreciation is taken in the year of disposal.

(e) 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, equipment, and infrastructure 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.

(f) Accrued Vacation and Sick Leave

Accrued vacation pay, which vests and may be accumulated up to ten 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, 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.

(g) 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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

(h) *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 Metropolitan Transportation Commission to provide safe, accessible, clean, and environmentally sustainable service through transportation programs.

(i) *Transit Impact Development Fees*

Transit Impact Development Fees (TIDF) are restricted for the capital and maintenance costs of increased peak period transit service associated with new commercial development in the City. These fees are recorded as nonoperating revenues in the year in which they are assessed.

(j) *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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

(3) Net Position

Net position as of June 30, 2013 consists of the following:

Restricted assets:	
Deposits and investments with City Treasury	\$ 8,316
Deposits and investments outside City Treasury (see note below)	5,530
Receivables	3,138
Total restricted assets	<u>16,984</u>
Restricted liabilities of:	
Payable from restricted assets	<u>1,070</u>
Total restricted liabilities	<u>1,070</u>
Restricted assets, net	<u>\$ 15,914</u>
Net position:	
Restricted:	
Debt service	\$ 5,530
Other purposes	<u>10,384</u>
Total restricted net position	15,914
Unrestricted	125,461
Net investment in capital assets	<u>2,125,062</u>
Net position	<u>\$ 2,266,437</u>

Restricted Net Assets

SFMTA financial statements utilize a net position presentation. Net position are 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, 2013, SFMTA reported \$5.5 million restricted assets related to debt reserves and \$10.4 million is restricted by enabling legislation. 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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

(4) Deposits and Investments

Pursuant to the City Charter, the SFMTA maintains its deposits and investments with the City Treasury and a portion of its restricted asset deposits as part of the City's pool of deposits 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 deposits and investments. As of June 30, 2013, the SFMTA's unrestricted and restricted deposits and investments with City Treasury totaled to \$665,136 and \$8,316, respectively. These constitute approximately 10% of the City's investment pool as of June 30, 2013.

The unrestricted deposits and investments outside the City Treasury are cash held by the three nonprofit garage corporations totaling to \$3,115 and \$620 in revolving funds as of June 30, 2013. The SFMTA had restricted deposits and investments of \$5,530 held by an independent trustee outside the City's investment pool.

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
2013	9.1%	4.9%	9.4%	76.6%

The following table shows the restricted cash and investments outside of City Treasury as of June 30, 2013

Restricted cash and investment outside City Treasury		
Investment	Maturities	Fair Value
Money Market Funds	Less than 1 month	\$ 5,530

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

(5) Capital Assets

Capital asset balances and their movements as of and for the year ended June 30, 2013 are as follows:

	Balance, July 1, 2012	Increases	Decreases	Balance, June 30, 2013
Capital assets not being depreciated:				
Land	\$ 41,495	—	(465)	41,030
Construction in progress	422,361	231,311	(109,080)	544,592
Total capital assets not being depreciated	<u>463,856</u>	<u>231,311</u>	<u>(109,545)</u>	<u>585,622</u>
Capital assets being depreciated:				
Building structures and improvements	633,377	34,418	—	667,795
Equipment	1,212,258	31,113	(14,072)	1,229,299
Infrastructure	1,175,203	14,866	(71)	1,189,998
Total capital assets being depreciated	<u>3,020,838</u>	<u>80,397</u>	<u>(14,143)</u>	<u>3,087,092</u>
Less accumulated depreciation for:				
Building structures and improvements	227,733	15,790	—	243,523
Equipment	703,068	72,876	(11,364)	764,580
Infrastructure	438,187	33,813	(71)	471,929
Total accumulated depreciation	<u>1,368,988</u>	<u>122,479</u>	<u>(11,435)</u>	<u>1,480,032</u>
Total capital assets being depreciated, net	<u>1,651,850</u>	<u>(42,082)</u>	<u>(2,708)</u>	<u>1,607,060</u>
Total capital assets, net	<u>\$ 2,115,706</u>	<u>189,229</u>	<u>(112,253)</u>	<u>2,192,682</u>

Certain buses and equipment were sold, disposed, and retired during 2013. The net gain for sold assets is \$4. The loss on the retirement of the assets totaled to \$2,423. The decreases in CIP included \$33,132 of write-offs in 2013.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

Construction in progress consists of the following projects as of June 30, 2013:

	<u>Amount</u>
Rail Replacement	\$ 29,112
Historic Street Car Renovation	20,329
Cable Car Propulsion	3,418
Islais Creek-Woods Annex	10,811
Trolley Overhead Reconstruction	3,188
New Central Subway	362,302
Motor Bus Hybrid Procurement	2,714
Wayside Fare Collection	21,999
Facility Upgrades	17,523
Radio Replacement	16,637
Security Projects	10,550
Central Control System Upgrades	32,643
Paratransit Van Procurement	2,922
Traffic Signal Upgrades	3,126
Others	7,318
	<u>\$ 544,592</u>

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were \$99,631 at June 30, 2013. 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.

Vouchers payable	\$ 45,491
Accruals	49,243
Contracts retainage	<u>4,897</u>
Total accounts payable and accrued expenses	<u>\$ 99,631</u>

(7) 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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

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:

	<u>Refunded</u>	<u>Rate</u>	<u>Price</u>
Series Revenue Bond:			
1999 Parking Meters Refunding	\$ 13,080	4.70%–5.00%	100%
2000A North Beach	5,075	5.00%–5.50%	100%
2001 Uptown Parking	15,465	5.50%–6.00%	101%
2002 Ellis Parking	2,535	4.20%–4.70%	100%
2002 Downtown Parking	6,095	4.50%–5.375%	100%
Total	<u>\$ 42,250</u>		

The refunded bonds were defeased and redeemed on July 27, 2012. Accordingly, the liability for these bonds has been removed from the accompanying statement of net position. Although the refunding resulted in the recognition of a deferred accounting loss of \$0.9 million, 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, 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.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

The following is a summary of long-term obligations of the SFMTA:

	<u>Final maturity date</u>	<u>Remaining interest rate</u>	<u>Balance June 30, 2013</u>
<i>Revenue Bonds Series 2012A</i>			
Sustainable Streets	2032	2.0%–5.0%	\$ 38,717
<i>Revenue Bonds Series 2012B</i>			
Municipal Railway	2042	3.0%–5.0%	22,515
Sustainable Streets	2042	3.0%–5.0%	<u>5,440</u>
Total long-term obligations			<u>\$ 66,672</u>

The changes in long-term obligations for the SFMTA for year ended June 30, 2013 are as follows:

	<u>July 1, 2012</u>	<u>Additional Obligations, Interest Accretion and Net Increases</u>	<u>Current Maturities, Retirements, and Net Decreases</u>	<u>June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 37,615	63,795	(40,690)	60,720	3,315
Lease revenue bonds	5,075	—	(5,075)	—	—
Add/less deferred amounts:					
For issuance premiums	661	7,256	(1,230)	6,687	—
For refunding loss	—	(898)	163	(735)	—
Total bonds payable	<u>43,351</u>	<u>70,153</u>	<u>(46,832)</u>	<u>66,672</u>	<u>3,315</u>
Accrued vacation and sick leave	28,279	21,021	(20,146)	29,154	17,207
Accrued workers' compensation	87,839	18,216	(16,853)	89,202	14,366
Accrued claims	33,731	9,232	(5,326)	37,637	15,301
Other postemployment benefits obligation	153,369	53,272	(25,984)	180,657	—
Deferred revenue and other deferred credits	<u>32,092</u>	<u>3,263</u>	<u>(3,979)</u>	<u>31,376</u>	<u>9,040</u>
Total long-term obligations	<u>\$ 378,661</u>	<u>175,157</u>	<u>(119,120)</u>	<u>434,698</u>	<u>59,229</u>

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

The bond debt service requirements are as follows:

Year ending June 30:	<u>Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2014	\$ 3,315	2,844	6,159
2015	3,415	2,744	6,159
2016	3,555	2,608	6,163
2017	3,715	2,430	6,145
2018	3,505	2,244	5,749
2019–2023	9,160	9,351	18,511
2024–2028	6,310	7,673	13,983
2029–2033	7,860	6,117	13,977
2034–2038	9,970	4,023	13,993
2039–2042	9,915	1,270	11,185
	<u>\$ 60,720</u>	<u>41,304</u>	<u>102,024</u>

The SFMTA's debt policy is that the aggregate annual debt service on long-term debt cannot exceed five percent of SFMTA's annual operating expenses. SFMTA met the requirement for fiscal year ended 2013.

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, 2013, the bond reserve fund with the trustee totaled to \$4.5 million.

(8) Employee Benefit Plans

(a) *Retirement Plan – City and County of San Francisco*

Plan Description

The City has a 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 other employees of the City. The Plan provides basic retirement, disability, and death benefits based on specified percentages of final average salary, and provide cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code are the authority that establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a Citywide level publicly available financial report that includes financial statements and required supplemental information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling 415-487-7020.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

Funding Policy

Contributions are made to the basic plan by both the SFMTA and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2013 varied from 7% to 8% as a percentage of covered payroll. The SFMTA is required to contribute at an actuarially determined rate. For fiscal year 2013, the actuarially determined contribution rate as a percentage of covered payroll was 20.71% and the SFMTA's required contribution was approximately \$58.8 million. The SFMTA contributed 100% of their required contribution.

The SFMTA's contributions to the Retirement System on behalf of its employees amounted to \$9.1 million for the year ended June 30, 2013, which were equal to the required employee contributions for the year.

Refer to the City's Comprehensive Annual Financial Report (CAFR) for the other required disclosures related to the City's pension plan.

(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. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The deferred compensation plan is managed by the Retirement System and is administered by a third party administrator. The SFMTA has no administrative involvement and does not perform the investing function. SFMTA has no fiduciary accountability for the plan, and accordingly, the plan assets and related liabilities to the plan participants are not included in these financial statements.

(c) *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 \$85,906 in fiscal year 2013, is determined by a charter provision based on similar contributions made by the ten most populous counties in California.

Included in these amounts is \$25,984 for fiscal year 2013, to provide postretirement benefits for retired employees, on a pay-as-you-go basis. No additional City allocation was made for fiscal year 2013 to SFMTA's contribution allocation on payments to Health Service System for postretirement health benefits.

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 45, by the City's

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

actuaries. The City's allocation of the OPEB-related cost to the SFMTA for the year ended June 30, 2013 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, 2013, 2012, and 2011, the amounts contributed to the plan and changes in the net OPEB obligations:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 52,025	51,232	50,338
Interest on net OPEB obligation	7,297	6,017	4,747
Adjustment to ARC	<u>(6,050)</u>	<u>(4,987)</u>	<u>(3,721)</u>
Annual OPEB cost	53,272	52,262	51,364
Contribution made	<u>(25,984)</u>	<u>(25,352)</u>	<u>(24,898)</u>
Increase in net OPEB obligation	27,288	26,910	26,466
Net OPEB obligation, beginning of fiscal year	<u>153,369</u>	<u>126,459</u>	<u>99,993</u>
Net OPEB obligation, end of fiscal year	<u>\$ 180,657</u>	<u>153,369</u>	<u>126,459</u>

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.

(9) 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 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, 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 \$7.6 million for operating needs in fiscal year 2013. The PCJPB's annual financial statements are publicly available.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

(10) 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 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 \$2 million. As of June 30, 2013, the reserve was \$10 million. 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 scheduled facilities 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 a third-party administrator under SFMTA's oversight and management. SFMTA continues to develop and implement programs to mitigate growth of costs

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

such as the transitional work programs that bring injured workers back to work on modified duty. Other programs include injury prevention, injury investigation, and medical treatment bills review.

(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.

Workers' compensation expense is part of personnel services, while claims expense is part of general and administrative under operating expenses in the accompanying statement of revenues, expenses and changes in net position.

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

(11) Transactions with the City

The amount of operating subsidy provided to the SFMTA each year is limited to the amount set by the City Charter and budgeted by the City. Such subsidy 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 \$222 million in fiscal year 2013, as required by the City Charter.

(12) 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, 2013, the SFMTA had approved capital grants with unused balances amounting to \$878.0 million. Capital grants receivable as of June 30, 2013 totaled \$82.9 million.

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, 2013, the SFMTA had various operating grants receivable of \$19.6 million. In fiscal year 2013, the SFMTA's operating assistance from BART's Americans with Disability Act (ADA) related support of \$1.1 million and other federal, state, and local grants of \$9.1 million 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 2013, the SFCTA approved \$42.4 million in new capital grants and the SFMTA received payments totaling \$227.9 million. As of June 30, 2013, the SFMTA had \$6.1 million in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA. During the fiscal year 2013, SFCTA approved \$10.0 million in new operating grants, and SFMTA received payments totaling \$6.5 million. The SFMTA had \$1.0 million in operating grants due from the SFCTA as of June 30, 2013.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

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) that is funding solely for public transit projects. The SFMTA received cash totaling \$136.5 million in fiscal year 2013 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 eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal year 2013, \$41.4 million drawdowns were made from the funds for various eligible projects costs.

(13) Commitments and Contingencies

(a) *Grants and Subventions*

Receipts from federal and state grants and other similar programs are subject to audit to determine if the funds were expended in accordance with appropriate statutes, grant terms, and regulations. The SFMTA believes that no significant liabilities will result from any such audits.

(b) *Operating Leases*

The SFMTA leases certain equipment and various properties for use as office space, fleet storage space, and machine shops under lease agreements that expire at various dates through fiscal year 2037. These agreements are accounted for as operating leases. Rent expense was \$13.4 million for the year ended June 30, 2013.

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

Year ending June 30:		
2014	\$	11,224
2015		11,475
2016		11,765
2017		11,635
2018		11,880
2019–2023		64,865
2024–2028		75,211
2029–2033		83,698
2034–2038		79,268
Total	\$	<u>361,021</u>

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

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

Year ending June 30:		
2014	\$	4,141
2015		3,243
2016		2,180
2017		1,668
2018		1,512
2019–2023		7,275
2024–2028		6,335
2029–2033		6,250
2034–2038		6,250
2039–2043		6,250
2044–2048		6,250
2049–2053		6,250
2054–2058		3,333
Total	\$	<u>60,937</u>

(c) *Other Commitments*

As of June 30, 2013, the SFMTA has outstanding commitments of approximately \$349.5 million with third parties for various capital projects. Grant funding is available for the majority of this amount. The SFMTA also has outstanding commitments of approximately \$63.5 million with third parties for noncapital expenditures. 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.

(14) **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 the respective sublease, Muni may exercise an option to purchase the Tranche 1 Equipment on specified dates between November 2026 and January 2030 and Tranche 2 Equipment in January 2030, in each case, following the scheduled sublease expiration dates. During the terms of the subleases, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

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 are not recorded on the financial statements of the SFMTA as of June 30, 2013.

The terms of the SILO documents require the Muni to replace AGM, as successor to FSA, if its ratings are downgraded below “BBB+” by S&P or “Baa1” by Moody’s. AGM’s current ratings of “AA-” from S&P and “A2” from Moody’s satisfy this requirement.

In addition, AGM, as successor to FSA, provides a surety policy with respect to each Equipment transaction to guarantee potential payments in the event such transactions were terminated in whole or in part prior to such sublease expiration date. The terms of the Equipment transaction documents require Muni to replace AGM, as surety provider, if its ratings are downgraded below “AA-” by S&P or “Aa3” by Moody’s. On January 17, 2013, Moody’s downgraded AGM’s rating to “A2.” Failure of Muni to replace AGM following a downgrade by either Moody’s or S&P to below the applicable rating threshold within a specified period of time following demand by an investor could allow such investor, in effect, to issue a default notice to Muni. Because replacement of AGM in either of its roles as debt payment undertaker guarantor or surety may not be practicable, Muni could become liable to pay termination costs as provided in certain schedules of the Equipment transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2013 after giving effect to the market value of the securities in the escrow accounts, would approximate \$87.56 million. The scheduled termination costs increase over the next several years. As of June 30, 2013, no investor has demanded the replacement of AGM as the surety provider.

Muni recorded deferred revenue of \$35.5 million and \$4.4 million in fiscal year 2002 and 2003, respectively, for the difference between the amounts received of \$388.2 million and \$72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of \$352.7 million and \$67.5 million, respectively. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were \$1.3 million and \$0.2 million in fiscal year 2013.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2013

(Dollars in thousands, unless otherwise noted)

(15) Subsequent Event

(a) *Commercial Paper and Bond 2013A Series Issuance*

Based on approval by the SFMTA Board of Directors and concurrence by the Board of Supervisors, 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 in Commercial Paper (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 to finance state of good repair and other capital 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, will be secured by a pledge of Pledged Revenues that is junior and subordinate to the pledge securing 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 Series 2013 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 September 24, 2013. The total Series 2013 Bonds will result in project funding of \$75 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 2013 Reserve Account of the Reserve Fund established under the Indenture for the Series 2012 and 2013 Bonds; and (c) to pay a portion of the costs of issuance of the Series 2013 Bonds.

(b) *Rating Status*

On October 2, 2013, Standard and Poors (S&P) raised its rating to "A+" on the SFMTA Series 2012 and Series 2013 bonds and Moody's reaffirmed its "Aa3" rating on both the 2012 and 2013 bonds.

SUPPLEMENTAL SCHEDULES

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Net Position

June 30, 2013

(In thousands)

	<u>Muni</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>Total</u>
Assets:				
Current assets:				
Deposits and investments with City Treasury	\$ 504,162	160,974	—	665,136
Deposits and investments held outside City Treasury	215	405	3,115	3,735
Cash on hand	724	—	—	724
Receivables:				
Grants	85,282	10,725	—	96,007
Due from the San Francisco County Transportation Authority	6,162	300	—	6,462
Charges for services, net	13,620	2,540	102	16,262
Other, net	5,567	784	—	6,351
Total receivables	110,631	14,349	102	125,082
Inventories	56,986	—	—	56,986
Current deferred charges	—	—	333	333
Total current assets	672,718	175,728	3,550	851,996
Restricted assets:				
Deposits and investments with City Treasury	8,316	—	—	8,316
Deposits and investments held outside City Treasury	1,850	3,680	—	5,530
Other receivables	3,138	—	—	3,138
Total restricted assets	13,304	3,680	—	16,984
Noncurrent assets:				
Deferred charges and other assets	314	474	—	788
Capital assets, net	2,094,423	66,180	32,079	2,192,682
Total noncurrent assets	2,108,041	70,334	32,079	2,210,454
Total assets	\$ 2,780,759	246,062	35,629	3,062,450

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Net Position

June 30, 2013

(In thousands)

	<u>Muni</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>Total</u>
Liabilities:				
Current liabilities:				
Due to other funds	\$ 33	—	—	33
Accounts payable and accrued expenses	83,070	14,873	1,688	99,631
Accrued payroll	29,892	4,134	81	34,107
Accrued vacation and sick leave	14,697	2,510	—	17,207
Accrued workers' compensation	12,195	2,171	—	14,366
Grants received in advance	12,900	2,401	—	15,301
Deferred tax, grant and subvention revenues	224,991	535	—	225,526
Deferred revenue and other deferred credits	6,574	2,083	383	9,040
Payable from restricted assets	1,070	—	—	1,070
Accrued interest receivable	332	616	—	948
Bonds, loans, capital leases, and other payables	—	3,315	—	3,315
Total current liabilities	<u>385,754</u>	<u>32,638</u>	<u>2,152</u>	<u>420,544</u>
Noncurrent liabilities:				
Accrued vacation and sick leave	10,183	1,764	—	11,947
Accrued workers' compensation	60,682	14,154	—	74,836
Accrued claims	17,660	4,676	—	22,336
Other postemployment benefits obligation	157,520	23,137	—	180,657
Deferred revenue and other deferred credits	22,336	—	—	22,336
Bonds, loans, capital leases, and other payables	22,515	40,842	—	63,357
Total noncurrent liabilities	<u>290,896</u>	<u>84,573</u>	<u>—</u>	<u>375,469</u>
Total liabilities	<u>\$ 676,650</u>	<u>117,211</u>	<u>2,152</u>	<u>796,013</u>
Net position:				
Net investment in capital assets	\$ 2,071,576	21,407	32,079	2,125,062
Restricted				
Debt service	1,850	3,680	—	5,530
Other purposes	10,384	—	—	10,384
Unrestricted	20,299	103,764	1,398	125,461
Total net position	<u>\$ 2,104,109</u>	<u>128,851</u>	<u>33,477</u>	<u>2,266,437</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Supplemental Schedule – Schedule of Revenues, Expenses,
and Changes in Net Position

Year ended June 30, 2013

(In thousands)

	<u>Muni</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>SFMTA Eliminations</u>	<u>Total</u>
Operating revenues:					
Passenger fares	\$ 218,939	—	—	—	218,939
Parking and transportation	—	84,612	37,679	—	122,291
Fines, forfeitures, and penalties	—	96,159	—	—	96,159
Charges for services	1,165	16,712	—	—	17,877
Licenses, permits, and franchises	—	11,048	—	—	11,048
Advertising	17,802	—	—	—	17,802
Rents and concessions	1,443	3,639	2,465	—	7,547
Other	187	8,603	70	—	8,860
Total operating revenues	<u>239,536</u>	<u>220,773</u>	<u>40,214</u>	<u>—</u>	<u>500,523</u>
Operating expenses:					
Personnel services	529,607	69,319	7,781	—	606,707
Contractual services	48,783	57,078	3,894	—	109,755
Materials and supplies	78,346	7,239	1,165	—	86,750
Depreciation and amortization	118,350	1,537	2,592	—	122,479
Services from other City departments	40,939	16,099	—	—	57,038
General and administrative	30,487	5,462	1,139	—	37,088
Other operating expenses	(9,125)	11,216	1,977	—	4,068
Total operating expenses	<u>837,387</u>	<u>167,950</u>	<u>18,548</u>	<u>—</u>	<u>1,023,885</u>
Operating income (loss)	<u>(597,851)</u>	<u>52,823</u>	<u>21,666</u>	<u>—</u>	<u>(523,362)</u>
Nonoperating revenues (expenses and losses):					
Operating assistance:					
Federal	9,125	2,262	—	—	11,387
State and other grants	128,588	4,475	—	—	133,063
Interest and investment income (loss)	(110)	(517)	4	—	(623)
Interest expense	(778)	(1,912)	(151)	—	(2,841)
Other, net	3,490	1,272	—	—	4,762
Total nonoperating revenues, net	<u>140,315</u>	<u>5,580</u>	<u>(147)</u>	<u>—</u>	<u>145,748</u>
Income (loss) before capital contribution and transfers	<u>(457,536)</u>	<u>58,403</u>	<u>21,519</u>	<u>—</u>	<u>(377,614)</u>
Capital contributions:					
Federal	96,799	7,263	—	—	104,062
State and others	142,238	1,358	—	—	143,596
Total capital contributions	<u>239,037</u>	<u>8,621</u>	<u>—</u>	<u>—</u>	<u>247,658</u>
Transfers in:					
City and County of San Francisco – General Fund	227,080	60,781	—	—	287,861
San Francisco County Transportation Authority	8,850	2,797	—	—	11,647
City and County of San Francisco – Other City departments	—	7,588	—	—	7,588
SFMTA operating transfers in	104,685	28,084	—	(132,769)	—
Total transfers in	<u>340,615</u>	<u>99,250</u>	<u>—</u>	<u>(132,769)</u>	<u>307,096</u>
Transfers out:					
City and County of San Francisco – Other City departments	(465)	—	(5,718)	—	(6,183)
SFMTA operating transfers out	—	(104,685)	(28,084)	132,769	—
Net transfers	<u>340,150</u>	<u>(5,435)</u>	<u>(33,802)</u>	<u>—</u>	<u>300,913</u>
Change in net position	<u>121,651</u>	<u>61,589</u>	<u>(12,283)</u>	<u>—</u>	<u>170,957</u>
Total net position – beginning of year	<u>1,982,458</u>	<u>67,262</u>	<u>45,760</u>	<u>—</u>	<u>2,095,480</u>
Total net position – end of year	<u>\$ 2,104,109</u>	<u>128,851</u>	<u>33,477</u>	<u>—</u>	<u>2,266,437</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – Federal

Year ended June 30, 2013

(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Capital grants:							
FY 2005 Section 5309 Bus & Facilities	\$ 2,291	—	(2,291)	—	—	—	—
FY 2006 & 2007 Section 5309 Bus & Facilities (Islais Creek)	8,202	—	—	(8,202)	—	—	—
FY 2007 Section 5309 New Starts	3,242	85,000	(7,338)	—	80,904	(67,725)	13,179
FY 2005 through 2010 Section 5309 Fixed Guideway	198,596	—	—	(198,596)	—	—	—
FY 2006 Section 5309 Bus & Facilities (Glen Park)	2,843	—	—	(2,843)	—	—	—
FY 2008 Section 5309 Bus & Facilities	463	—	(216)	—	247	—	247
FY 1999 Section 5307 Urban Area Formula	337	—	(206)	—	131	(72)	59
FY 2002 Section 5307 Urban Area Formula	2,674	—	(153)	—	2,521	(2,455)	66
FY 2004 Section 5307 Urban Area Formula	711	—	(699)	—	12	(12)	—
FY 2005 Section 5307 Urban Area Formula	1,686	—	—	—	1,686	(1,686)	—
FY 2006 Section 5307 Urban Area Formula	1,494	—	(334)	(193)	967	(967)	—
FY 2007 Section 5307 Urban Area Formula	11,509	—	(2,513)	—	8,996	(7,340)	1,656
FY 2008 Section 5307 Urban Area Formula	16,686	—	(8,445)	—	8,241	(6,450)	1,791
FY 2009 Section 5307 Urban Area Formula	20,187	—	(2,184)	—	18,003	(15,209)	2,794
FY 2010 Sec 5307 Urban Area Formula	12,583	—	(864)	—	11,719	(3,910)	7,809
FY 2011 Sec 5307 Urban Area Formula	6,642	4,027	(1,763)	—	8,906	(8,906)	—
FY 2004 Section 5309 Fixed Guideway	1,557	—	(1,557)	—	—	—	—
FY 2008 & 2009 Section 5317 New Freedom	701	—	(315)	—	386	(229)	157
FY 2011 Section 5307 CMAQ	2,800	948	(418)	—	3,330	(3,043)	287
FY 2008 Section 5307 CMAQ	19,310	—	(19,310)	—	—	—	—
FY 2005 Section 5309 Fixed Guideway	—	—	(3,526)	9,911	6,385	(5,180)	1,205
FY 2006 Section 5309 Bus & Facilities	—	—	(3,734)	6,270	2,536	(2,493)	43
FY 2006 Section 5309 Fixed Guideway	—	—	(207)	808	601	(253)	348
FY 2007 Section 5309 Fixed Guideway	—	—	(5,233)	10,877	5,644	(5,236)	408
FY 2007 Section 5309 Bus & Facilities	—	—	(4,556)	4,881	325	—	325
FY 2008 Section 5309 Fixed Guideway	—	—	(11,821)	29,061	17,240	(15,544)	1,696
FY 2009 Section 5309 Fixed Guideway	—	15,000	(8,243)	34,990	41,747	(39,225)	2,522
FY 2010 Section 5309 Fixed Guideway	—	6,800	(432)	56,749	63,117	(61,668)	1,449
FY 2011 Section 5309 Bus & Facilities	—	—	(586)	43,694	43,108	(41,865)	1,243
FY 2011 Section 5309 Fixed Guideway	—	10,000	(354)	56,200	65,846	(65,385)	461
FY 2012 Section 5307 Urban Area Formula	—	6,182	—	—	6,182	(6,179)	3
FY 2012 Section 5309 Bus Livability	—	6,822	(1,506)	—	5,316	(2,291)	3,025
FY 2012 Section 5309 Fixed Guideway	—	68,252	—	—	68,252	(68,252)	—
FY 2013 Section 5307 CMAQ & STP	—	10,767	—	—	10,767	(10,559)	208
FY 2013 Section 5309 Bus Livability	—	6,352	—	—	6,352	(6,352)	—
Total capital grants	<u>\$ 314,514</u>	<u>220,150</u>	<u>(88,804)</u>	<u>43,607</u>	<u>489,467</u>	<u>(448,486)</u>	<u>40,981</u>
ARRA grants:							
FY 2009 Section 5307 ARRA (Operating in nature)	\$ 8,877	—	(8,473)	(383)	21	(3)	18
FY 2009 Section 5307 ARRA (Capital)	150	—	(465)	383	68	(52)	16
Total ARRA grants	<u>\$ 9,027</u>	<u>—</u>	<u>(8,938)</u>	<u>—</u>	<u>89</u>	<u>(55)</u>	<u>34</u>
Operating grants:							
FY 2010 Section 5316 JARC	\$ 495	—	(495)	—	—	—	—
FY 2007 Section 5317 New Freedom	225	—	(26)	—	199	(140)	59
FY 2012 Section 5317 New Freedom	—	200	(24)	—	176	(176)	—
FY 2012 Section 5307 Urban Area Formula	—	3,759	(3,759)	—	—	—	—
Total operating grants	<u>\$ 720</u>	<u>3,959</u>	<u>(4,304)</u>	<u>—</u>	<u>375</u>	<u>(316)</u>	<u>59</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY
Supplemental Schedule of Grants – California Transportation Commission
Year ended June 30, 2013
(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Capital grants:							
FY 2008 Prop IB: 3rd St Light Rail	\$ 2,533	—	(105)	—	2,428	(2,428)	—
FY 2008 Prop IB: Auto Passenger Counter Equipment	2	—	—	—	2	(2)	—
FY 2008 Prop IB: Overhead Rehab 5 Fulton/Hayes Bus Lines	733	—	—	—	733	(733)	—
FY 2008 Prop IB: Farebox Rehab	278	—	(117)	—	161	(161)	—
FY 2008 Prop 1B: Geneva Yard – Historic Street Car Enclosure Facility	233	—	(25)	—	208	(208)	—
FY 2008 Prop 1B: Metro East Light Rail Vehicle Facility	1,649	—	(1)	—	1,648	(1,648)	—
FY 2008 Prop IB: Operator Restrooms	2,534	—	(558)	—	1,976	(1,976)	—
FY 2008 Prop IB: Transit Security	4,829	—	(1,530)	—	3,299	(3,299)	—
FY 2009 Prop IB: New Central Subway	8,667	—	(273)	—	8,394	(8,394)	—
FY 2009 Prop IB: Central Control & Communications (C3)	400	—	(10)	—	390	(390)	—
FY 2009 Prop IB: Central Control & Communications (C3)	1,126	—	—	—	1,126	(1,126)	—
FY 2009 Prop IB: LRV Rehab Program	1,933	—	(1,933)	—	—	—	—
FY 2009 Prop IB: High Speed Connectivity	797	—	—	—	797	(797)	—
FY 2009 Prop IB: Transit Security Infrastructure	5,787	—	(1,547)	—	4,240	(4,240)	—
FY 2009 Prop IB: LRV Rehabilitation	5,262	—	(1,339)	—	3,923	(3,923)	—
FY 2009 & 2010 Prop IB: LRV Restoration Program	781	—	(781)	—	—	—	—
FY 2009 & 2010 Prop IB: Central Subway	81,482	—	(29,740)	—	51,742	(51,742)	—
FY 2010 Prop IB: Transit Security	7,070	—	—	—	7,070	(7,070)	—
FY 2010 Prop IB: Balboa Park Eastside Connection	864	—	—	—	864	(864)	—
FY 2010 Prop IB: Motor Coach Component Rehab	700	—	(70)	—	630	(630)	—
FY 2013 Prop 1B: Central Subway	—	117,681	—	—	117,681	(117,681)	—
FY 2013 Prop 1B: Transit Security	—	7,071	(2,397)	—	4,674	(4,674)	—
FY 2013 High Speed Passenger Train Bond Fund	—	61,308	(8,306)	—	53,002	(32,580)	20,422
FY 2013 Prop 1B: Mission Mobility Maximization	—	5,057	—	—	5,057	(5,057)	—
FY 2013 Prop 1B: 8X Mobility Maximization	—	5,285	—	—	5,285	(5,285)	—
FY 2013 Prop 1B: Mission Bay Loop	—	1,382	—	—	1,382	(1,382)	—
Total capital grants	\$ 127,660	197,784	(48,732)	—	276,712	(256,290)	20,422

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2013

(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded/ adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Capital grants:							
Bridge toll:							
Match to Capital Grants	\$ 11,932	3,546	(3,821)	(2,393)	9,264	(6,826)	2,438
Total capital grants – Bridge tolls	<u>\$ 11,932</u>	<u>3,546</u>	<u>(3,821)</u>	<u>(2,393)</u>	<u>9,264</u>	<u>(6,826)</u>	<u>2,438</u>
State Transit Assistance:							
Third Street Light Rail	\$ 764	—	(458)	—	306	(306)	—
Clipper Limited Use Card	19	—	—	(19)	—	—	—
Balboa Park Station Eastside Connection	—	219	—	—	219	(212)	7
Total capital grants - State Transit Assistance	<u>\$ 783</u>	<u>219</u>	<u>(458)</u>	<u>(19)</u>	<u>525</u>	<u>(518)</u>	<u>7</u>
Operating grants:							
AB1107 Sales Tax	\$ 3,271	34,812	(34,665)	—	3,418	—	3,418
State Transit Assistance	7,990	47,750	(44,657)	—	11,083	—	11,083
Transportation Development Act	—	42,108	(42,108)	—	—	—	—
Owl Operations	—	188	(188)	—	—	—	—
T-3rd Street Operations	—	2,500	(2,500)	—	—	—	—
Translink Project – Wayside Fare Collection	14	—	—	—	14	(14)	—
Lifeline Cycle 2 – Shopping Shuttle	24	75	(59)	(24)	16	(16)	—
Total operating grants	<u>\$ 11,299</u>	<u>127,433</u>	<u>(124,177)</u>	<u>(24)</u>	<u>14,531</u>	<u>(30)</u>	<u>14,501</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY
Supplemental Schedule of Grants – San Francisco County Transportation Authority
Year ended June 30, 2013
(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Capital grants:							
3rd Street Light Rail Projects CPT522	\$ 4,233	—	(7)	(57)	4,169	(4,169)	—
Accessible Vans CPT436	5	—	—	—	5	—	5
Bus & Trolley System Overhaul Program CPT636	1,418	—	(1,195)	(223)	—	—	—
Cable Car Infrastructure CPT527	3,091	—	(94)	—	2,997	(2,997)	—
Central Subway CPT544	47,604	19,722	(56,351)	—	10,975	(10,759)	216
Diesel Bus Purchase CPT466	105	—	—	—	105	(105)	—
Escalator Replacement Study CPT526	1,309	—	(692)	—	617	(617)	—
Facilities Rehabilitation & Improvement (Various CPTs)	367	—	—	—	367	(367)	—
Financial Capacity Study CPT308	240	—	—	—	240	(240)	—
Geneva Building Demolition CPT465-576-584	35	—	—	(35)	—	—	—
Hybrid Buses CPT581	226	—	(119)	—	107	(107)	—
Islais Creek Woods CPT432	7,143	—	(3,470)	—	3,673	(3,002)	671
Muni Rail Replacement Proj CPT579	9,391	—	(977)	(6,656)	1,758	(1,654)	104
Overhead Rehab Program CPT447	4,172	—	(411)	(757)	3,004	(3,004)	—
PCC'S 10 Yr Overhaul CPT583	2,083	—	(416)	—	1,667	(1,596)	71
Procurement 56 – 40 Hybrids CPT554	1,377	—	(10)	(1,367)	—	—	—
Rail Replacement/Mntce Equip/Mission Bay CPT438-445-580	1,915	—	(63)	(140)	1,712	(1,712)	—
Re-power Standard Motor Coaches CPT598	116	—	—	(116)	—	—	—
Trolley Coach Rebuild CPT575	504	—	(300)	—	204	(204)	—
Woods/Potrero Roof Replacement CPT505-509	2	—	—	—	2	(2)	—
Woods Lifts – Heavy Maintenance Shop CPT629	2,458	—	(207)	—	2,251	(2,251)	—
Central Train Control & Comm CP595-630	40,840	—	(6,274)	(383)	34,183	(34,168)	15
Duboce Ave. Pedestrian Improv CPT634	136	—	(130)	—	6	—	6
Van Ness BRT Env Review CPT620	5	—	—	—	5	(5)	—
LRV Collision Repairs CPT626	28	—	(28)	—	—	—	—
Radio Communications System & CAD CPT535	59,285	—	—	(110)	59,175	(59,175)	—
Bus Rapid Transit (Geary/Van Ness) CPT646-640	2,388	—	(120)	(2,012)	256	(188)	68
Wayside Fare Collection CPT560	2,774	—	(201)	—	2,573	(2,573)	—
ParaTransit Vans Procurement CPT659	470	—	(448)	(22)	—	—	—
Balboa park Intermodal Improvements CPT662	339	73	(329)	—	83	(83)	—
Balboa Park Circulation Study CPT673	65	—	—	—	65	(47)	18
Enterprise Asset Management System CPT655	46	—	(46)	—	—	—	—
Balboa Park Station Eastside Connection CPT653	271	—	—	—	271	(271)	—
Motor Coach NABI Replacement CPT676	—	15,937	(277)	—	15,660	(10,760)	4,900
Green Center Rail Replacement CPT681	—	6,656	(12)	—	6,644	(6,608)	36
Total capital grants	\$ 194,441	42,388	(72,177)	(11,878)	152,774	(146,664)	6,110

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2013

(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Operating grants:							
Capital Grant Staffing CPT462	\$ 8	—	—	(8)	—	—	—
Trolley Bus Lifts Operations and Maintenance	75	—	—	(75)	—	—	—
Transit Corridor Investment Study CPT677	—	67	—	—	67	(61)	6
Mission Bay Transit Loop CPT684	—	157	(146)	—	11	(11)	—
N-Judah Customer First CPT689	—	716	—	—	716	(670)	46
Total operating grants	<u>\$ 83</u>	<u>940</u>	<u>(146)</u>	<u>(83)</u>	<u>794</u>	<u>(742)</u>	<u>52</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL RAILWAY

Supplemental Schedule of Grants – Others

Year ended June 30, 2013

(In thousands)

	<u>Authorized grants as of July 1, 2012</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded adjusted grants</u>	<u>Authorized grants as of June 30, 2013</u>	<u>Amounts not expended as of June 30, 2013</u>	<u>Grants receivable as of June 30, 2013</u>
Capital grants:							
Homeland Security:							
FY 2008 CA Emergency Management Agency – Transit Security	\$ 7,639	1,138	(1,418)	(1,138)	6,221	(1)	6,220
FY 2011 Federal Homeland Security – TSA K9 Project	654	126	(218)	(12)	550	(473)	77
FY 2007 CA Emergency Management Agency – Transit Security	405	—	(405)	—	—	—	—
FY 2009 Federal Homeland Safety Grants	5,101	—	(1,112)	—	3,989	(3,459)	530
FY 2010 Federal Homeland Safety Grants	—	—	—	7,510	7,510	(7,510)	—
Total capital grants	<u>\$ 13,799</u>	<u>1,264</u>	<u>(3,153)</u>	<u>6,360</u>	<u>18,270</u>	<u>(11,443)</u>	<u>6,827</u>
Operating in nature grants:							
CA Video Surveillance Project	\$ 23	—	(15)	—	8	(8)	—
FY 2011 Federal Homeland Security – SFPD	927	—	(349)	—	578	(564)	14
Total operating grants	<u>\$ 950</u>	<u>—</u>	<u>(364)</u>	<u>—</u>	<u>586</u>	<u>(572)</u>	<u>14</u>

See accompanying independent auditors' report.

SUSTAINABLE STREETS
Supplemental Schedule of Grants – Federal
Year ended June 30, 2013
(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Capital grants:							
FY 2009 CMAQ – SF Park	\$ 20,810	—	(10,358)	—	10,452	(4,394)	6,058
FY 2011 Section 5307 Surface Transportation	—	490	—	—	490	(490)	—
FY 2012 Sec 4314 Transportation Community & System Preservation	—	241	—	—	241	(241)	—
FY 2012 Highway Safety Improvement – Bayshore Paul Signals	—	259	—	—	259	(243)	16
FY 2013 Section 5307 Surface Transportation	—	517	—	—	517	(516)	1
FY 2012 Safe Routes to Schools – Chinatown	—	386	—	—	386	(386)	—
FY 2010 Highway Safety Improvement-Sunset New Signals	—	626	—	—	626	(625)	1
FY 2012 CMAQ – Outer Sunset	—	481	—	—	481	(481)	—
FY 2012 Surface Transportation – Church & Duboce	—	341	—	—	341	(305)	36
Total capital grants	<u>\$ 20,810</u>	<u>3,341</u>	<u>(10,358)</u>	<u>—</u>	<u>13,793</u>	<u>(7,681)</u>	<u>6,112</u>
Operating in nature:							
Tea Shared Lane Marking Project	\$ 167	—	—	(167)	—	—	—
Tea Ped Safety Education RPSTPLE-632(007)	20	—	—	—	20	—	20
Inner Sunset Traffic Calming & Transit Enhancement	69	—	—	—	69	(69)	—
Inner Sunset Traffic Calming & Transit Enhancement	73	—	—	—	73	(72)	1
Tenderloin Pedestrian Improvements	313	—	(34)	—	279	(279)	—
Golden Gate Park Ped Improvements	63	—	—	—	63	(3)	60
Var Bike Network Improvements	50	—	(41)	—	9	(1)	8
Eastern Neighborhoods	428	—	—	—	428	(172)	256
Chinatown Safe Routes to Schools	122	—	(103)	—	19	(9)	10
Van Ness Corridor Improvement	3,828	—	(175)	—	3,653	(3,357)	296
Fulton Curb Ramps	9	142	(4)	—	147	(84)	63
HSIP – Emergency Vehicle Signal Project	438	—	(54)	—	384	—	384
Bayshore & Paul Signal Upgrade Design	34	—	(32)	—	2	(2)	—
Parking Guidance Project	3,595	—	(1,664)	—	1,931	(680)	1,251
Jefferson Safe Routes to School – Planning	114	—	(102)	—	12	(4)	8
Sunset Blvd New Traffic Signal Design	129	—	(84)	—	45	—	45
Alamo School SRTS Project	129	—	(38)	—	91	(38)	53
SFGO Van Ness Corridor Management – TSP/BRT	6,000	—	(1)	—	5,999	(5,986)	13
TEP Intern Program	7	—	(7)	—	—	—	—
Sunset Blvd Ped Safety Education Program	147	—	(130)	—	17	(17)	—
SF Bicycle Parking Program	235	—	(72)	—	163	(4)	159
Pedestrian Safety Program	70	—	—	—	70	—	70
Masonic Avenue Signal Upgrade	161	—	(8)	—	153	(85)	68
FY 2007 Safe Routes to Schools	—	—	(23)	52	29	(29)	—
FY 2004 Safe Routes to Schools	—	—	—	12	12	(12)	—
FY 2012 Safe Routes to Schools – Tenderloin	—	121	(9)	—	112	(80)	32
FY 2012 Safe Transportation Improvement – Ped Countdown	—	464	—	—	464	(132)	332
FY 2013 Safe Routes to Schools – Denman	—	124	(3)	—	121	(94)	27
FY 2012 State Transportation Improvement – Church & Duboce	—	47	—	—	47	(23)	24
VPPL-6328(054) Link Price Elec	—	571	—	—	571	(566)	5
Total operating in nature	<u>\$ 16,201</u>	<u>1,469</u>	<u>(2,584)</u>	<u>(103)</u>	<u>14,983</u>	<u>(11,798)</u>	<u>3,185</u>
ARRA:							
Inner Sunset Traffic Calming – Construction Phase	\$ 128	—	(49)	—	79	(79)	—
Various Locations Ped Signal Upgrade	—	—	—	—	—	—	—
Total ARRA	<u>\$ 128</u>	<u>—</u>	<u>(49)</u>	<u>—</u>	<u>79</u>	<u>(79)</u>	<u>—</u>

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2013

(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded/ adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Operating in nature grants:							
Randolph/Farralones/Orizaba Transit Access							
Ped Safety	\$ 442	—	(23)	—	419	(419)	—
Tea Shared Lane Marking Project	21	—	—	(21)	—	—	—
SF Community & Monroe Elec School – Safety Route	158	—	—	—	158	(158)	—
Buena Vista Safe Routes to School	192	—	—	—	192	(192)	—
Inner Sunset Traffic Calming & Transit Enhancement	9	—	—	—	9	(6)	3
Addison & Dighy Traffic Circle – Design	7	—	—	—	7	(4)	3
Addison & Dighy Traffic Circle	56	—	—	—	56	(56)	—
Van Ness Corridor Improvement	4,709	—	(910)	—	3,799	(3,407)	392
Clarendon Safe Route to School	98	—	(98)	—	—	—	—
Prop IB – Persia Triangle Improvements	796	—	(16)	—	780	(780)	—
Prop IB – Hunter’s View Transit Connection	510	—	(163)	—	347	(347)	—
Class II & III Bikeways	466	—	(206)	—	260	(210)	50
West Portal Improve School Access	135	—	(35)	—	100	(27)	73
Eastern Neighborhoods CBTBG	4	—	—	—	4	(4)	—
Leonard Flynn Safe Route to School	—	—	—	27	27	(27)	—
Total operating in nature grants	\$ 7,603	—	(1,451)	6	6,158	(5,637)	521

See accompanying independent auditors’ report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2013

(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded/ adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Operating in nature grants:							
TDA:							
Bicycle Parking Projects	\$ 2	—	—	(2)	—	—	—
Bicycle Safety Education Outreach – FY2010	7	—	(7)	—	—	—	—
Bicycle Facility Implementation	82	—	(82)	—	—	—	—
Bicycle Safety Education & Outreach – FY2011	30	—	(26)	—	4	(2)	2
Bicycle Facility Project – FY2011	330	—	(317)	(13)	—	—	—
Bicycle Safety Education & Outreach – FY2012	30	—	(29)	—	1	—	1
Bicycle Facility Project – FY2012	325	—	(189)	—	136	(126)	10
Market & Octavia Bicycle Markings	—	25	—	—	25	(24)	1
Bicycle Safety Education	—	23	—	—	23	(12)	11
Bicycle Facility	—	159	(13)	—	146	(64)	82
Short Term Bike Parking	—	80	—	—	80	(52)	28
Bike Share Pilot	—	167	—	—	167	(167)	—
Bicycle Parking TDA 06-07	—	—	—	102	102	(102)	—
Bridge tolls (RM2):							
Improvement Bicycle Access to 16th St Bart	1	—	—	(1)	—	—	—
Market St Safety Zone	150	—	—	—	150	(150)	—
Mission/Geneva Ped Improvements – Design	14	—	—	—	14	(14)	—
Mission/Geneva Ped Improvements – Construction	797	—	(704)	—	93	(93)	—
24th & Mission Ped Improvement – Design	43	—	(43)	—	—	—	—
24th & Mission Ped Improvement – Construction	354	—	(115)	—	239	(239)	—
Glen Park Area Bicycle – Design	2	—	(2)	—	—	—	—
Glen Park Area Bicycle – Construction	41	—	(18)	(22)	1	(1)	—
Improve Bicycle Access to 16th St Bart Station	13	—	—	(13)	—	—	—
Balboa Park Stn Connection Ph II – Signals/Livable Sts	643	—	(351)	—	292	(250)	42
Better Market Street	167	—	(167)	—	—	—	—
Sidewalk Improvement – Construction	—	16	—	—	16	(16)	—
Bicycle Transit System Integ	—	180	(20)	—	160	(150)	10
Polk St Bicycle Gap Closure	—	584	—	—	584	(584)	—
511 Real-Time Parking SFPark	—	125	(125)	—	—	—	—
Total operating in nature grants	\$ 3,031	1,359	(2,208)	51	2,233	(2,046)	187

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2013

(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Operating in nature grants:							
Bike Program Projects	\$ 1,578	1,452	(1,202)	—	1,828	(1,453)	375
Pedestrian Safety Program Projects	2,183	254	(803)	—	1,634	(1,632)	2
Traffic Calming Program Projects	5,216	287	(1,902)	—	3,601	(3,552)	49
Traffic Signal/Traffic Sign Projects	4,300	7,080	(2,259)	—	9,121	(9,019)	102
Transit Study & Street Improvement Projects	454	—	(61)	2,805	3,198	(3,194)	4
Total operating in nature grants	<u>\$ 13,731</u>	<u>9,073</u>	<u>(6,227)</u>	<u>2,805</u>	<u>19,382</u>	<u>(18,850)</u>	<u>532</u>
Pass-thru grants operating in nature:							
Bike Program Projects	\$ 927	—	(136)	(85)	706	(298)	408
Traffic Calming Projects	70	—	—	(12)	58	(58)	—
Traffic Signal Projects	73	—	—	—	73	(73)	—
Bike Program Projects	8	—	—	—	8	(8)	—
Transit Study & Street Improvement Projects	2	—	—	—	2	(2)	—
Total pass-thru grants operating in nature	<u>\$ 1,080</u>	<u>—</u>	<u>(136)</u>	<u>(97)</u>	<u>847</u>	<u>(439)</u>	<u>408</u>

See accompanying independent auditors' report.

SUSTAINABLE STREETS

Supplemental Schedule of Grants – Others

Year ended June 30, 2013

(In thousands)

	Authorized grants as of July 1, 2012	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2013	Amounts not expended as of June 30, 2013	Grants receivable as of June 30, 2013
Operating in nature grants:							
BAAQMD – Transportation Fund for Clean Air:							
7th Ave Traffic Calming	\$ 2	—	—	—	2	(2)	—
North Point St Bicycle Lanes, Between Embarcadero	5	—	—	(5)	—	—	—
Design/Plan/Implement Citywide Bike Rack	84	—	—	—	84	(5)	79
Install Bike Lane – Lake Merced/Skyline	67	—	(23)	—	44	(44)	—
	<u>67</u>	<u>—</u>	<u>(23)</u>	<u>—</u>	<u>44</u>	<u>(44)</u>	<u>—</u>
Total operating in nature grants	\$ <u>158</u>	<u>—</u>	<u>(23)</u>	<u>(5)</u>	<u>130</u>	<u>(51)</u>	<u>79</u>

See accompanying independent auditors' report.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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

Year ended June 30, 2013

(In thousands)

Project Number	Grant title	Allocation	Beginning Balance July 1, 2012	Interest Earned	Additions	Reassigned Interest Earnings	Expenditures	Ending Balance June 30, 2013
First Allocation Fiscal Year 2007–2008								
CPT522	Third Street Light Rail	\$ 3,700	2,735	23	—	—	(105)	2,653
CPT588 & CPT544	Automated Passenger Count Equipment & Central Subway	2,500	41	—	—	(40)	—	1
CPT447	Overhead Rehabilitation: 5 Fulton and 21 Hayes Bus Lines	3,000	862	7	—	—	—	869
CPT613 & CPT650,	Farebox Rehabilitation, Neoplan Lifecycle Rehabilitation, Vehicle							
CPT672 & CPT688	Video Surveillance & 14 Mission Customer First	20,000	319	2	—	—	(117)	204
CPT531 & CPT544	Geneva Yard – Historic Street Car Enclosure Facility & Central Subway	7,500	419	4	—	(58)	(25)	340
	Sub-total	36,700	4,376	36	—	(98)	(247)	4,067
Second Allocation Fiscal Year 2007–2008								
CPT522	Third Street Light Rail	9,700	2,051	17	—	—	(1)	2,067
CPT303 & CPT629	Operator Restrooms & Woods Lifts Heavy Maintenance Shop	2,965	2,701	22	—	—	(558)	2,165
CPT560	Wayside Fare Collection Equipment	1,000	45	—	—	—	—	45
	Sub-total	13,665	4,797	39	—	—	(559)	4,277
First Allocation Fiscal Year 2008–2009								
CPT544; 595, 672, 681	Central Subway; Wayside Central Control and							
CPT688, 694, 699	Muni Rail Replacement	30,000	8,866	126	—	(194)	(273)	8,525
CPT630	Interim Line Management Center	400	412	3	—	—	(10)	405
CPT630	Light Rail Operations Control Center Improvements	1,300	1,167	10	—	—	—	1,177
CPKA74	Persia Triangle Transit Access Improvements	127	124	1	—	—	(4)	121
CPKA66	Randolph, Farallones, and Orizaba Transit Access Pedestrian Safety	85	50	—	—	—	(24)	26
	Sub-total	31,912	10,619	140	—	(194)	(311)	10,254
Third Allocation Fiscal Year 2007–2008 and Second Allocation 2008–2009								
CPT591	Light Rail Vehicle Rehabilitation Program	3,638	2,013	16	—	—	(1,933)	96
CPT544	Construction of Central Subway Light Rail Line	352	7	—	—	(12)	—	(5)
CPT630	High Speed Connectivity and Communications Upgrade	817	815	7	—	—	—	822
	Sub-total	4,807	2,835	23	—	(12)	(1,933)	913
Third Allocation Fiscal Year 2008–2009								
CPT591	Light Rail Vehicle Rehabilitation Program	5,262	5,334	45	—	—	(1,339)	4,040
CPT626	Light Rail Vehicle Collision Repairs	3,831	51	4	—	—	(11)	44
CPT544	Construction of Central Subway Light Rail Line	719	6	—	—	(6)	—	—
	Sub-total	9,812	5,391	49	—	(6)	(1,350)	4,084
First Allocation Fiscal Year 2009–2010								
CPT544	Construction of Central Subway Light Rail Line	20,216	17,037	—	—	—	(17,037)	—
CPT626	Light Rail Vehicle Restoration	770	770	—	—	—	(770)	—
CPT653	Balboa Park Station Eastside Connections	864	864	—	—	—	—	864
CPKE96	Hunter's View Revitalization Transit Stop Connection	510	510	—	—	—	(322)	188
CPT631	Motor Coach Component Rehab	700	700	—	—	—	(70)	630
Unassigned	Interest Earned on First Allocation FY 2009–2010	—	143	149	—	(226)	—	66
	Sub-total	23,060	20,024	149	—	(226)	(18,199)	1,748

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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

Year ended June 30, 2013

(In thousands)

Project Number	Grant title	Allocation	Beginning Balance July 1, 2012	Interest Earned	Additions	Reassigned Interest Earnings	Expenditures	Ending Balance June 30, 2013
Second Allocation Fiscal Year 2009–2010								
CPT544	Construction of Central Subway Light Rail Line	\$ 16,045	16,120	136	—	(54)	(1,593)	14,609
CPKA66	Randolph, Farallones, and Orizaba Transit Access Pedestrian Safety	395	395	5	—	—	—	400
	Sub-total	16,440	16,515	141	—	(54)	(1,593)	15,009
Third Allocation Fiscal Year 2009–2010								
CPT544	Construction of Central Subway Light Rail Line	48,400	48,413	389	—	(14)	(11,110)	37,678
CPKA74	Persia Triangle Improvements	676	676	—	—	—	(12)	664
	Sub-total	49,076	49,089	389	—	(14)	(11,122)	38,342
First Allocation Fiscal Year 2010–2011								
CPT544	New Central Subway	117,681	—	414	117,681	—	—	118,095
	Sub-total	117,681	—	414	117,681	—	—	118,095
Second Allocation Fiscal Year 2010–2011								
CPT995	Mission Mobility Maximization	5,057	—	—	5,057	—	—	5,057
CPT995	8X Mobility Maximization	4,225	—	—	4,225	—	—	4,225
CPT672	Vehicle Video Surveillance Replacement	1,060	—	—	1,060	—	—	1,060
CPT684	Mission Bay Loop	1,382	—	—	1,382	—	—	1,382
	Sub-total	11,724	—	—	11,724	—	—	11,724
Reassigned Interest Earnings								
CPT665	Central Subway Goodwill	—	365	—	—	(315)	(50)	—
CPT656	Paratransit Mobile Van Data Terminals	—	161	—	—	—	(104)	57
CPT687	Capital Program Controls System Procurement	—	—	—	—	920	(302)	618
	Sub-total	—	526	—	—	605	(456)	675
	Total	\$ 314,877	114,172	1,380	129,405	1	(35,770)	209,188

See accompanying independent auditors' report.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX B

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

This Appendix contains information that is current as of August 15, 2013

This Appendix B to the Official Statement of the San Francisco Municipal Transportation Agency (the “SFMTA”) covers general information about the City and County of San Francisco’s (the “City” or “San Francisco”) 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. Certain specified documents referred to in this Appendix B 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.

TABLE OF CONTENTS

	<u>Page</u>
CITY GOVERNMENT	3
City Charter	3
Mayor and Board of Supervisors	3
Other Elected and Appointed City Officers	4
CITY BUDGET	5
Overview	5
Budget Process	5
November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle	6
Role of Controller; Budgetary Analysis and Projections	7
General Fund Results; Audited Financial Statements	7
Five-Year Financial Plan	12
Fiscal Year 2012-13 Budget Update	12
City Budget Adopted for Fiscal Years 2013-14 and 2014-15	13
Impact of the State of California Budget on Local Finances	13
Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances	14
Budgetary Reserves and Economic Stabilization	14
Rainy Day Reserve	15
Budget Stabilization Reserve	15
San Francisco Redevelopment Agency Dissolution	16
PROPERTY TAXATION	18
Property Taxation System – General	18
Assessed Valuations, Tax Rates and Tax Delinquencies	18
Tax Levy and Collection	20
Taxation of State-Assessed Utility Property	22
OTHER CITY TAX REVENUES	23
Business Taxes	23
Transient Occupancy Tax (Hotel Tax)	24
Real Property Transfer Tax	25
Sales and Use Tax	26
Utility Users Tax	27

Emergency Response Fee; Access Line Tax	27
Parking Tax	28
INTERGOVERNMENTAL REVENUES	28
State – Realignment	28
Public Safety Sales Tax	28
Other Intergovernmental Grants and Subventions	29
Charges for Services	29
CITY GENERAL FUND PROGRAMS AND EXPENDITURES	29
General Fund Expenditures by Major Service Area	29
Baselines	30
EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS	31
Labor Relations	32
San Francisco Employees’ Retirement System (“SFERS” or “Retirement System”)	34
Medical Benefits	39
Total City Employee Benefits Costs	43
INVESTMENTS OF CITY FUNDS	44
CAPITAL FINANCING AND BONDS	46
Capital Plan	46
Tax-Supported Debt Service	47
General Obligation Bonds	48
Lease Payments and Other Long-Term Obligations	50
Commercial Paper Program	52
Board Authorized and Unissued Long-Term Obligations	53
Overlapping Debt	53
MAJOR ECONOMIC DEVELOPMENT PROJECTS	55
Hunters Point Shipyard (Phase 1 and 2) and Candlestick Point	56
Treasure Island	56
Piers 30-32 and Seawall Lot (SWL) 330 – Warrior’s Multipurpose Recreation and Entertainment Venue	57
Transbay	57
Mission Bay	57
Seawall Lot (SWL) 337 and Pier 48 (Mission Rock)	58
Pier 70	58
Cruise Terminal	58
America’s Cup	59
Moscone Convention Center	59
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES	59
Article XIII A of the California Constitution	60
Article XIII B of the California Constitution	60
Articles XIII C and XIII D of the California Constitution	60
Statutory Limitations	61
Proposition 1A	62
Proposition 22	62
Proposition 26	63
Future Initiatives and Changes in Law	63
LITIGATION AND RISK MANAGEMENT	64
Pending Litigation	64
Risk Retention Program	64

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 SFMTA (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 SFMTA 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 is the chief executive officer of the City, with 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 as Mayor on November 8, 2011. 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 up 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.

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Board of Supervisors

Name	First Elected or Appointed	Current Term Expires
Eric Mar, <i>District 1</i>	2008	2017
Mark Farrell, <i>District 2</i>	2010	2015
David Chiu, <i>Board President, District 3</i>	2008	2017
Katy Tang, <i>District 4</i>	2013	2013
London Breed, <i>District 5</i>	2012	2017
Jane Kim, <i>District 6</i>	2010	2015
Norman Yee, <i>District 7</i>	2012	2017
Scott Wiener, <i>District 8</i>	2010	2015
David Campos, <i>District 9</i>	2008	2017
Malia Cohen, <i>District 10</i>	2010	2015
John Avalos, <i>District 11</i>	2008	2013

Other Elected and Appointed City Officers

Dennis J. Herrera was re-elected to his third four-year term as City Attorney in November 2009. 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 appointed Assessor-Recorder of the City by Mayor Lee in February 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 serve as the City’s representative on the Board of Supervisors to 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 2009. 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 SFMTA.

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. 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 2013 the City adopted a full two-year budget. The City's fiscal year 2013-14 adopted budget appropriates annual revenues, fund balance, transfers, and reserves of approximately \$7.91 billion, of which the City's General Fund accounts for approximately \$3.95 billion. In fiscal year 2014-15 appropriated revenues, fund balance, transfers and reserves total approximately \$7.93 billion and \$4.05 billion of General Fund budget. For a further discussion of the fiscal years 2013-14 and 2014-15 adopted budgets, see "City Budget Adopted for Fiscal Years 2013-14 and 2014-15" 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 on 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. 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 three significant changes:

- Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets were approved in July, 2012 by the Board of Supervisors for four departments for fiscal year 2012-13 and 2013-14: the Airport, the Port, the Public Utilities Commission, and the SFMTA. All other departments prepared balanced, rolling two-year budgets beginning in fiscal year 2012-13.
- Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The first five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was adopted by the Board of Supervisors on June 7, 2011, and was updated on March 7, 2012. A new five-year financial plan, covering fiscal years 2013-14 through 2017-18 was adopted by the Board of Supervisors on April 10, 2013. See "Five Year Financial Plan" below.
- Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions by May 15. 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.

On April 13, 2010, the Board of Supervisors unanimously adopted policies to 1) codify 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. These policies are described in further detail below. 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 City 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 City 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 City 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.

Charter Section 3.105 directs the City Controller to issue periodic or special financial reports during the fiscal year. Each year, the City 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 City Controller issued the most recent of these reports, the fiscal year 2012-13 Nine Month Budget Status Report (the "Nine Month Report"), on May 9, 2013. In addition, under Proposition A of November 2009, the Mayor must submit a Five-Year Financial Plan every two years to the Board of Supervisors which forecasts revenues and expenditures for the next five fiscal years and proposes actions to balance them. On April 10, 2013, the Board of Supervisors approved the City's second Five-Year Financial Plan. For details see "Five-Year Financial Plan" below. Finally, as discussed above, the City Charter directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 11, 2013 the Controller released the Discussion of the Mayor's fiscal year 2013-14 and fiscal year 2014-15 Proposed Budget (the "Revenue Letter"). All of these reports are available from the City Controller's website: www.sfcontroller.org. The information from the said website is not incorporated herein by reference.

General Fund Results; Audited Financial Statements

The General Fund portions of the fiscal year 2013-14 and 2014-15 Original Budgets total \$3.95 billion, and \$4.05 billion respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the SFMTA, 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 2009-10 through 2011-12 and the Original Budgets for fiscal years 2012-13 through 2014-15. 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 2011-12 was issued on January 8, 2013. The fiscal year 2011-12 CAFR reported that as of June 30, 2012, the General Fund available for appropriation in subsequent years was \$220.3 million (see Table A-4), of which \$104.3 million was assumed in the fiscal year 2012-13 Original Budget and \$103.6 million was assumed in the fiscal year 2013-14 Original Budget, and \$11.7 million remains available for future appropriations. This represents a \$51.8 million increase in available fund balance over the \$168.5 million available as of June 30, 2011 and resulted primarily from savings and greater-than-budgeted additional tax revenue, particularly payroll and property transfer tax revenues, in fiscal year 2011-12. In addition to this available year-end General Fund balance, the City's Rainy Day Reserve Economic Stabilization Account totaled \$31.1 million.

TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2009-10 through 2014-15

	(000s)					
	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
	Final Revised	Final Revised	Final Revised	Original	Original	Original
	Budget	Budget	Budget	Budget ²	Budget ³	Budget ³
Prior-Year Budgetary Fund Balance & Reserves	\$390,512	\$312,040	\$427,886	\$120,654	\$156,426	\$129,329
<u>Budgeted Revenues</u>						
Property Taxes	\$1,021,015	\$984,843	\$1,028,677	\$1,078,083	\$1,153,417	\$1,220,417
Business Taxes	371,848	342,350	389,878	452,806	532,988	564,180
Other Local Taxes	456,140	528,470	602,455	733,295	846,924	869,812
Licenses, Permits and Franchises	25,138	23,242	24,337	25,332	23,061	25,533
Fines, Forfeitures and Penalties	11,662	3,794	7,710	7,174	9,097	9,435
Interest and Investment Earnings	10,984	9,547	6,050	6,776	10,946	11,010
Rents and Concessions	19,884	22,346	22,894	21,424	25,534	20,597
Grants and Subventions	686,058	681,090	679,486	700,184	780,936	782,440
Charges for Services	146,680	145,443	153,678	166,763	177,048	177,805
Other	21,713	30,929	19,232	17,640	14,301	21,175
Total Budgeted Revenues	\$2,771,122	\$2,772,054	\$2,934,397	\$3,209,477	\$3,574,252	\$3,702,404
Bond Proceeds & Repayment of Loans	1,725	785	589	627	1,105	760
<u>Expenditure Appropriations</u>						
Public Protection	\$954,816	\$951,516	\$991,840	\$1,058,689	\$1,130,932	\$1,155,085
Public Works, Transportation & Commerce	44,276	25,763	53,878	67,529	80,797	111,993
Human Welfare & Neighborhood Development	657,274	650,622	677,953	670,375	700,254	717,018
Community Health	481,805	513,625	573,970	609,892	701,978	702,791
Culture and Recreation	93,755	100,043	99,762	111,066	119,579	115,632
General Administration & Finance	174,907	178,709	190,014	197,994	244,591	248,135
General City Responsibilities ¹	96,336	88,755	99,274	103,613	96,975	102,802
Total Expenditure Appropriations	\$2,503,169	\$2,509,032	\$2,686,691	\$2,819,159	\$3,075,105	\$3,153,456
Budgetary reserves and designations, net	\$16,653	\$6,213	\$11,112	\$51,756	\$69,883	\$50,121
Transfers In	\$94,678	\$119,027	\$160,187	\$155,950	\$217,982	\$214,792
Transfers Out	(564,945)	(504,740)	(567,706)	(615,793)	(804,777)	(843,708)
Net Transfers In/Out	(\$470,267)	(\$385,713)	(\$407,519)	(\$459,843)	(\$586,795)	(\$628,916)
<u>Budgeted Excess (Deficiency) of Sources</u>						
Over (Under) Uses	\$173,270	\$183,921	\$257,550	\$0	\$0	\$0
Variance of Actual vs. Budget	138,770	243,965	299,547			
Total Actual Budgetary Fund Balance ⁴	\$312,040	\$427,886	\$557,097	\$0	\$0	\$0

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 FY 2012-13 Final Revised Budget will be available upon release of the FY 2012-13 CAFR.

³ FY 2013-14 and FY 2014-15 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

⁴ Total Actual Budgetary Fund Balance for FY 2012-13 will be available upon release of the FY 2012-13 Final Revised Budget in the CAFR.

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, 2012 was \$455.7 million (as shown in Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$3.2 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, 2008 through June 30, 2012. Balances for the fiscal year ended June 30, 2013 will be available when the fiscal year 2012-13 CAFR is published at the end of calendar year 2013.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Summary of Audited General Fund Balances
Fiscal Year Ended June 30 ¹
(000s)

	2008	2009	2010	2011	2012
Restricted for rainy day (Economic Stabilization account)	\$117,556	\$98,297	\$39,582	\$33,439	\$31,099 ²
Restricted for rainy day (One-time Spending account)	236	-	-	-	3,010 ²
Committed for budget stabilization (citywide)	-	-	-	27,183	74,330
Committed for Recreation & Parks expenditure savings reserve	3,266	6,575	4,677	6,248	4,946 ²
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	63,068	65,902	69,562	57,846	62,699 ²
Assigned for appropriation carryforward	99,959	91,075	60,935	73,984	85,283 ²
Assigned for baseline appropriation funding mandates	1,491	-	-	-	- ²
Assigned for budget savings incentive program (citywide)	16,181	-	-	8,684	22,410 ²
Assigned for salaries and benefits (MOU)	12,777	316	4,198	7,151	7,100 ²
Assigned for litigation	2,626	-	-	-	- ²
Total Fund Balance Not Available for Appropriation	\$317,160	\$262,165	\$178,954	\$214,535	\$290,877 ³
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies	\$38,969	\$32,900	\$27,758	\$44,900	\$23,637 ⁴
Assigned for General reserve					\$22,306
Assigned for subsequent year's budget	105,064	95,447	105,328	159,390	104,284 ⁵
Unassigned (available for future appropriation)	-	-	-	9,061	115,993
Total Fund Balance Available for Appropriation	\$144,033	\$128,347	\$133,086	\$213,351	\$266,220 ⁶
Total Fund Balance, Budget Basis	\$461,193	\$390,512	\$312,040	\$427,886	\$557,097
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$461,193	\$390,512	\$312,040	\$427,886	\$557,097
Unrealized gain or loss on investments	(2,629)	(1,148)	1,851	1,610	6,838
Nonspendable fund balance	11,358	11,307	14,874	20,501	19,598 ⁷
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(34,629)	(56,426)	(71,967)	(43,072)	(46,140)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(26,071)	(37,940)	(55,938)	(63,898)	(62,241)
Deferred Amounts on Loan Receivables	(3,587)	(4,630)	(9,082)	(13,561)	(16,551)
Pre-paid lease revenue	-	-	-	(1,460)	(2,876)
Total Fund Balance, GAAP Basis	\$405,635	\$301,675	\$191,778	\$328,006	\$455,725

¹ Summary of financial information derived from City CAFRs. GASB Statement 54, issued in March 2009, and implemented in the City's FY 2010-11 CAFR, establishes a new fund balance classification based primarily on the extent to which a government is bound to observe constraints imposed on the use of funds. Subsequent footnotes in this table provide the former descriptive titles for 2011 fund balance amounts.

² Prior to 2011, each line item was titled "reserved" for the purpose indicated

³ Prior to 2011, titled "Total Reserved Fund Balance"

⁴ Prior to 2011, titled "Designated for litigation and contingencies"

⁵ Prior to 2011, titled "Unreserved, undesignated fund balance available for appropriation"

⁶ Prior to 2011, titled "Total Unreserved Fund Balance"

⁷ Prior to 2011, titled "Reserved for Assets Not Available for Appropriation"

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, 2012 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.

[Remainder of Page Intentionally Left Blank.]

TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Audited Statement of Revenues, Expenditures and Changes in General Fund Balances
Fiscal Year Ended June 30 ¹
(000s)

	2008	2009	2010	2011	2012
Revenues:					
Property Taxes	\$939,812	\$999,528	\$1,044,740	\$1,090,776	\$1,056,143
Business Taxes ²	394,267	387,313	353,471	391,057	435,316
Other Local Taxes	519,867	479,194	520,733	608,197	751,301
Licenses, Permits and Franchises	23,212	24,750	24,249	25,252	25,022
Fines, Forfeitures and Penalties	8,398	5,618	17,279	6,868	8,444
Interest and Investment Income	15,779	9,193	7,900	5,910	10,262
Rents and Concessions	19,490	19,096	18,733	21,943	24,932
Intergovernmental	649,923	645,365	651,074	657,238	678,808
Charges for Services	135,473	135,926	138,615	146,631	145,797
Other	17,948	11,199	21,856	10,377	17,090
Total Revenues	\$2,724,169	\$2,717,182	\$2,798,650	\$2,964,249	\$3,153,115
Expenditures:					
Public Protection	\$881,009	\$889,594	\$948,772	\$950,548	\$991,275
Public Works, Transportation & Commerce	69,944	61,812	40,225	25,508	52,815
Human Welfare and Neighborhood Development	613,135	630,112	632,713	610,063	626,194
Community Health	454,935	487,638	473,280	493,939	545,962
Culture and Recreation	105,036	97,415	94,895	99,156	100,246
General Administration & Finance	196,430	170,109	169,980	175,381	182,898
General City Responsibilities	71,885	73,904	87,267	85,422	96,132
Total Expenditures	\$2,392,374	\$2,410,584	\$2,447,132	\$2,440,017	\$2,595,522
Excess of Revenues over Expenditures	\$331,795	\$306,598	\$351,518	\$524,232	\$557,593
Other Financing Sources (Uses):					
Transfers In	\$70,969	\$136,195	\$94,115	\$108,072	\$120,449
Transfers Out	(543,640)	(550,910)	(559,263)	(502,378)	(553,190)
Other Financing Sources	5,050	4,157	3,733	6,302	3,682
Other Financing Uses	-	-	-	-	-
Total Other Financing Sources (Uses)	(\$467,621)	(\$410,558)	(\$461,415)	(\$388,004)	(\$429,059)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency					(815)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(\$135,826)	(\$103,960)	(\$109,897)	\$136,228	\$127,719
Total Fund Balance at Beginning of Year	\$541,461	405,635	\$301,675	\$191,778	\$328,006
Total Fund Balance at End of Year -- GAAP Basis ¹	\$405,635	\$301,675	\$191,778	\$328,006	\$455,725
Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End					
-- GAAP Basis	\$77,117	\$28,203	(\$2,050)	\$48,070	\$133,794 ³
-- Budget Basis	\$105,064	\$95,447	\$105,328	\$168,451	\$220,277 ⁴

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 Prior to adoption of GASB Statement 54 in 2011, titled "Unreserved & Undesignated Balance, Year End"

⁴ Total FY 2011-12 amount is comprised of \$104.3 million in assigned balance subsequently appropriated for use in FY 2012-13 plus \$115.9 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 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. The first Five-Year Financial Plan, covering fiscal years 2011-12 through 2015-16, was prepared by the Mayor's Office and Controller's Office in collaboration with City departments and adopted by the Board of Supervisors on June 7, 2011 and updated on March 7, 2012.

The Five-Year Financial Plan for fiscal year 2013-14 through 2017-18 was approved by the Board of Supervisors on April 2, 2013. For General Fund Supported Operations for fiscal year 2013-14 through fiscal year 2017-18, the Plan projected budgetary shortfalls of \$124 million, \$256 million, \$368 million, \$423 million and \$487 million over the next five fiscal years. The \$487 million projected shortfall is a significant improvement from the first Five-Year Financial Plan which in 2011 projected a five-year shortfall of \$829 million. This Plan projected continued recovery in local tax revenues. However, projected increases in employee salary and benefits, citywide operating expenses, and departmental costs are rising faster than projected revenue growth. To the extent budgets are balanced with ongoing savings or revenues, future shortfalls will decrease.

The fiscal year 2013-14 and fiscal year 2014-15 budget approved by the Board of Supervisors on July 23, 2013, closed budget gaps identified in the Five Year Financial Plan. Strategies used to balance the budget are discussed in the budget section below. To the extent that the Mayor's budget is balanced with ongoing savings or revenues, this will reduce the projected deficits for subsequent fiscal years.

The City currently projects revenue growth of \$578 million over the five-year period of this Plan, and expenditure growth of \$1.065 billion. Employee pension costs, wages and other benefit growth are the single largest driver of cost growth and the imbalance between revenues and expenditures, growing by \$459 million, 43% of the total expenditure growth, during the five years of the plan. Other costs projected to increase include: Citywide Operating Costs (\$298 million, 28% of expenditure growth), Department of Public Health specific cost increases (\$133 million, 13%), Charter Mandated Baseline and Reserve Changes (\$118 million, 11%), and Other Department Specific Cost Increases (\$57 million, 5%).

The Plan proposes the following strategies to restore fiscal stability: controlling capital spending and debt restructuring; controlling wage and benefit costs; additional tax and fee revenues; adjustments to baselines and revenue allocations; limiting growth in contract and materials costs; reduced reliance on non-recurring revenues and savings; and ongoing departmental revenues and savings initiatives.

Fiscal Year 2012-13 Budget Update

On May 9, 2013, the Controller's Office issued a Nine-Month Budget Status report which projected the General Fund would end fiscal year 2012-13 with a balance of \$210.0 million. The surplus is made up of \$85.6 million in better than anticipated Citywide revenues (after required baseline contributions) and \$32.8 million in net departmental operating surpluses, offset by increased reserve deposits of \$24.4 million. Of this fiscal year 2012-13 ending balance, \$103.6 million had already been appropriated in the fiscal year 2013-14 budget, and \$10.3 million was estimated to be required to bring the General Reserve to mandated levels, leaving a surplus of \$96.0 million available for appropriation. The general revenue improvements were driven primarily by continued growth in local economic activity resulting in improved outlooks for real property transfer tax, payroll tax, hotel tax and interest income.

On June 26, 2013 the Controller's Office issued a fiscal year 2012-13 General Fund Revenue Update memorandum projecting additional surpluses in property and payroll tax revenues of \$7.4 million and \$7.8 million, respectively, above Nine-Month Budget Status report levels. These expected additional surpluses are partially offset by reductions in property transfer tax revenues which are projected to decline by \$14.6 million from the Nine-Month Budget Status report projected amount.

City Budget Adopted for Fiscal Years 2013-14 and 2014-15

On July 24, 2013, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the “Original Budget”) for fiscal years ending June 30, 2014 and June 30, 2015. This is the second two-year budget for the entire City. The Controller’s Office issued its required Controller’s Discussion of the Mayor’s fiscal year 2013-14 and fiscal year 2014-15 Proposed Budget on June 11, 2013. The Mayor’s budget closed the \$124 million and \$256 million general fund shortfalls for fiscal year 2013-14 and fiscal year 2014-15 identified in the Five Year Financial Plan through a combination of (a) net citywide revenue increases of \$91 million and \$83 million, respectively; (b) a net Citywide expenditure increase of \$6 million in fiscal year 2013-14 for capital projects, followed by Citywide expenditure savings of \$60 million in fiscal year 2014-15, both made possible in part by lower than expected health costs and improved pension system returns; (c) one-time revenues of \$28 million and \$13 million, respectively; (d) departmental savings totaling \$11 million and \$47 million respectively, the largest component of which was securing alternative sources for furniture, fixtures and equipment for the new San Francisco General Hospital building (\$17 million and \$34 million), and (e) cost savings of \$53 million in fiscal year 2014-15 made up of \$33 million in reduced funding for growth in contracts and \$20 million of deferred education enrichment fund allocations to the San Francisco Unified School District and First Five Commission.

On June 27, 2013 the Board of Supervisors Budget and Finance Committee unanimously approved the Mayor’s proposed budget with minor revisions totaling \$25 million in fiscal year 2013-14 and \$15.4 million in fiscal year 2014-15. The revisions in fiscal year 2013-14 were funded by \$10.1 million in Committee reductions to the Mayor’s budget and \$15 million of additional sources identified by the Mayor, including \$7.5 million in additional expenditure savings identified from fiscal year 2012-13 and \$3.6 million in additional expenditure savings in fiscal year 2013-14, \$1.4 million in additional fiscal year 2012-13 property tax revenue above the amount required to be deposited in the Budget Stabilization Reserve and to fund baseline transfers, \$1.4 million in leftover funds in the budget’s technical adjustment reserve and \$1 million from Consumer Protection funds.

The Original Budget for fiscal years 2013-14 and 2014-15 totals \$7.91 billion and \$7.93 billion respectively, representing increases over prior year of \$554 million and \$23 million. The General Fund portion of each year’s budget is \$3.95 billion in fiscal year 2013-14 and \$4.05 billion in fiscal year 2014-15 representing consecutive increases of \$463 million and \$98 million. There are 27,669 funded full time positions in the fiscal year 2013-14 Original Budget and 27,850 in the fiscal year 2014-15 Original Budget representing increases of 813 and 181, respectively.

The budget for fiscal years 2012-13 and 2013-14 was the second to adhere 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.

Impact of the State of California Budget on Local Finances

The State continues its slow economic recovery. Revenues from the State represent approximately 21.5% of the General Fund revenues appropriated in the fiscal year 2013-14 Original Budget, 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, 2013, Governor Brown signed the 2013-14 California State budget into law. In contrast to recent budgets, which closed multibillion dollar shortfalls, spending in fiscal year 2013-14 is set to increase by 3 percent over fiscal year 2012-13, including a \$1.1 billion reserve, due to voter-approved tax increases, economic recovery and prior reductions. The City's Original Budget for fiscal years 2013-14 and 2014-15 does not include the allowance for unallocated State funding reductions deemed necessary in budgets for fiscal years 2009-10 through 2012-13. The largest source of uncertainty in the City's budget is related to the implementation of national health care reform (the Affordable Care Act, or ACA). The State's fiscal year 2013-14 budget includes a \$300 million reduction in funding for indigent health care to counties to reflect the expected enrollment of over one million additional adults in Medi-Cal beginning in January, 2014, of which San Francisco's share is \$17 million. The timing and extent to which reduced subventions will be made up by increased insurer reimbursements is not certain at this time, and budget adjustments may be required should the Mayor and the Board of Supervisors wish to backfill lost revenue and increased costs.

Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances

On January 2, 2013, the federal government reached a temporary budget solution that reduced the level of cuts associated with sequestration in the current fiscal year and postponed the effects of federal sequestration until March 1st. As of March 27, 2013, the total estimated impact to the City and County of San Francisco in fiscal year 2013-14 is approximately \$13.4 million, mainly due to environmental and energy programs. The timing and exact value of any reductions is unknown until Congress passes a budget, and will furthermore depend on implementation details, which have not yet been determined.

Budgetary Reserves and Economic Stabilization

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 "INVESTMENTS 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 one percent of budgeted regular General Fund revenues, or \$32.2 million, in fiscal year 2012-13, \$44.7 million in fiscal year 2013-14 and \$55.5 million in fiscal year 2014-15. The required starting balance of the reserve increases to 2% of General Fund revenues by fiscal year 2016-17.

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 (\$13.1 million in fiscal year 2013-14 and \$13.5 million in fiscal year 2014-15), and the Litigation Reserve (\$11.0 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 City 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 the following two accounts within the Rainy Day Reserve and for other lawful governmental purposes.

50 percent of the excess revenues to the Rainy Day Economic Stabilization account;
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 2011-12 revenue exceeded the deposit threshold, resulting in a \$6.0 million deposit to the Rainy Day Reserve Economic Stabilization account and a \$3.0 million deposit to the One-Time Capital Expenditures account. The fiscal year 2013-14 and 2014-15 budgets do not anticipate deposits to the reserve.

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. Moneys in the Rainy Day Reserve's Economic Stabilization account 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). Moneys in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. Except for the transfer to SFUSD described below, no draw from the Rainy Day Reserve is budgeted in fiscal years 2013-14 and 2014-15.

If the City Controller projects that per-pupil revenues for the SFUSD will be reduced in the upcoming budget year, the Board of Supervisors and Mayor may appropriate funds from the Rainy Day Economic Stabilization account to the SFUSD. This appropriation may not exceed the dollar value of the total decline in school district revenues, or 25% of the account balance, whichever is less. In fiscal year 2012-13, \$6.3 million was appropriated to be transferred to the SFUSD to partially offset SFUSD's planned layoffs and declining per-pupil revenues. On January 15, 2013, the Mayor introduced legislation to increase the fiscal year 2012-13 appropriations to \$7.8 million, or 25% of the current reserve balance, an increase of \$1.5 million over budget. The Board of Supervisors approved this transfer, resulting in a projected fiscal year 2012-13 ending balance of \$23.3 million. The fiscal year 2013-14 and 2014-15 budgets include allocations of \$5.8 million and \$4.4 million, respectively, to the SFUSD. Assuming no other withdrawals or deposits, this would leave a balance remaining in the Rainy Day Reserve at the end of fiscal year 2014-15 of \$13.1 million.

On April 13, 2010, the Board of Supervisors unanimously approved the City 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: General Reserve and the Budget Stabilization Reserve described below.

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 to the new reserve, including Real Property Transfer Tax 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.

The fiscal year 2011-12 ending balance in the reserve was \$74.3 million. The Nine-Month Report projected a \$28.2 million deposit of excess real property transfer tax receipts resulting in a projected fiscal year 2012-13 ending balance in the reserve of \$102.5 million. In addition, the Original Budget assumes transfer tax revenue will be above the prior five year adjusted average in both fiscal years 2013-14 and 2014-15, resulting in reserve deposits of \$16.0 million and \$14.4 million, respectively.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately \$357 million for fiscal year 2013-14 based on fiscal year 2013-14 Original Budget. 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.

San Francisco Redevelopment Agency Dissolution

On February 1, 2012, the San Francisco Redevelopment Agency (the “SFRDA”) ceased to exist by operation of law as a result of Assembly Bill No. X1 26 (Chapter 5, Statutes of 2011-12, First Extraordinary Session) (“AB 26”), and a recent California Supreme Court decision described below. AB 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statute of 2011-12) (“AB1484” and together with AB 26, the “Dissolution Act”).

The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency under the Community Redevelopment Law that have not been repealed, restricted or revised pursuant to AB 26 will be vested in the successor agency. The successor agency for each redevelopment agency is generally the county or city that authorized the creation of the redevelopment agency. On January 26, 2012 the City adopted a Board of Supervisors resolution providing for the City to become the successor agency to the SFRDA (the “Successor SFRDA”). The resolution also approved the retention by the City of all the affordable housing assets of the SFRDA (including encumbered funds in the Low and Moderate Income Housing Fund) and authorized the Mayor’s Office of Housing to manage the housing assets and exercise the housing functions that the SFRDA formerly performed. The resolution places most of the non-housing assets of the SFRDA under the jurisdiction of the Director of the Department of Administrative Services.

Pursuant to AB 1484, the Successor SFRDA is a separate public agency from the City, and the assets and liabilities of the former SFRDA will not be transferred to the City. The Successor SFRDA will succeed to the organizational status of the former SFRDA, but without any legal authority to participate in redevelopment activities, except in connection with approved enforceable obligations as provided in the Dissolution Act. In general, the debt of the former SFRDA will become the debt of the Successor SFRDA as the SFRDA’s successor agency. Such debt will be payable only from the property tax revenues (former tax increment) or other revenue sources that originally secured such debt. The Dissolution Act does not provide for any new sources of revenue, including general fund revenues of the City, for any SFRDA bonds.

There are significant uncertainties regarding the meaning of certain provisions of the Dissolution Act and the impact of the Dissolution Act on the City, including, among other matters, the obligation imposed on the City in performing its duties as Successor SFRDA, performing the enforceable obligations as Successor SFRDA, paying the debt of the former SFRDA as Successor SFRDA and completing certain projects of the former SFRDA. Future legislation and court decisions may clarify some of these uncertainties. There is also uncertainty about how the City may pursue certain community development goals that the former SFRDA undertook and that are not covered by enforceable obligations, and the City’s use of alternative funding sources for projects and programs to pursue such goals.

The total General Fund impact of the dissolution will depend on State decisions regarding the use of tax increment in redevelopment project areas. The State may or may not allow the redevelopment successor agency to retain cash balances to meet contractual obligations for affordable housing and infrastructure improvements. Property tax revenue estimates in the proposed Five Year Financial Plan assume tax increment is used for debt service, to meet obligations made to developers, and approximately \$3.4 million annually for non-debt service uses, resulting in residual tax increment available to be distributed to the taxing entities of approximately \$25.6 million in fiscal year 2013-14, rising to approximately \$42.3 million in fiscal year 2017-18, of which just under 57% would be allocated to the General Fund. This amount could increase depending on uses allowed by the State.

Although uncertainty remains, the State Department of Finance (DOF) has completed reviews of two funds held by the Successor Agency to the San Francisco Redevelopment Agency (the Office of Community Infrastructure and Investment, or OCII). DOF’s December 14, 2012 review of the Low and Moderate Income Housing Fund (LMIHF) required \$106.9 million to be surrendered and distributed to taxing entities, and its April 1, 2013 review of the Other

Assets Fund (OAF) required \$204.2 million to be surrendered. These amounts were substantially reduced upon appeal by the OCII, and on May 31, 2013, San Francisco remitted \$10.6 million of LMIHF and \$1.0 million of OAF balances, resulting in a total increase of property tax revenue to the City of \$7.5 million, of which \$6.5 million accrued to the General Fund.

AB 26 and Supreme Court Decision

On December 29, 2011 the California Supreme Court issued its decision in *California Redevelopment Association v. Matosantos* (No. S194861) (“Matosantos”) regarding the constitutionality of two budget bills involving redevelopment, AB 26 and ABX1 27 (Chapter 6, Statutes of 2011-12, First Extraordinary Session) (“AB 27”). AB 26 dissolved all redevelopment agencies, and designated “successor agencies” with certain powers and duties. AB 27 would have allowed a redevelopment agency to continue to exist, notwithstanding AB 26, if the city or county that created the redevelopment agency made certain payments for the benefit of the local schools and other taxing entities. In *Matosantos* the Court upheld AB 26 requiring the dissolution of redevelopment agencies and the transfer of assets and obligations to successor agencies, but invalidated AB 27. The *Matosantos* decision also modified various deadlines for the implementation of AB 26.

As a consequence of the *Matosantos* decision, all California redevelopment agencies, including the former SFRDA, dissolved by operation of law on February 1, 2012. All property tax revenues that would have been allocated to redevelopment agencies, including the former SFRDA, will be allocated to the applicable Redevelopment Property Tax Trust Fund created by the County Auditor-Controller for the “successor agency.” Such funds are to be used for payments on indebtedness and other “enforceable obligations” (as defined in the Dissolution Act), and to pay certain administrative costs and any amounts in excess of that amount are to be considered property taxes that will be distributed to taxing agencies.

The Dissolution Act requires successor agencies, such as the Successor SFRDA, to continue to make payments and perform other obligations required under enforceable obligations for former redevelopment agencies. AB 26 defines “enforceable obligations” to include bonds, loans, legally required payments, judgments or settlements, legally binding and enforceable agreements and certain other obligations. The Dissolution Act generally excludes from the definition of enforceable obligations any loans or agreements solely between a redevelopment agency and the city or county that created the agency. It also excludes any agreements that are void as violating the debt limit or public policy. Payment and performance of enforceable obligations is subject to review by oversight boards and by the State Controller and State Department of Finance.

The Dissolution Act expressly limits the liabilities of a successor agency in performing duties under the Dissolution Act to the amount of property tax revenues received by such successor agency under the Dissolution Act (generally equal to the amount of former tax increment received by the former redevelopment agency) and the assets of the former redevelopment agency. The Dissolution Act does not provide for any new sources of revenue, including general fund revenues of the City, for any SFRDA bonds (but as discussed below, the City’s costs of performing its obligations under AB 26 and of pursuing the economic development goals of the former SFRDA are uncertain and could be significant).

The Oversight Board and the Department of Finance has approved the ROPS for January 1, 2013 to June 30, 2013.

Impact of Dissolution Act and Information concerning SFRDA

Although provisions have been made under the Dissolution Act to provide funds (i.e. property tax revenues) to continue certain enforceable obligations of the Successor SFRDA, the costs of performing its duties under the Dissolution Act, including performing all enforceable obligations of the former SFRDA, and pursuing community development goals that the former SFRDA undertook and that are not covered by enforceable obligations are uncertain, and could impose significant costs on the City’s general fund not offset by property tax revenues.

The provisions of the Dissolution Act are unclear as to numerous aspects of the operations and finances of the Successor SFRDA, including but not limited to the administration of enforceable obligations (including bonds), the flow and uses of tax increment moneys and the disposition of SFRDA assets. Therefore, there are significant uncertainties regarding the finances and operations of the Successor SFRDA entity and administration of its bonds once the City became the successor agency to the SFRDA. Interpretations and clarification of AB 26 are likely to

come from future State legislation or administrative guidance and court decisions. At present, the City cannot predict many aspects or the overall outcome of AB 26 on the City's finances and the SFRDA bonds; however it is likely that at least certain aspects of the implementation of AB 26 may materially impact the finances of the City and may materially impact the SFRDA bonds. Further, future redevelopment and housing activities in the City that would have been undertaken by the SFRDA had it continued in existence will no longer occur if they are not required under preexisting enforceable obligations.

In its audited financial statement for the year ended June 30, 2012, the City included financial information pertaining to the Successor SFRDA in the City's audited financial statements. The Successor SFRDA also prepares its own financial statements.

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 XIII A of the State Constitution (and mandated by statute), tax surcharges needed to repay voter-approved general obligation bonds, and tax surcharges imposed by overlapping jurisdictions that have been authorized to levy taxes on property located in the City. The Board of Supervisors approves the schedule of tax rates each year by ordinance adopted no later than the last working day of September. The Treasurer and Tax Collector prepare and mail tax bills to taxpayers and collect the taxes on behalf of the City and other overlapping taxing agencies that levy taxes on taxable property located in the City. The Treasurer holds and invests City tax funds, including taxes collected for payment of general obligation bonds, and is charged with payment of principal and interest on such bonds when due. 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 the San Francisco Bay Area Rapid Transit District ("BART"), all of which are legal entities separate from the City. See also, Table A-25: "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 SFRDA. 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 the Successor SFRDA 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 SFRDA received \$114 million of property tax increment in fiscal year 2012-13, diverting about \$65 million that would have otherwise been apportioned to the City's discretionary general fund.

The percent collected of property tax (current year levies excluding supplementals) has increased slightly from 97.96% for fiscal year 2010-11 to 98.18% for fiscal year 2011-12. Fiscal year 2012-13 delinquency rates will be available after revenue accruals are complete on August 31, 2013. 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 of California. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, numbered 804 for fiscal year 2011-12m compared to 927 in fiscal year 2010-11, 900 in fiscal year 2009-10, and 633 in fiscal year 2008-09. This represents 0.32%, 0.45%, 0.46%, and 0.40% of total parcels in such fiscal years.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2008-09 through 2013-14
(000s)

Fiscal Year	Net Assessed Valuation (NAV) ¹	% Change from Prior Year	Total Tax Rate per \$100 ²	Total Tax Levy ³	Total Tax Collected ³	% Collected June 30
2008-09	141,274,628	8.7%	1.163	1,702,533	1,661,717	97.60%
2009-10	150,233,436	6.3%	1.159	1,808,505	1,764,100	97.54%
2010-11	157,865,981	5.1%	1.164	1,888,048	1,849,460	97.96%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.18%
2012-13	165,043,120	4.0%	1.169	1,929,519	n/a	n/a
2013-14	172,489,208	4.5%	n/a	n/a	n/a	n/a

¹ Based on Certificate of Assessed Valuation dated as of August 15, 2013. 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 FY 2011-12 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported on Treasurer/Tax Collector Report 100 and reported to the State of California (available on the website of the California State Controller's Office). Total Tax Levy for FY 2012-13 is based on NAV times the 1.1691% 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.

For fiscal year 2013-14, the total net assessed valuation of taxable property within the City is \$172.5 billion. Of this total, \$162.6 billion (94.3%) represents secured valuations and \$9.87 billion (5.7%) represents unsecured valuations. (See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.)

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

Under Article XIII A of the State Constitution added by Proposition 13 in 1978, property sold after March 1, 1975 must be reassessed to full cash value at the time of sale. Every year, some taxpayers appeal the Assessor's determination of their properties' 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. With respect to the fiscal year 2012-13 levy, property owners representing approximately 18.2% of the total assessed valuation in the City filed appeals for a reduction of their assessed value.

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 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 appeal reserve fund for fiscal years 2007-08 through 2012-13 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
(000s)

Year Ended	Amount Refunded
June 30, 2008	\$20,914
June 30, 2009	7,288
June 30, 2010	14,015
June 30, 2011	41,730
June 30, 2012	53,288
June 30, 2013	36,779

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

As of July 1, 2013, the Assessor granted 18,409 temporary reductions in property assessed values worth a total of \$2.02 billion (equating to a reduction of about \$11.4 million in discretionary general fund taxes), compared to 21,228 temporary reductions with a value of \$2.82 billion (equating to a reduction of about \$16.0 million in discretionary general fund taxes) granted in Spring 2012. The fiscal year 2013-14 \$2.02 billion temporary reduction total represented 1.17% of the fiscal year 2013-14 Net Assessed Valuation of \$172.49 billion shown in Table A-5. The average temporary reduction in assessed value granted, excluding timeshare properties, decreased from \$175,980 in 2012 to \$151,559 in 2013. 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 June 30, 2013, the total number of open appeals before the Assessment Appeals Board (AAB) was 7,421, compared to 7,729 open AAB appeals as of June 30, 2012, including 5,500 filed since July 1, 2012 with the balance pending from prior fiscal years. The difference between the current assessed value and the taxpayers' opinion of values for the open AAB appeals is \$42.3 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 \$488.6 million with an impact on the discretionary general fund of about \$239.4 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 2012-13 is estimated to produce \$1.93 billion, not including supplemental, escape, and special assessments that may be assessed during the year. Of this amount, the City has budgeted to receive \$1.078 billion into the General Fund and \$119.2 million into special revenue funds designated for children's programs, libraries and open space. The Nine Month Report projected property tax revenues into the General Fund to be \$15.9 million above budget. SFUSD and SFCCD are estimated to receive \$116.8 million and \$21.9 million, respectively, and the local ERAF is estimated to receive \$384.4 million (before adjusting for the State's Triple Flip sales tax and vehicle license fees ("VLF") backfill shifts). The Successor SFRDA received \$113.9 million. The remaining portion is allocated to various other governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD, and BART may only be applied for that purpose.

The City's General Fund is allocated about 57% of total property tax revenue before adjusting for the State's Triple Flip (whereby Proposition 57 dedicated 0.25% of local sales taxes, which were subsequently backfilled by a decrease to the amount of property taxes shifted to ERAF from local governments, thereby leaving the State to fund a like amount from the State's General Fund to meet Proposition 98 funding requirements for schools) and VLF backfill shifts.

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
(000s)

Year Ended	Amount Funded
June 30, 2008	\$ 14,330
June 30, 2009	16,220
June 30, 2010	17,507
June 30, 2011	17,302
June 30, 2012	17,980

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 ending June 30, 2013 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 table.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
Fiscal Year 2013-14
(000s)

Assessee	Location	Parcel Number	Type	Total Assessed	
				Value ¹	% of Basis of Levy ²
HWA 555 Owners LLC	555 California St	0259 026	Commercial Office	\$941,010	0.57%
Paramount Group Real Estate Fund	1 Market St	3713 007	Commercial Office	770,892	0.47%
Emporium Mall LLC	845 Market St	3705 056	Commercial Retail	430,661	0.26%
SPF China Basin Holdings LLC	185 Berry St.	3803005	Commercial Office	423,273	0.26%
SHC Embarcadero LLC	4 The Embarcadero	0233 044	Commercial Office	398,608	0.24%
S.F. Hilton Inc.	1 Hilton Square	325031	Commercial Hotel	389,595	0.24%
Post-Montgomery Associates	165 Sutter St	0292 015	Commercial Retail	387,267	0.23%
SHR St. Francis LLC	301-345 Powell St	0307 001	Commercial Hotel	368,994	0.22%
PPF Off One Maritime Plaza LP	300 Clay St	0204 021	Commercial Office	367,384	0.22%
Wells REIT II - 333 Market St. LLC	333 Market St	3710020	Commercial Office	349,062	0.21%
				\$4,826,746	2.91%

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 2013-14 valuation of property assessed by the State Board of Equalization is \$2.62 billion, as recorded on the fiscal year 2013-14 Certificate of Assessed Valuation.

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 TAX 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

Businesses in the City may be subject to two types of taxes. The first is a payroll expense tax, assessed at a rate of 1.5% on gross payroll expense attributable to all work performed or services rendered within the City. The tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. Recent changes to the tax exempted small businesses with annual payroll of less than \$250,000 and subjected partnership profit distributions to the tax. The net effect of these provisions was estimated to be approximately \$10.5 million in new revenues beginning in fiscal year 2009-10. The City also levies a registration tax on businesses, which varies from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability.

Business taxes are projected in the June 26, 2013 revenue update to be \$487.7 million in fiscal year 2012-13 representing an increase of \$33.8 million (7.5%) over fiscal year 2012-13 Original Budget and \$50.0 million (11.4%) over fiscal year 2011-12 actual revenue. Business tax revenue is budgeted at \$534.0 million in fiscal year 2013-14 representing an increase of \$46.3 million (9.5%) over projected fiscal 2012-13 receipts and \$565.2 million in fiscal year 2014-15 representing an increase of \$31.2 million (5.8%) over fiscal year 2013-14 budget.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues
Fiscal Years 2008-09 through 2014-15
All Funds
(000s)

Fiscal Year	Revenue	Change	
2008-09	\$388,654	(\$7,371)	-1.9%
2009-10	354,020	(34,634)	-8.9%
2010-11	391,779	37,759	10.7%
2011-12	437,677	45,898	11.7%
2012-13 projected	487,654	22,835	5.2%
2013-14 budgeted	533,988	46,334	9.5%
2014-15 budgeted	565,180	31,192	5.8%

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and, beginning in FY 2014-15, Gross Receipts Tax revenues. Figures for FY 2008-09 through FY 2011-12 are audited actuals. Figures for FY 2012-13 reflect Nine-Month Report and June 26 Revenue Update Memo amounts, and figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

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

In April 2011, the Board of Supervisors adopted Ordinance 68-11 that established a payroll expense tax exclusion for certain business located in the Central Market and Tenderloin Area. The Ordinance expires according to its terms in 2019. The Controller projects the loss to the City in payroll expense tax revenue due to Ordinance 68-11 to be approximately \$4.2 million annually. Additionally, fiscal year 2011-12 and fiscal year 2012-13 payroll tax amounts include \$4.4 million General Fund loss in each year from a requirement pursuant to Business and Tax Regulations Code Section 906E, that \$500 credits be provided to Payroll Tax payers if prior year Payroll Tax revenues grew more than 7.5% from the year before. Fiscal year 2011-12 payroll tax revenues ended the year 11.4% higher than fiscal year 2010-11 and fiscal year 2012-13 payroll tax revenues are projected to end the year 7.5% higher than fiscal year 2011-12.

The Gross Receipts Tax and Business Registration Fees Ordinance (Proposition E) was approved by San Francisco voters on November 6, 2012. The ordinance replaces the existing tax which is 1.5% of a business' payroll with a tax on a business' gross receipts at rates that vary by the size and type of business. The new tax structure will be phased-in over a five year period and at the end of the period the gross receipts tax rates will remain fixed. The new tax structure will generate annual tax revenues equal to what would have been generated under the existing tax structure plus the amount of the additional administrative cost of the new system. In addition, the existing business registration fee structure will be replaced by a new higher graduated registration fee structure projected generate a net revenue increase to the City of approximately \$28.0 million beginning in fiscal year 2013-14. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. 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.

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, reached a historic high of \$177 through May of fiscal year 2012-13 (year-to-date). Increases in RevPAR are expected to continue albeit at a slower pace through fiscal year 2014-15. Total hotel tax revenue for fiscal year 2012-13 is projected to be \$250.5 million in the Nine-Month Report, and budgeted to be \$277.0 million in fiscal year 2013-14 and \$294.2 million in fiscal year 2014-15.

San Francisco and a number of other jurisdictions in California and the U.S. 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 there was no obligation on the part of online travel companies to remit hotel tax to the City. San Francisco received a similar judgment as to its hotel tax on February 6, 2013 overturning administrative hearings it conducted to require payment from online travel companies. San Francisco has received approximately \$63 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. While the City plans to appeal the judgment, the City can give no assurance regarding the outcome of this litigation.

In fiscal years prior to 2013-14 the allocation of hotel tax revenues was set by the Administrative provisions of the Annual Appropriation Ordinance, and all of the gain or loss in revenue from budgeted levels fell to the General Fund, contributing to the large variances from prior periods. Table A-10 sets forth a history of transient occupancy tax receipts for fiscal years 2008-09 through 2013-14. Beginning in fiscal year 2013-14 hotel tax budgeted in the General Fund in fiscal year 2013-14 will increase by \$56.4 million because revenue previously budgeted in special revenue funds is now deposited to the General Fund.

TABLE A -10

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues
Fiscal Years 2008-09 through 2014-15
All Funds
(000s)

Fiscal Year	Tax Rate	Revenue	Change	
2008-09	14.00%	\$219,777	(\$5,037)	-2.2%
2009-10	14.00%	192,082	(27,695)	-12.6%
2010-11	14.00%	215,512	23,430	12.2%
2011-12	14.00%	242,843	27,331	12.7%
2012-13 projected	14.00%	250,500	7,657	3.2%
2013-14 budgeted	14.00%	277,019	26,519	10.6%
2014-15 budgeted	14.00%	294,175	17,157	6.2%

Includes portion allocated to special revenue funds. Figures for FY 2008-09 through FY 2011-12 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for FY 2012-13 are from the Nine-Month Report, and figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

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. Current rates are \$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.

Real property transfer tax revenue in fiscal year 2012-13 is projected to be \$231.3 million in the June 26, 2013 revenue update, approximately \$2.3 million (1.0%) less than the revenue received in fiscal year 2011-12 due to an expected flattening of real property sales from the fiscal year 2011-12 peak. Fiscal year 2013-14 and 2014-15 budgets for real property transfer tax revenues are \$225.2 million in each year, reflecting continued slowing market activity.

Table A-11 sets forth a history of real property transfer tax receipts for fiscal years 2008-09 through 2011-12, projected receipts for fiscal year 2012-13, and budgeted receipts for fiscal years 2013-14 and 2014-15.

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2008-09 through 2014-15
(000s)

Fiscal Year	Revenue	Change	
2008-09	\$48,957	(\$37,262)	-43.2%
2009-10	83,694	34,737	71.0%
2010-11	135,184	51,489	61.5%
2011-12	233,591	98,407	72.8%
2012-13 projected	231,300	(2,291)	-1.0%
2013-14 budgeted	225,150	(6,150)	-2.7%
2014-15 budgeted	225,150	-	0.0%

Figures for FY 2007-08 through FY 2011-12 are audited actuals. Figures for FY 2012-13 are from a June 26 Revenue Update Memo. Figures for FY 2013-14 and FY 2014-15 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, the State takes one-quarter of this, and replaces the lost revenue with a shift of local property taxes to the City from local school district funding. The local sales tax revenue is deposited in the City's General Fund.

Local sales tax collections in fiscal year 2012-13 are projected to be at \$121.9 million in the Nine-Month report, a minimal increase of \$0.2 million from Original Budget and a \$4.8 (4.1%) million increase from fiscal year 2011-12 revenue. Revenue growth is expected to continue during fiscal year 2013-14 with \$125.7 million budgeted, an increase of \$4.0 million (3.3%) from the fiscal year 2012-13 budget and \$3.8 million (3.1%) from the Nine-Month Report projection. Continued growth is expected during fiscal year 2014-15 as revenues are expected to reach \$130.1 million, \$4.4 million (3.5%) more than fiscal year 2013-14.

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. Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2008-09 through 2011-12, projected receipts for fiscal year 2012-13, and budgeted receipts for fiscal years 2013-14 and 2014-15, 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.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2008-09 through 2014-15
(000s)

Fiscal Year	Tax Rate	City Share	Revenue	Change	
2008-09	9.50%	0.75%	\$101,662	(\$9,749)	-8.8%
2008-09 adj.*	9.50%	1.00%	137,415	(11,314)	-7.6%
2009-10	9.50%	0.75%	96,605	(5,057)	-5.0%
2009-10 adj.*	9.50%	1.00%	128,286	(9,129)	-6.6%
2010-11 **	9.50%	0.75%	106,302	9,698	10.0%
2010-11 adj.*	9.50%	1.00%	140,924	12,639	9.9%
2011-12	8.50%	0.75%	117,071	10,769	10.1%
2011-12 adj.*	8.50%	1.00%	155,466	14,542	10.3%
2012-13 <i>projected</i>	8.50%	0.75%	121,914	4,843	4.1%
2012-13 adj.* <i>projected</i>	8.50%	1.00%	161,538	6,072	3.9%
2013-14 <i>budgeted</i>	8.75%	0.75%	125,697	3,783	3.1%
2013-14 adj.* <i>budgeted</i>	8.75%	1.00%	167,751	6,213	3.8%
2014-15 <i>budgeted</i>	8.75%	0.75%	130,096	4,399	3.5%
2014-15 adj.* <i>budgeted</i>	8.75%	1.00%	173,622	5,871	3.5%

Figures for FY 2007-08 through FY 2011-12 are audited actuals. Figures for FY 2012-13 are from the Nine-Month Report, and figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

*Adjusted figures represent the value of the entire 1.00% local sales tax, which was reduced by 0.25% beginning in FY 2004-05 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.

**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 2012-13 Utility User Tax revenues are projected to be \$91.7 million in the Nine Month report, representing a \$0.2 (0.2%) million decrease from Original Budget and flat with fiscal year 2011-12 revenues. Utility User Tax revenue is budgeted to grow at a rate of 2% in fiscal years 2013-14 and 2014-15 to \$93.5 million and \$95.4 million respectively.

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 revenues are projected in the Nine Month report to be \$42.2 million, \$0.8 million (1.8%) less than Original Budget and \$1.1 (2.7%) million more than fiscal year 2011-12 revenue. ALT revenues are budgeted to grow at a rate of 1.0% in fiscal years 2013-14 and 2014-15 to \$42.6 million and \$43.0 million respectively.

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.

Fiscal year 2012-13 Parking Tax is projected at \$81.2 million in the Nine Month report, \$4.7 million (6.1%) more than original budget and \$4.6 million (6.0%) above fiscal year 2011-12. The recovery in business activity and employment as reflected in increases to payroll and sales tax revenues is driving increases in parking tax revenues.

Original Budget for fiscal year 2013-14 parking tax revenue is \$83.3 million, a \$6.7 million increase (8.8%) from fiscal year 2012-13 Original Budget and \$2.0 million (2.5%) more than the fiscal year 2012-13 projection. In fiscal year 2014-15, parking tax revenue is budgeted at \$85.7 million, \$2.5 million (3.0%) over the fiscal year 2013-14 budgeted amount. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the San Francisco Municipal Transportation Agency for public transit as mandated by Charter Section 16.110.

INTERGOVERNMENTAL REVENUES

State – Realignment

San Francisco receives three groups of allocations of State sales tax and VLF revenue: 1991 Health and Welfare Realignment, 2011 Health and Human Services Realignment, and Public Safety Realignment. The Governor's May Revise budget estimates statewide realignment funding savings of \$300 million in fiscal year 2013-14 and \$900 million in fiscal year 2014-15 as a result of Affordable Care Act (ACA) implementation. These savings are expected to be achieved by realigning additional responsibilities to counties without increasing funding for them. Fiscal year 2013-14 and 2014-15 realignment revenues are budgeted as follows:

1991 Health & Welfare Realignment. In fiscal years 2013-14 and 2014-15, General Fund revenue is anticipated to increase by \$10.4 million (6.9%) and \$5.2 million (3.2%), due to statewide sales tax growth projections contained in the Governor's budget. Growth in state sales tax revenue in one year is distributed to counties in the subsequent year, thus the proposed budget's fiscal year 2013-14 and 2014-15 allocations reflect projected state sales tax revenue increases in fiscal years 2012-13 and 2013-14, respectively. Changes in the allocation methodology reduced the amount of VLF distributed and increased the amount of sales tax distributed in this type of realignment.

2011 Health and Human Services Realignment. Beginning in fiscal year 2011-12 counties received revenue allocations to pay for behavioral health and protective services programs formerly provided by the State. In fiscal year 2013-14 this revenue is budgeted at \$89.1 million, an \$8.6 million (10.6%) increase from the fiscal year 2012-13 revised budget. This increase includes sales tax growth assumed in the Governor's budget, and includes revenue formerly reported in the State – Other revenue category discussed below. Fiscal year 2014-15 revenue of \$92.4 million is an increase of \$3.4 million (3.8%) from fiscal year 2013-14.

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. Based on revised allocation formulas, this revenue is budgeted at \$32.8 million in fiscal year 2013-14, a \$15.5 million (89.7%) increase over the fiscal year 2012-13 budget. The increase reflects state sales tax growth and the change in accounting of Trial Court Security revenue from a cost reimbursement to subvention format. The budget for fiscal year 2014-15 is \$30.8 million, a \$2.0 million (6.2%) decrease due to reductions to state funding for Local Community Corrections projected in fiscal year 2014-15 as described in the Governor's 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 2012-13 was projected to be \$82.7 million in the Nine Month report an increase of \$6.2 million (8.0%) from fiscal year 2011-12 and \$3.7 (4.7%) million more than fiscal year 2012-13 Original Budget. In fiscal year 2013-14, revenue is budgeted at \$86.8 million an increase \$7.9 million (10.0%) from the fiscal year 2012-13 budget and \$4.1 million (5.0%) from the fiscal year 2012-13 Nine Month Report projection. In fiscal year 2014-15, revenue is budgeted at \$89.9 million, an increase of \$1.7 million (1.9%) from the fiscal year 2013-14 budget. 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. Fiscal year 2013-14 revenue growth assumes a continuation of the 4.5% increase in base sales tax revenue as projected for fiscal year 2012-13, and an increase of approximately 0.5% in San Francisco's County Ratio. Fiscal year 2014-15 revenue reflects state sales tax growth only and no increase in the Ratio.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, \$407.1 million is budgeted in fiscal year 2013-14 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 \$36.4 million (9.8%) increase from the fiscal year 2012-13 Nine Month projection. A large portion of the budgeted increase in fiscal year 2013-14 is the removal of a \$15.0 million allowance for unspecified funding reductions in fiscal year 2012-13 and a one-time \$10.0 million reimbursement for capital expenditures. The fiscal year 2014-15 budget is \$398.9 million, a decrease of \$8.2 million (2.0%) from fiscal year 2013-14.

Charges for Services

Charges for services in the General Fund in fiscal year 2012-13 are projected to be \$145.9 million in the Nine Month report and budgeted at \$166.8 million in fiscal year 2013-14 and \$167.5 million in fiscal year 2014-15, representing growth of \$20.9 million (14.3%) and \$0.8 million (0.5%) respectively from prior year.

Fiscal year 2013-14 growth reflects Fire Department ambulance billing recoveries increases over fiscal year 2012-13 due to AB 678 - Medi-Cal: Ground Emergency Medical Transport, passed by the State legislature in 2011.

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 SFMTA, children's services and public education, and libraries. Budgeted baseline and mandated funding is \$751.6 million in fiscal year 2013-14 and \$762.9 million in fiscal year 2014-15.

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 2008-09 through 2014-15
(000s)

Major Service Areas	FY 2008-09 Original Budget	FY 2009-10 Original Budget	FY 2010-11 Original Budget	FY 2011-12 Original Budget	FY 2012-13 Original Budget	FY 2013-14 Original Budget	FY 2014-15 Original Budget
Public Protection	\$899,378	\$955,519	\$947,327	\$998,237	\$1,058,689	\$1,130,932	\$1,155,085
Human Welfare & Neighborhood Development	654,162	642,810	655,026	672,834	670,375	700,254	717,018
Community Health	513,858	488,330	519,319	575,446	609,892	701,978	702,791
General Administration & Finance	182,139	177,892	169,526	199,011	197,994	244,591	248,135
Culture & Recreation	104,232	95,114	97,510	100,740	111,066	119,579	115,632
General City Responsibilities	78,524	104,476	103,128	110,725	145,560	137,025	142,071
Public Works, Transportation & Commerce	53,143	33,414	26,989	51,588	67,529	80,797	111,993
Total	\$2,485,436	\$2,497,555	\$2,518,824	\$2,708,581	\$2,861,106	\$3,115,155	\$3,192,725

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 \$406.4 million, \$215.1 million and \$139.4 million of General Fund support respectively in fiscal year 2013-14 and \$406.8 million, \$225.1 million, and \$146.2 million respectively in fiscal year 2014-15. 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 \$224.4 million of General Fund support in the fiscal year 2013-14 and \$234.8 million in fiscal year 2014-15.

The Public Health Department is budgeted to receive \$553.4 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2013-14 and \$596.9 million in fiscal year 2014-15. As of the Fiscal Year 2012-13 Six Month Report, the Department of Public Health projected ending the fiscal year with a net General Fund deficit of \$45.9 million, which was subsequently revised to \$8.8 million in the Nine Month Report. The final shortfall will be determined as revenues from prior-year settlements and other reimbursements and expenditures are accrued during the fiscal year end close process.

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 SFMTA is classified as a self-supported fund, although it is budgeted pursuant to a formula under the Charter to receive a \$232.0 million General Fund transfer in the fiscal year 2013-14 Original Budget.

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.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO
Baselines & Set-Asides
Fiscal Years 2013-14 & 2014-15
(Millions)

	FY 2013-14 Required Baseline	FY 2013-14 Original Budget	FY 2014-15 Required Baseline	FY 2014-15 Original Budget
<u>Baselines & Set-Asides</u>				
Municipal Transportation Agency	\$168.7	\$168.7	\$176.3	\$176.3
Parking and Traffic Commission	\$63.3	\$63.3	\$66.1	\$66.1
Children's Services	\$125.5	\$131.2	\$131.1	\$132.5
Library Preservation	\$57.7	\$57.7	\$60.3	\$60.3
Public Education Enrichment Funding				
Unified School District	\$47.4	\$47.4	\$37.2	\$37.2
First Five Commission	\$25.7	\$25.7	\$20.2	\$20.2
City Services Auditor	\$12.9	\$12.9	\$13.4	\$13.4
Human Services Homeless Care Fund	\$14.9	\$14.9	\$14.9	\$14.9
<u>Property Tax Related Set-Asides</u>				
Municipal Symphony	\$2.1	\$2.1	\$2.3	\$2.3
Children's Fund Set-Aside	\$48.0	\$48.0	\$50.9	\$50.9
Library Preservation Set-Aside	\$40.0	\$40.0	\$42.4	\$42.4
Open Space Set-Aside	\$40.0	\$40.0	\$42.4	\$42.4
<u>Staffing and Service-Driven</u>				
Police Minimum Staffing	Requirement potentially not met during course of budget year		Requirement potentially met during course of budget year	
Fire Neighborhood Firehouse Funding	Requirement met		Requirement met	
Treatment on Demand	Requirement not met		Requirement not met	
Total Baseline Spending	\$652.81	\$658.57	\$664.18	\$665.58

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 \$3.5 billion in the fiscal year 2011-12 Original Budget (all-funds), and \$3.8 billion and \$4.0 billion in the fiscal year 2012-13 and fiscal year 2013-14 budgets. Looking only at the General Fund, the combined salary and benefits budget was \$1.7 billion in the fiscal year 2011-12 Original Budget and \$1.8 billion per year in the fiscal year 2012-13 and fiscal year 2013-14 budgets. 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 2013-2014 and 2014-2015 includes 27,722 and 27,855.23 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 ("SEIU"), Local 1021; the International Federation of Professional and Technical Engineers (the "IFPTE"), Local 21; 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 (California Government Code Sections 3500-3511, the "Meyers-Milias-Brown Act") and the Charter. Except for nurses and a few 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. In addition, in November 2010, the voters in the City approved Proposition G, which requires that disputes regarding the wages, hours and working conditions of transit operators be resolved through a final and binding interest arbitration proceeding. 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 are not subject to arbitration. However, disciplinary actions are generally subject to grievance arbitration, with the exception of police and fire employees.

In May 2012, the City negotiated two-year agreements (for fiscal years 2012-13 and 2013-14) with most of its labor unions. In general, the parties agreed to: 1) reforms and/or elimination of certain pay premiums; and 2) some structural reforms of the City's healthcare benefit and cost-sharing structures by having employees contribute more toward the cost of enrolling in "employee only" health benefits during the term of the 2 year contract. SEIU "miscellaneous" employees and staff nurses agreed to healthcare benefit reforms that will take place beyond the term of the July 1, 2012 through June 30, 2014 contract.

City employees, who are in non-Police, Fire and Nurse classifications will receive a base wage increase for the first time since 2008, as follows: 1% on July 1, 2013; 1% on January 4, 2014 and 1% on March 29, 2014. The two SEIU-represented units' wage increases differ, as follows: SEIU "miscellaneous" employees will receive 2% on January 4, 2014 and 1% on March 29, 2014 and the SEIU Staff Nurses will receive 3% on March 29, 2014.

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 3 entry Police Officer classifications. This agreement has already been ratified by the POA but is pending approval by the City's Board of Supervisors.

Pursuant to Charter Section 8A.104, the SFMTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units. These contracts are subject to approval by the SFMTA Board. The SFMTA and the union representing the transit operators (TWU, Local 250-A) agreed to a three-year successor agreement that expires on June 30, 2014. The concessions are valued at \$41.1 million dollars over the life of the agreement. 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, 2013

<u>Organization</u>	<u>Budgeted Positions</u>	<u>Expiration Date of MOU</u>
Automotive Machinists, Local 1414	416	June 30, 2014
Bricklayers, Local 3/Hod Carriers, Local 36	18	June 30, 2014
Building Inspectors Association	90	June 30, 2014
Carpenters, Local 22	110	June 30, 2014
Carpet, Linoleum & Soft Tile	2	June 30, 2014
CIR (Interns & Residents)	2	June 30, 2014
Cement Masons, Local 580	33	June 30, 2014
Deputy Sheriffs Association	867	June 30, 2014
District Attorney Investigators Association	42	June 30, 2014
Electrical Workers, Local 6	858	June 30, 2014
Glaziers, Local 718	10	June 30, 2014
International Alliance of Theatrical Stage Employees, Local 16	19	June 30, 2014
Ironworkers, Local 377	15	June 30, 2014
Laborers International Union, Local 261	1,019	June 30, 2014
Municipal Attorneys' Association	431	June 30, 2014
Municipal Executives Association	1,102	June 30, 2014
MEA - Police Management	6	June 30, 2015
MEA - Fire Management	9	June 30, 2015
Operating Engineers, Local 3	57	June 30, 2014
Painters	123	June 30, 2014
Pile Drivers, Local 34	23	June 30, 2014
Plumbers, Local 38	341	June 30, 2014
Probation Officers Association	161	June 30, 2014
Professional & Technical Engineers, Local 21	4,929	June 30, 2014
Roofers, Local 40	11	June 30, 2014
S.F. Institutional Police Officers Association	2	June 30, 2014
S.F. Firefighters, Local 798	1,732	June 30, 2015
S.F. Police Officers Association	2,501	June 30, 2018
SEIU, Local 1021	11,260	June 30, 2014
SEIU, Local 1021 Staff & Per Diem Nurses	1,575	June 30, 2014
SEIU, Local 1021 H-1 Rescue Paramedics	12	June 30, 2015
Sheet Metal Workers, Local 104	46	June 30, 2014
Stationary Engineers, Local 39	663	June 30, 2014
Supervising Probation Officers, Operating Engineers, Local 3	23	June 30, 2014
Teamsters, Local 853	157	June 30, 2014
Teamsters, Local 856 (Multi-Unit)	105	June 30, 2014
Teamsters, Local 856 (Supervising Nurses)	120	June 30, 2015
TWU, Local 200 (SEAM multi-unit & claims)	318	June 30, 2014
TWU, Local 250-A Auto Service Workers	198	June 30, 2014
TWU-250-A Miscellaneous	93	June 30, 2014
TWU-250-A Transit Operators	2,151	June 30, 2014
Union of American Physicians & Dentists	192	June 30, 2015
Unrepresented Employees	151	June 30, 2014
	31,992 ^[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 Employees' Retirement System ("SFERS" or "Retirement System")

History and Administration

SFERS is charged with administering a defined-benefit pension plan (the "Retirement System") that covers substantially all City employees and certain other employees. The Retirement System was initially established by approval by City voters on November 2, 1920 and the California 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.

To aid in the administration of the Retirement System, the Retirement Board appoints an Executive Director and an Actuary. The Executive Director serves as chief executive officer, with responsibility extending to all divisions of the Retirement System. The Actuary's responsibilities include the production of data and a summary of plan provisions for the independent consulting actuarial firm retained by the Retirement Board to prepare an annual valuation report and other analyses as described below. The independent consulting actuarial firm is currently Cheiron, Inc., a nationally recognized firm selected by the Retirement Board pursuant to a competitive process.

In 2010, the Retirement System filed an application with the Internal Revenue Service ("IRS") for a Determination Letter. In March 2012, 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 new 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 San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Trial Courts.

The Retirement System estimates that the total active membership as of July 1, 2012 (the date of most recent valuation report) was 33,655, compared to 33,475 members a year earlier. Active membership includes 4,543 vested members and 1,015 reciprocal members. Vested members are individuals who (i) have separated from City service, (ii) have worked for the City for five or more years, and (iii) have elected to receive a deferred vested pension in the future. 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. The total new enrollees in the Retirement System were 2,228 in fiscal year 2011-12 and 2,055 in fiscal year 2010-11. Retirement allowances are paid to approximately 25,000 retired members and beneficiaries monthly. 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 June 30, 2012, approximately 184 police officers are enrolled in the program and all will retire over the next two fiscal years.

Table A-16 shows total Retirement System participation for fiscal years 2007-08 through 2011-12.

TABLE A-16

CITY AND COUNTY OF SAN FRANCISCO
Employees' Retirement System
Fiscal Years 2007 - 08 through 2011 - 12

As of 1-Jul	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2008	30,650	3,877	869	35,396	21,514	1.425
2009	29,919	4,096	890	34,905	22,294	1.342
2010	28,222	4,515	978	33,715	23,500	1.201
2011	27,955	4,499	1,021	33,475	24,292	1.151
2012	28,097	4,543	1,015	33,655	25,190	1.115

Sources: SFERS' Actuarial Valuation reports as of July 1, 2012, July 1, 2011, July 1, 2010, July 1, 2009, and July 1, 2008.

Funding Practices

The annual actuarial valuation of the Retirement System is a joint effort of the Retirement System and its independent consulting actuarial firm. The City Charter proscribes certain actuarial methods and amortization periods to be used by the Retirement System in preparing the actuarial valuation. Before the valuation is conducted, the consulting actuarial firm recommends three long-term economic assumptions: a long-term investment earnings assumption, a long-term wage/inflation assumption and a long-term consumer price index assumption.

At its December 2011 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board voted to phase in reductions to the Retirement System's long-term investment earnings assumption, long-term wage/inflation assumption and long-term consumer price index assumption over a three-year period as follows: long-term investment earnings assumption from 7.75% to 7.50% (fiscal year 2011-12 to 7.66%; fiscal year 2012-13 to 7.58%; fiscal year 2013-14 to 7.50%); long-term wage inflation assumption from 4.00% to 3.75% (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%); and long-term consumer price index assumption from 3.50% to 3.25% (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%). These economic assumptions together with demographic assumptions based on periodic demographic studies are utilized to prepare the actuarial valuation of the Retirement System each year. Upon receipt of the consulting actuarial firm's valuation report, Retirement System staff provides a recommendation to the Retirement Board for their acceptance of the consulting actuary's valuation report. In connection with such acceptance, the Retirement Board acts to set the annual employer contribution rates required by the Retirement System as determined by the consulting actuarial firm and approved by the Retirement Board. This process is mandated by the City Charter.

Pursuant to the City Charter, the consulting actuarial firm and the Retirement Board set the actuarially required employer contribution rate using three related calculations:

First, the normal cost is established for the Retirement System. The normal cost of the Retirement System represents the portion of the actuarial present value of benefits that SFERS will be expected to fund that is attributable to a current year's employment. The Retirement System uses the entry age normal cost method, which is an actuarial method of calculating the anticipated cost of pension liabilities, designed to fund promised benefits over the working careers of the Retirement System members.

Second, the contribution calculation takes account of the amortization of a portion of the amount by which the actuarial value of Retirement System liabilities exceeds the actuarial value of Retirement System assets, such amount being known as an "unfunded accrued actuarial liability" or "UAAL."

The UAAL is the difference between estimated liabilities and the value of smoothed plan assets and can be thought of as a snapshot of the funding of benefits as of the valuation date. There are a number of assumptions and calculation methods that bear on each side of this asset-liability comparison. On the asset side, the actuarial value of Retirement System assets is calculated using a five-year smoothing technique, so that gains or losses in asset value are recognized over that longer period rather than in the immediate time period such gain or loss is identified. On the liability side, assumptions must be made regarding future costs of pension benefits in addition to demographic assumptions regarding the Retirement System members including rates of disability, retirement, and death. When the actual experience of the Retirement System differs from the expected experience, the impacts on UAAL are called actuarial gains or losses. Under the Retirement Board's Actuarial Methods Policy any such gain or loss is amortized over a 15-year period. Similarly, if the estimated liabilities change due to an update in any of the assumptions, the impact on UAAL is also amortized over a 15-year period.

Third, Supplemental costs associated with the various SFERS benefit plans are amortized. Supplemental costs are additional costs resulting from the past service component of SFERS benefit increases. In other words, when the Charter is amended to increase benefits to some or all beneficiaries of the Retirement System, the Retirement System's liability is correspondingly increased in proportion to the amount of the new benefit associated with service time already accrued by the then-current beneficiaries. These supplemental costs are amortized over no more than 20 years.

The consulting actuarial firm combines the three calculations described above to arrive at a total contribution requirement for funding the Retirement System in that fiscal year. This total contribution amount is satisfied from a combination of employer and employee contributions. Employee contribution rates are mandated by the Charter. [e.g. City Charter Section A8.587-8(a)] 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. The employer contribution rate is established by Retirement Board action each year and is expressed as a percentage of salary applied to all wages covered under the Retirement System. The most recent voter-approved retirement changes are described below.

Prospective purchasers of the City's bonds should carefully review and assess the assumptions regarding the performance of the Retirement System. 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.

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.

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 to SFERS plan benefits have been intended to reduce pension costs associated with future City employees. For example, in November 2011, the voters of San Francisco approved Proposition C, which

- a) created 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%;
- b) provided that employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;
- c) effective July 1, 2012, provides for an increase or decrease of employee contributions to SFERS for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. (For

example, Miscellaneous employees who earn less than \$50,000 per year would pay the minimum Charter-mandated employee contribution rate; Miscellaneous employees who earn between \$50,000 and \$100,000 per year would pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate; and Miscellaneous employees who earn \$100,000 or more per year would pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are required from Safety employees also); and

- d) provides that, 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 to be fully funded in order to pay the Supplemental COLA; however, the City has prevailed at the Superior Court level to this challenge.

The impact of Proposition C is incorporated in the actuarial valuations beginning with the July 1, 2012 Actuarial Valuation report.

Since 2008, the voters of San Francisco have approved three other retirement plan amendments:

- Proposition D enacted in June 2010, which enacted new SFERS retirement plans for Miscellaneous and Safety employees commencing on or after July 1, 2010, which changed average final compensation used in the benefit formula from highest one-year average compensation to highest two-year average compensation, increased the employee contribution rate for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%, and provides that, in years when the City's required contribution to SFERS is less than the employer normal cost as described above, the amount saved would be deposited into the Retiree Health Care Trust Fund.
- The enactment of DROP, a Deferred Retirement Option Program available to certain police members effective July 1, 2008, authorized by City voters' approval on an initiative proposition in the February 2008 election. In June 2011, the Board of Supervisors voted to allow the program to sunset on June 30, 2011
- Proposition B enacted in June 2008 which increased the years of service required for City employees hired after January 10, 2009 to qualify for employer-funded retiree health benefits, established a separate Retiree Health Care Trust Fund to fund retiree health costs, and increased retirement benefits and retirement cost-of-living adjustments for "miscellaneous" employees (i.e., those covered under Charter Section A8.409).

SFERS Recent Funding Performance and City Employer Contribution History

From fiscal year 1996-97 through fiscal year 2003-04, the City's contribution to the Retirement System was zero as determined by the consulting actuarial firm of the Retirement System and adopted by the Retirement Board. The zero percent employer funding requirements for this period was due primarily to higher-than-projected investment earnings and lower-than-projected wage increases. Beginning in fiscal year 2004-05, the Retirement Board reinstated required employer contributions based on the funding requirements as determined by the consulting actuarial firm in the manner described above in "Funding Practices." In fiscal year 2011-12, total City employer contributions to the Retirement System were \$391 million, which was 18.09% of that portion of members' earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"). This amount includes \$162 million from the City General Fund. For the fiscal year 2012-13 total City employer contributions to the Retirement System are budgeted at \$412 million, which is 20.71% of Pensionable Salary. This amount includes \$186 million from the General Fund. The latest actuarial report as of July 1, 2012 provides that future employer contribution rates are projected to increase to 28% for fiscal year 2014-2015 as the Retirement System recognizes the 2011 economic assumption changes and the losses incurred by the Retirement System in fiscal years 2007-2008 and 2008-2009.

Table A-17 shows Retirement System contributions for fiscal years 2007-08 through 2011-12. “Market Value of Assets” reflects the fair market value of assets held in trust for payment of pension benefits. “Actuarial Value of Assets” refers to the value of assets held in trust adjusted according to the Retirement System’s actuarial methods as summarized above. “Pension Benefit Obligation” reflects the accrued actuarial liability of the Retirement System. The “Market Percent Funded” column is determined by dividing the market value of assets by the Pension Benefit Obligation. The “Actuarial Percent Funded” column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. “Employee and Employer Contributions” reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for fiscal years 2007-08 through 2011-12.

TABLE A-17

CITY AND COUNTY OF SAN FRANCISCO
Employees' Retirement System (in \$000s)
Fiscal Years 2007-08 through 2011-12

As of <u>1-Jul</u>	Market Value <u>of Assets</u>	Actuarial Value <u>of Assets</u>	Pension Benefit <u>Obligation</u>	Market Percent <u>Funded</u>	Actuarial Percent <u>Funded</u>	Employee & Employer <u>Contribution</u>	Employer Contribution <u>Rates^[1]</u>
2009	11,886,729	16,004,730	16,498,649	72.3	97.0	312,715	4.99%
2010	13,136,786	16,069,100	17,643,400	74.5	91.1	413,562	9.49%
2011	15,598,839	16,313,100	18,598,700	83.9	87.7	490,578	13.56%
2012	15,293,700	16,027,700	19,393,900	78.9	82.6	608,957	18.09%

^[1] Employer contribution rates for fiscal years 2012-2013 and 2013-2014 are 20.71% and 24.82% respectively.

SFERS' Actuarial Valuation report as of July 1, 2012, July 1, 2011, July 1, 2010, July 1, 2009, and July 1, 2008.

Note: Table A-17 reflects entire Employees' Retirement System, not just the City and County of San Francisco.

Table A-17 reflects that the Actuarial Percent Funded ratio decreased to 82.6%, corresponding to an unfunded actuarial liability (UAAL) of approximately \$3.4 billion. The UAAL is the difference between the Actuarial Value of Assets and the total Pension Benefit Obligation. This means that as of June 30, 2012, for every dollar of pension benefits the City is obligated to pay, it had approximately \$0.83 in assets available for payment.

Asset Management and Actuarial Valuation

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. The Fund does not hold hedge funds. 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, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at www.sfers.org. These documents are not incorporated herein by reference.

The liabilities of the Retirement System (the Pension Benefit Obligation) are measured annually by an independent consulting actuary in accordance with Actuarial Standards of Practice. In addition, an actuarial audit is conducted every five years in accordance with Retirement Board policy.

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

As of June 30, 2013, the Retirement System estimated that the market value of its assets was approximately \$16.9 billion. The estimated market value represents, 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 not subject to audit (other than at year end).

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 \$18.1 million in fiscal year 2009-10 and \$17.6 million in fiscal year 2010-11. For fiscal year 2011-12, the City prepaid its annual CalPERS obligation at a level of \$23.4 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 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 City's Health Service System (the "Health Service System" or "HSS") pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the 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 benefits for City Beneficiaries. The 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; and until May 15, 2013, four members of the Health Service System, active or retired, elected from among their members. After May 15, 2013 one of the members elected from among the members will be replaced by a member nominated by the Controller and approved by the Health Service Board (See Proposition C below). The plans (the "HSS 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 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 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 by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1727. Audited annual financial statements for several years are also posted in the Health Service System website: www.myhss.org/finance. 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

Contributions by the participating employers and HSS Beneficiaries to HSS Medical Plans are determined according to applicable provisions of the Charter. To the extent annual medical premiums exceed the contributions made by employers and HSS Beneficiaries as required by the Charter, such excess must be paid by HSS Beneficiaries or, if elected by the Health Service Board, from net assets held in the Health Service Trust Fund.

All City Beneficiaries receive a base contribution from the City toward the monthly cost of their medical benefits calculated pursuant to Charter Section A8.423. Under that section, the Health Service System conducts a survey annually of the 10 most populous counties in California (other than the City) 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 addition to the average contribution described above, the City makes additional medical and other benefit contributions on behalf of City Beneficiaries who are active employees as negotiated and agreed to by such employees’ applicable collective bargaining units. City bargaining units have negotiated additional City contributions for enhanced single medical coverage, dependent medical coverage and for additional benefits such as dental care for the members of such bargaining units. These contribution amounts are also paid by the City into 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 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 include the City contribution of the “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 described in the second paragraph of this subsection, the City contributes additional amounts in respect of the Nonemployee City Beneficiaries sufficient to defray the difference in cost to the 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 retired city participant and the first dependent.

The Health Service System has changed to a calendar plan year effective January 1, 2013. This change permitted HSS to adopt a new pharmacy fully insured benefit plan for retirees in the City Plan (Employer Group Waiver Plan) which saved over \$5.8M and reduced the GASB pharmacy liability. In addition, HSS moved active Blue Shield members from a “fully insured product” to a “flex funded product” in which the City assumes risk up to a set point

saving over \$26M . Overall the actions taken during rate setting reduced HSS costs by over \$30M and resulted in a premium rate increase of less than 1.4%.

Health Care Reform

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”). The Health Care Reform Law is 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. Due to the complexity of the Health Care Reform Law it is likely that additional legislation will be considered and enacted in future years.

The Health Care Reform Law is designed to be implemented in phases from 2010 to 2018. The provisions of the Health Care Reform Law to be implemented in future years 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. Many aspects of the law have yet to be clarified and will require substantial regulation or subsequent legislative action. 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 FSAs in 2011, eliminated copayments for wellness visits, eliminated lifetime caps on coverage, and expanded eligibility to cover member dependent children up to age 26 in 2011, eliminated copayments for women’s preventative health including contraception in 2012 and W-2 reporting on total healthcare premium costs for 2012 plan year and implementation of a medical loss ratio rebate on self-insured plans. In addition, a separate summary of benefits was required to be sent to every member and provided to every new member beginning in 2012. In 2013, healthcare flexible spending accounts (FSAs) will be limited to \$2500 annually and for the 2013 plan year a comparative effectiveness fee will be charged directly to HSS of \$1 per beneficiary for members of the Self-Insured plan (approximately 9,350); in 2014 and 2015 this amount will increase to \$2/year .

On August 31, 2012 the US DHHS issued regulatory guidance on the “Federal Transitional Pre-Existing Condition Fee” assessing a \$63/year fee on each HSS beneficiary for plan years 2014-2016. This “fee” will be over \$6.6 million dollars per year. In 2014, the City will need to modify health benefit eligibility to cover temporary employees who work more than 30 hours per week or 130 hours per month to only a 90 day waiting period for coverage.

Local Elections: Proposition C (2011)

On November 8, 2011, the San Francisco voters approved Proposition C, a charter amendment that will change 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 1% of compensation toward their retiree health care, with matching contribution by the City. For employees or elected officials who left the City workforce before June 30, 2001, and retire after January 6, 2012, Proposition C requires that the City contributions toward retiree health benefits remain at the same levels they were when the employee left the City workforce. Proposition C changes the Health Service System and Health Service Board (HSB) including the following: 1) replace one elected member of the HSB with a member nominated by the City Controller and approved by HSB; 2) change HSB’s voting requirement for approving member health plans from two-third to a simple majority; 3) remove the requirement for a plan permitting the member to choose any licensed medical provider; 4) allow for the option to change to a calendar year plan year; and 5) allow HSB to spend money on ways to limit health care costs. Factors that could cause additional medical costs or savings include: 1) Projected City savings might be reduced if future labor negotiations or arbitration awards result in any salary increases to offset higher employee retirement contributions. 2) To the extent that changes to pension formulas in this measure cause employees to delay or speed up retirement dates, this could provide additional City savings or costs related to retiree pension and health insurance subsidies. 3) To the extent that changes in the composition of the Health Service Board result in changes to approved health benefit programs, costs could be higher or lower. 4) To the extent that changes in the composition of the Health Service Board result in changes to approved health benefit programs, costs could be

higher or lower. Changing to a calendar plan year allows HSS to convert our City Plan retiree pharmacy benefit to a higher discounted federal program called Employer Group Waiver Plan (EGWP) as of 2013. This will save an estimated \$2.3 million annually, will lower the City's retiree pharmacy expenditures by \$8.5 million annually, and will lower the City's GASB 45 liability.

Employer Contributions for Health Service System Benefits

For fiscal year 2011-12, the Health Service System received approximately \$612.7 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately \$511.3 million; approximately \$151.1 million of this \$511.3 million amount was for health care benefits for approximately 26,086 retired City employees and their eligible dependents and approximately \$360.2 million was for benefits for approximately 60,644 active City employees and their eligible dependents. For fiscal year 2012-13, the Health Service System has budgeted to receive approximately \$642.9 million from participating employers for Health Service System benefit costs. The 2013 aggregate plan costs for the city will increase by only 1.4%. This flattening of the healthcare cost curve is due to a number of factors including lower use of healthcare during recessions, aggressive contracting by HSS, encouraging competition among our vendors, and changing our Blue Shield plan from a fully-funded to a flex-funded product. Flex-funding allows lower premiums to be set by our 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 HSB also subsidized dependent coverage in the Blue Shield plan to stabilize the risk pools and minimize migration between Blue Shield and Kaiser which contributed to the lower 2013 increase. In 2014 this flattened trend is anticipated to continue, the Health Service Board has allocated the Early Retiree Reimbursement Program funds collected of \$3.6M to subsidize dependent coverage based on percent paid by employee/retiree which will continue to stabilize risk pools. The Health Service Board has recently set rates for 2014. The 2014 aggregate plan costs for the city will increase by 0.7%.

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 three percent of salary into a new retiree health trust fund.

GASB 45 Reporting Requirements. The City was required to begin reporting the liability and related information for unfunded post-retirement medical and other benefits ("OPEBs") in the City's financial statements for the fiscal year ending June 30, 2008. This reporting requirement is defined under Governmental Accounting Standards Board Statement 45 ("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. The City has not established an OPEB trust fund.

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. In its October 8, 2012 report, Cheiron, Inc. estimated that the City's unfunded liability was approximately \$4.42 billion as of July 1, 2010. This estimate assumed a 4.25% return on investments and had an ARC for fiscal year 2011-12 of approximately \$397.9 million. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excesses) amortized over thirty years. The ARC was determined based on the July 1, 2010 actuarial valuation. The covered payroll (annual payroll of active employees covered by the plan) was \$2.3 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 191.9%.

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 2011-12 annual OPEB cost was \$405.9 million, of which the City funded \$156.1 million which caused, among other factors, the City's long-term liability to increase by \$249.7 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. Four-year trend information is displayed in Table A-18 (dollars in thousands):

TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO
Four-year Trend
(000s)

Fiscal Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
6/30/2009	\$430,924	27.8%	\$605,397
6/30/2010	374,214	33.9%	852,782
6/30/2011	392,151	37.2%	1,099,177
6/30/2012	405,850	38.5%	1,348,883

The October 2012 Cheiron Report estimates that the total long-term actuarial liability will reach \$5.7 billion by 2030. The calculations in the Cheiron Report are sensitive to a number of critical assumptions, including, but not limited to, the projected rate of increase in health plan costs.

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, 2012, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$17.9 million. Future projections of the City's GASB 45 liability will be lowered by the HSS implementation of the Employer Group Waiver Plan (EGWP) prescription benefit program for City Plan retirees. See "– Local Elections: Proposition C (2011)."

Total City Employee Benefits Costs

The City continued to budget only for current-year benefits expenditures, without any set-aside for accrued or future liabilities, in the fiscal year 2011-12 Original Budget. To begin to address the issue of accrued liabilities for future retiree health costs, the City created a new Post Employment Benefits Fund in fiscal year 2007-08. The actual fund balance as of January 9, 2013 is approximately \$23.9 million. The costs were funded in part by employees and in part by the City. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-18 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 2008-09 to fiscal year 2013-14.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO
Employee Benefit Costs, All Funds
Fiscal Years 2008-09 through 2013-14
(000s)

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
	actual	actual	actual	actual	Budget	Budget
SFERS and PERS Retirement Contributions	\$197,614	\$294,088	\$368,185	\$428,265	\$435,675	\$527,564
Social Security & Medicare	147,576	145,969	140,828	147,682	153,071	162,729
Health - Medical + Dental, active employees ¹	274,753	284,426	296,032	330,919	356,797	370,454
Health - Retiree Medical ¹	144,110	154,347	175,799	181,822	173,306	162,234
Other Benefits ²	18,998	17,009	22,758	21,362	19,707	16,634
Total Benefit Costs	\$783,051	\$895,839	\$1,003,602	\$1,110,050	\$1,138,555	\$1,239,615

FY 2008-09 through FY 2011-12 figures are audited actuals. FY 2012-13 and FY 2013-14 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.

INVESTMENTS 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. The Investment Policy is posted at the Treasurer's website: www.sftreasurer.org. The information available on such website is not incorporated herein by reference.

Investment Portfolio

As of June 30, 2013, 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 June 30, 2013

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$ 860,000,000	\$ 858,903,346	\$ 857,756,500
Federal Agencies	3,997,493,000	4,009,733,895	4,009,344,253
State and Local Obligations	137,485,000	142,350,668	140,254,628
Public Time Deposits	720,000	720,000	720,000
Negotiable Certificates of Deposit	375,000,000	375,033,502	375,058,813
Banker's Acceptances	-	-	-
Commercial Paper	-	-	-
Medium Term Notes	403,405,000	407,806,524	404,751,921
Money Market Funds	360,047,099	360,047,099	360,047,099
Total	<u>\$6,134,150,099</u>	<u>\$6,154,595,034</u>	<u>\$6,147,933,214</u>

June 2013 Earned Income Yield: 0.82%

Sources: Office of the Treasurer & 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 June 30, 2013

<u>Maturity in Months</u>	<u>Par Value</u>	<u>Percentage</u>
0 to 1	\$ 558,962,099	9.11%
1 to 2	255,000	0.00%
2 to 3	155,365,000	2.53%
3 to 4	-	0.00%
4 to 5	50,000,000	0.82%
5 to 6	97,000,000	1.58%
6 to 12	570,360,000	9.30%
12 to 24	1,286,245,000	20.97%
24 to 36	990,193,000	16.14%
36 to 48	1,143,820,000	18.65%
48 to 60	1,281,950,000	20.90%
	<u>\$ 6,134,150,099</u>	<u>100.00%</u>

Weighted Average Maturity: 880 Days

Sources: Office of the Treasurer & 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 2014-2023 Capital Plan was approved by the CPC on February 25, 2013 and was expected to be adopted by the Board of Supervisors in April 2013. The Capital Plan contains \$25.1 billion in capital investments over the coming decade for all City departments, including \$4.7 billion in projects for General Fund-supported departments. The Capital Plan proposes \$88.0 million for General Fund pay-as-you-go capital projects in fiscal year 2013-14. The amount for General Fund pay-as-you-go capital projects is assumed to grow to \$231 million in fiscal year 2022-23. The Capital Plan is not incorporated by reference herein but may be found at <http://onesanfrancisco.org/>. 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 \$2.0 billion of the capital projects of General Fund supported departments are 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 \$14.5 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 \$8.2 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.

Failure to make the capital improvements and repairs recommended in the 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 July 1, 2013, the City had approximately \$1.89 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 July 1, 2013 ^{1 2}			
Fiscal Year	Principal	Interest	Annual Debt Service
2014	\$150,279,486	88,438,032	238,717,518
2015	151,979,884	81,666,532	233,646,416
2016	105,753,046	74,343,844	180,096,890
2017	97,779,110	69,400,105	167,179,215
2018	98,593,225	64,697,632	163,290,857
2019	97,160,545	60,163,962	157,324,507
2020	94,686,232	55,560,375	150,246,607
2021	90,035,457	51,044,062	141,079,519
2022	96,123,401	46,958,724	143,082,125
2023	98,320,251	42,516,801	140,837,052
2024	99,376,206	37,784,550	137,160,756
2025	98,571,476	32,920,682	131,492,158
2026	92,416,279	28,099,652	120,515,931
2027	96,425,840	23,564,823	119,990,663
2028	99,979,035	18,964,084	118,943,119
2029	98,551,751	14,235,655	112,787,406
2030	93,040,095	9,662,829	102,702,924
2031	50,976,950	5,339,777	56,316,727
2032	52,690,000	3,319,875	56,009,875
2033	16,540,000	1,230,200	17,770,200
2034	5,075,000	520,250	5,595,250
2035	5,330,000	266,500	5,596,500
TOTAL ³	\$1,889,683,269	\$810,698,946	\$2,700,382,215

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.

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.

In November 2008, voters approved Proposition A, which authorized the issuance of up to \$887.4 million in general obligation bonds to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center. The City issued the first series of bonds under Proposition A in the amount of approximately \$131.7 million in March 2009. The City issued the second series in the amount of approximately \$294.6 million in March 2010. The City issued its third series in the amount of approximately \$251 million in August 2012.

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.

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 in June 2013.

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 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 \$1,355,991,219 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.

Table A-23 below lists for each of the City’s voter-authorized general obligation bond programs the amount originally authorized, 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 July 1, 2013, the City had authorized and unissued refunding general obligation bond authority of approximately \$751 million.

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of July 1, 2013)

<u>Description of Issue (Date of Authorization)</u>	<u>Series</u>	<u>Issued</u>	<u>Outstanding</u> ¹	<u>Authorized & Unissued</u>
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$26,323,269	\$284,684,550
Branch Library Facilities Improvement (11/7/00)	2008A	31,065,000	25,460,000	
Clean & Safe Neighborhood Parks (2/5/08)	2008B	42,520,000	35,165,000	
	2010B	24,785,000	14,025,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	60,270,000	8,695,000
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	103,565,000	
	2010A	120,890,000	68,410,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	211,180,000	209,955,000
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	74,230,000	
	2012A	183,330,000	150,505,000	
	2012E	38,265,000	37,010,000	
	2013B	31,020,000	31,020,000	80,165,000
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	61,695,000	
	2013C	129,560,000	129,560,000	44,145,000
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	71,970,000	123,030,000
SUB TOTALS		\$1,523,090,450	\$1,309,838,269	\$750,674,550
General Obligation Refunding Bonds:				
Series 2006-R1 issued 10/31/06		90,690,000	54,155,000	
Series 2006-R2 issued 12/18/06		66,565,000	30,300,000	
Series 2008-R1 issued 5/29/08		232,075,000	53,465,000	
Series 2008-R2 issued 5/29/08		39,320,000	24,610,000	
Series 2008-R3 issued 7/30/08		118,130,000	118,130,000	
Series 2011-R1 issued 11/9/2011		339,475,000	299,185,000	
SUB TOTALS		886,255,000	579,845,000	
TOTALS		\$2,409,345,450	\$1,889,683,269	\$750,674,550

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.

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

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-24 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 July 1, 2013. Note that the annual payment obligations reflected in Table A-23 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

[Remainder of Page Intentionally Left Blank]

TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of July 1, 2013

Fiscal Year	Principal	Interest	Annual Payment Obligation
2014	60,261,550	60,199,127	120,460,677
2015	66,520,751	54,333,605	120,854,356
2016	65,490,000	46,444,344	111,934,344
2017	59,250,000	43,675,282	102,925,282
2018	57,680,000	40,981,563	98,661,563
2019	49,610,000	38,603,024	88,213,024
2020	40,800,000	36,582,594	77,382,594
2021	41,770,000	34,762,507	76,532,507
2022	42,820,000	32,938,863	75,758,863
2023	44,675,000	31,052,455	75,727,455
2024	46,870,000	29,057,981	75,927,981
2025	46,450,000	26,927,002	73,377,002
2026	46,145,000	24,862,981	71,007,981
2027	48,310,000	22,692,263	71,002,263
2028	48,770,000	20,429,469	69,199,469
2029	51,000,000	18,112,797	69,112,797
2030	50,510,000	15,716,280	66,226,280
2031	41,785,000	13,372,303	55,157,303
2032	31,000,000	11,238,623	42,238,623
2033	30,010,000	9,703,868	39,713,868
2034	31,445,000	8,111,955	39,556,955
2035	18,870,000	6,676,999	25,546,999
2036	17,065,000	5,674,407	22,739,407
2037	15,030,000	4,752,794	19,782,794
2038	15,690,000	3,902,287	19,592,287
2039	16,375,000	3,014,711	19,389,711
2040	17,095,000	2,088,419	19,183,419
2041	17,845,000	1,121,651	18,966,651
2042	9,680,000	313,971	9,993,971
TOTAL ¹	\$1,128,822,301	\$647,344,125 ^{2 3}	\$1,776,166,426

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, such amount increasing by five percent each fiscal year. As of July 1, 2013 the total authorized amount for such financings was \$61.4 million. The total principal amount outstanding as of July 1, 2013 was \$35.2 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 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. The City has no current timetable for issuance of 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 (the "CP Program"). Under the proposed CP Program, Commercial Paper Notes (the "CP Notes") will be 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 financing to be issued when market conditions are favorable. Projects will be 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. In June 2010, the City obtained letters of credit securing the CP Notes issued by J.P. Morgan Chase Bank, N.A. with a maximum principal amount of \$50 million and by U.S. Bank, N.A. with a maximum principal amount of \$50 million. The letters of credit expires June 2016.

As of March 7, 2013, the outstanding principal amount of CP Notes is \$67.2 million. The weighted average interest rate for the CP Notes is approximately 0.17%.

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 \$38,000,000 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 2014.

The Board of Supervisors authorized on July 26, 2011 and the Mayor approved on August 1, 2011, the issuance of not to exceed \$170,000,000 in City and County of San Francisco certificates of participation to finance the construction and installation of certain improvements in connection with the renovation of the San Francisco War Memorial Veterans Building. The City anticipates issuing the certificates in the Summer of 2014.

The Board of Supervisors authorized on May 1, 2012 and the Mayor approved on May 8, 2012 the issuance of not to exceed \$45,000,000 in City and County of San Francisco certificates of participation to finance certain capital improvements to properties of the Port Commission. The City anticipates issuing the certificates in the Fall of 2013.

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 2017.

Overlapping Debt

Table A-25 shows bonded debt and long-term obligations as of July 1, 2013 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.

[Remainder of Page Intentionally Left Blank]

TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO
Statement of Direct and Overlapping Debt and Long-Term Obligations

<u>2012-2013 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions):	\$165,043,120,290	
	Outstanding	
<u>DIRECT GENERAL OBLIGATION BOND DEBT</u>	7/1/2013	
General City Purposes Carried on the Tax Roll	\$1,889,683,269	
GROSS DIRECT DEBT	\$1,889,683,269	
<u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u>		
San Francisco COPs, Series 2001A (30 Van Ness Ave. Property)	28,895,000	
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	34,850,000	
San Francisco Finance Corporation, Equipment LRBs Series 2008A, 2010A, 2011A, 2012A, and 2013A	35,235,000	
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1	17,050,000	
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	120,820,000	
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	55,490,000	
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	30,870,000	
San Francisco Redevelopment Agency Moscone Convention Center 1992	4,347,301 ¹	
San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project)	18,670,000	
San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties)	142,575,000	
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)	148,545,000	
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)	35,200,000	
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt	35,360,000	
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs	129,550,000	
San Francisco Refunding Certificates of Participation, Series 2010A	127,735,000	
San Francisco COPs, Refunding Series 2011AB (Moscone)	86,195,000	
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)	41,860,000	
San Francisco COPs, Series 2013A Moscone Center Improvement	35,575,000	
LONG-TERM OBLIGATIONS	\$1,128,822,301	
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS	\$3,018,505,570	
<u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u>		
Bayshore Hester Assessment District	\$680,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	90,643,333	
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B	106,311,000	
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005	343,720,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011	41,750,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	846,357,806	
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)	212,403,097	
Association of Bay Area Governments Obligations (Special Tax Bonds)	41,658,913	
San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006, and 2011	647,360,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	\$2,330,884,149	
GROSS COMBINED TOTAL OBLIGATIONS	\$5,349,389,719²	
<u>Ratios to Assessed Valuation:</u>	Actual Ratio	Charter Req.
Gross Direct Debt (General Obligation Bonds)	1.14%	< 3.00% ³
Gross Direct Debt & Long-Term Obligations	1.83%	n/a
Gross Combined Total Obligations	3.24%	n/a

¹ The accreted value as of July 1, 2013 is \$ 19,298,279

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

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 property within the City's boundaries that is subject to

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 8, 2005, voters approved the issuance of up to \$246.3 million in general obligation bonds to improve, construct and equip existing and new facilities of the SFCCD. SFCCD issued an aggregate principal amount of \$90.0 million of the November 2005 authorization in June 2006. In December 2007, SFCCD issued an additional \$110.0 million of such authorization. SFCCD issued the remaining authorization of \$46.3 million in spring 2010.

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.

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. 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. Further, the recent legislation to end redevelopment agencies as part of the State's fiscal year 2011-12 budget may have an adverse impact on the projects described below and many other development projects in the City. See "San Francisco Redevelopment Agency Dissolution" above. 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, a former naval base is a master planned community of approximately 500 acres located on the southeastern waterfront of San Francisco. The first phase of development, which was conveyed from the Navy in 2005, is currently underway and includes up to 1,600 homes, 27% to 40% of which will be affordable, and 26 acres of parks and open space. Nearly all of the horizontal construction for Phase 1 is complete and the developer has broken ground on the vertical development on the first two blocks of homes in June 2013. Two additional blocks are anticipated to break ground in fall 2013. In August 2010, the development of the balance of the Shipyard and Candlestick Point received its final approvals from the Board of Supervisors. This includes (i) approximately 10,500 residential housing units across the project site, approximately 32% of which will be offered at below-market rates in a mix of both rental and for-sale housing; (ii) the complete rebuilding of the Alice Griffith Public Housing Development, also known as Double Rock; (iii) approximately 2.5 million square feet of “green” office, research and development uses on the Shipyard; (iv) approximately 150,000 square feet of green office, research and development or other commercial space on Candlestick Point; (v) more than 300 acres of new and restored parks and open space, which includes neighborhood parks, new waterfront parks around the entire perimeter of the Shipyard, connecting to the region’s Bay Trail, and a major renovation of the Candlestick Point State Recreation Area into a “Crissy Field” of the southeast, with restored habitat areas and public access to the water; (vi) approximately 635,000 square feet of regional and neighborhood retail on Candlestick Point; and (vii) space for a 10,000-seat performance venue on Candlestick Point.. The Project is estimated to create thousands of ongoing construction opportunities during the 20- to 30-year construction period, and 10,000 permanent jobs at full build-out. In August 2011, the U.S. Department of Housing and Urban Development (HUD) selected the Alice Griffith Public Housing Development and the surrounding Bayview neighborhood as a recipient of the \$30.5 million Choice Neighborhoods Implementation Grant. The Alice Griffith Plan was one of six finalists submitted by communities nationwide competing for HUD Choice Neighborhoods funding.

Treasure Island

Former Naval Station Treasure Island, which ceased operations in 1997, consists of approximately 405 acres on Treasure Island and 90 acres on adjoining Yerba Buena Island, located in the San Francisco Bay, and connected to the City by the San Francisco-Oakland Bay Bridge. The development plans for Treasure Island include up to 8,000 new homes, up to 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 brand-new, world-class 300-acre parks and open space system. The compact mixed-use transit-oriented development is clustered around a new ferry terminal and is designed to prioritize walking, biking and public transit. The development plans include cutting-edge green office building standards and best practices in low-impact development.

In August 2010, then-Mayor Gavin Newsom, U.S. House of Representatives Speaker Nancy Pelosi, and U.S. Secretary of the Navy Ray Mabus signed the terms for the conveyance of former Naval Station Treasure Island from the Navy to the City, signifying a major milestone towards realizing an environmentally sustainable new community on Treasure Island and the thousands of construction and permanent jobs it will bring. In April 2011, the Treasure Island Development Authority (TIDA) Board of Directors and the Planning Commission certified the project’s Environmental Impact Report (EIR). In June 2011, the Board of Supervisors unanimously upheld the certification of the EIR and approved numerous project documents, including a Disposition and Development Agreement, Development Agreement, Interagency Cooperation Agreement and Treasure Island Homeless Development Initiative (TIHDI) Agreement. Together, these agreements establish a comprehensive vision for the future of the former military base and represented another significant step in moving the project towards implementation. In January 2014, TIDA, acting with and through the San Francisco County Transportation Authority, will begin construction of new west bound on and off ramps connecting the new eastern span of the San Francisco – Oakland Bay Bridge to Yerba Buena Island. The first phase of construction by the developer, Treasure Island Community Development (TICD), could begin in the summer of 2014 and will initially consist of horizontal infrastructure improvements (utilities, roadway improvements, site preparation, etc.) to enable subsequent phases of vertical development. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

Piers 30-32 and Seawall Lot (SWL) 330 – Warrior’s Multipurpose Recreation and Entertainment Venue

The Golden State Warriors, a National Basketball Association (NBA) team, is proposing to develop a waterfront multipurpose recreation and entertainment venue and associated development on Piers 30-32 and SWL 330. Piers 30-32 are located directly south of the Bay Bridge. On the Piers 30-32 site, the Warriors propose constructing a state-of-the-art multi-purpose recreation and entertainment venue for Warriors’ home games, concerts, and family shows. Over half of the Piers 30-32 site will be public, open space. There will also be a robust maritime program, which includes preserving the east apron of the pier as a deep water berth for occasional cruise ship and other large vessel berthing. The project also proposes to relocate the San Francisco Fire Department’s Fire Boat station from Pier 22½ to the north apron of Piers 30-32 along with ferry and water taxi service. Piers 30-32 will also have retail and a limited amount of parking.

On SWL 330, which sits across the Embarcadero from Piers 30-32, the Warriors propose a mixed-use development, which will include residential units and a hotel use. The SWL site will also have ground floor retail and parking.

Economic & Planning Systems (EPS) was commissioned to author a Fiscal Feasibility Report, which provides both the Economic and Financial benefits of the project for the City. The Fiscal Feasibility Report projects that the project could create \$80 million annually in economic activity and generate approximately 5,000 construction jobs and 2,800 permanent jobs within San Francisco. In addition, the Fiscal Feasibility projects that the project could generate approximately \$19 million annually in annual revenue to the City.

Transbay

The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open in August 2017. Demolition of existing structures on the site was completed in August 2011. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub, extend the Caltrain commuter rail line underground 1.3 miles into the Financial District, and redevelop the area surrounding the Transbay Transit Center with 4,500 new homes 1,200 to be “affordable” below-market homes, a 1.6 million square-foot tower, parks, and a retail main street. The Pelli Clarke Pelli Architects-designed Center will serve more than 100,000 people per day through nine transportation systems, including the proposed 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 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 \$4.2 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. The first phase of the program, which includes constructing the new transit center, is \$300 million over budget. To cover the cost increase, the TJPA will use some of the money that was dedicated to the second phase of the project – the Downtown Extension of Caltrain.

Planning, OCII, Mayor’s Office and consultants are preparing the origination documents for a Mello-Roos (CFD) to finance a portion of the San Francisco County share of the Downtown Extension, City Park and other public benefits.

Mission Bay

The development plans for Mission Bay include a new University of California-San Francisco (UCSF) research campus containing 2.65 million square feet of building space on 43 acres donated by Catellus and the City; UCSF’s 550-bed hospital; 4.4 million square feet of biotech, ‘cleantech’ and health care office space; 6,350 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 400,000 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.

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 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.

Pier 70

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site. 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 25-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 environmental review.

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 2,250,000 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 950 housing units, 15 to 20 percent of them made available to low-income households. This built area includes three historic industrial buildings that will be rehabilitated as part of the Waterfront Site development. The parties are in the process of exploring the possibility of increasing the maximum number of residential units, to 2,000.

Outside of the Waterfront Site, other plans for Pier 70 call for the creation of Crane Cove Park, development of new buildings along Illinois Street, the sustained operation of the shipyard, and the preservation of additional historic buildings. Pier 70 qualifies for the National Register of Historic Places and is in the process of seeking Historic District status.

Cruise Terminal

On February 26, 2013 the Port of San Francisco cut the ribbon opening the \$67 million core and shell of the new James R. Herman cruise ship terminal at Pier 27 for use during the America's Cup races in the summer of 2013. The \$44 million second phase will commence after the America's Cup competition is completed and will install maritime equipment, complete an operations area within a portion of Pier 29, and complete improvements to the ground transportation area and Northeast Wharf Plaza. When complete in late 2014, the \$111 million, approximately 88,000 square foot, two-level cruise terminal will replace the current outmoded and insufficient facility at Pier 35 and will include a 2.5 acre park along the Embarcadero ground transportation area capability and a strengthened connection between the Bay and the base of Telegraph Hill.

The proposed size of the terminal was defined as optimal to serve current and anticipated ship berthing requirements and associated passenger flows. The Pier 27 cruise terminal was designed to optimally handle vessels carrying 2,600 passengers and will have the capacity to serve vessels carrying up to 4,000 passengers, totaling 40-80 cruise calls a year. The facility will continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ship festivals and visits by oceanic research vessels. When there are no cruise calls, the cruise terminal will provide approximately 60,000 square feet of designated space for shared uses, including meetings and special events.

Bay Area Economics was commissioned to provide an economic impact study for the Pier 27 project. The study projects that the project could create approximately \$29.4 million annually in direct economic activity, \$42.2 million in total impacts, and generate approximately 408 jobs within San Francisco. In addition, the Bay Area Economics study projects that the project could generate approximately \$900,000 annually in direct tax revenues that accrue to the City's General Fund. Regionally, Bay Area Economics estimated \$43.4 million in direct impacts and \$66.9 million in total impacts, and approximately 470 jobs in the Bay Area.

America's Cup

On December 31, 2010, the City was selected to host two America's Cup World Series regattas in the summer of 2012 and the 34th America's Cup Challenger Selection Series and Match Finals in the summer of 2013. To accommodate the events, the Port invested in a series of Waterfront improvements along the central and northeast waterfront, primarily on Piers 27-29 for the America's Cup Village and at Piers 30-32 for team bases. Prior to the events, the City completed the Brannan Street Wharf project, the core and shell of the Pier 27 James R. Herman Cruise Terminal building, a portion of Jefferson Street, the Marina Green Bicycle Trail and the Pier 43 Bay Link Trail and made significant investments in deferred maintenance needs at Piers 30-32, Pier 23 and several of the aprons and marginal wharves used for the Events. After the conclusion of the events, the City will complete the James R. Herman Cruise Ship Terminal and Northeast Wharf Plaza. A March 12, 2013 update from the Bay Area Council Economic Institute projects that the America's Cup Events will generate \$900 million in direct San Francisco spending, creating 6,481 San Francisco jobs and producing \$13 million in tax receipts for the City and County of San Francisco.

Moscone Convention Center

The Moscone Center Expansion Project would add up to 400,000 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 seek to create 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, or 'paseo' from Third St and a new, enclosed pedestrian bridges connecting the upper levels of the new Moscone North and Moscone South as well as an upgrade to the existing pedestrian bridge across Howard Street. This would help to frame the main public arrival space between the two new buildings, provide enhanced circulation for Moscone convention attendees, and reduce on-street congestion all while maintaining full-time elevated public access across Howard Street from Yerba Buena Gardens to the cultural facilities.

The project allows the City to recover approximately \$734 million of this future revenue 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. Project sponsors initiated environmental review in March 2013 with the goal of starting construction in late 2014, continuing intermittently around existing convention reservations through 2018.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

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

Article XIII A of the California Constitution

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

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

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

Article XIII B of the California Constitution

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

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and

taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

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

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

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

Statutory Limitations

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

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

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

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

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

Proposition 1A

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

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

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

Proposition 22

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

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However,

borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

Proposition 26

On November 2, 2010, the voters approved Proposition 26 (“Proposition 26”), revising certain provisions of Articles XIII A and XIII C 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 C of the State Constitution to state that a “tax” means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. Fees, charges and payments that are made pursuant to a voluntary contract that are not “imposed by a local government” are not considered taxes and are not covered by Proposition 26.

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

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

Future Initiatives and Changes in Law

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

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statute governing the issue), and that local ordinances were without effect. The effect of the *McWilliams* case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the

future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

LITIGATION AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City. 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 impair the ability of the City to make debt service payments or otherwise meet its General Fund lease or debt obligations, nor materially impair the City's ability to fund current operations.

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, SFMTA, 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

(THIS PAGE INTENTIONALLY LEFT BLANK)

**CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE TREASURER & TAX COLLECTOR**

INVESTMENT POLICY

Effective October 2013

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 ratified 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
85% 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
15% 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

The Treasurer's Office shall selectively utilize this investment vehicle with terms not to exceed one year, secured solely by government securities and said collateral will be delivered to a third party custodian, so that recognition of ownership of the City and County of San Francisco is perfected.

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.).

Allocation Maximum	Issuer Limit Maximum	Percentage of Fund's Net Assets Maximum	Maturity/Term Maximum
No Limit	N/A	5%	N/A

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.

8.0 Interest and Expense Allocations

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets, managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated and charged to the Pooled Investment Fund on a quarterly basis, with the exception of San Francisco International Airport costs which are charged directly through a work order.

The San Francisco Controller allocates the net interest earnings of the Pooled Investment Fund. The earnings are allocated monthly based on average balances.

9.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer's Office shall be conducted on a delivery-versus-payment (DVP) basis pursuant to approved custodial safekeeping agreements. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

10.0 Deposit and Withdrawal of Funds

California Government Code Section 53684 et seq. provides criteria for outside local agencies, where the Treasurer does not serve as the agency's treasurer, to invest in the County's Pooled Investment Fund, subject to the consent of the Treasurer. Currently, no government agency outside the geographical boundaries of the City and County of San Francisco shall have money invested in City pooled funds.

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the San Francisco Controller. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the Treasurer. In accordance with California Government Code Sections 27136 et seq. and 27133(h) et seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration for the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the value shown on the Controller's books as of the date of withdrawal.

11.0 Limits on Receipt of Honoraria, Gifts and Gratuities

In accordance with California Government Code Section 27133(d) et seq., this Investment Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Treasury Oversight Committee on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or others persons with whom the Treasurer conducts business. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of those limits must report the gifts, dates and firms to the Treasurer and complete the appropriate State disclosure.

These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the California Fair Political Practices Commission. Members of the Treasury Oversight Committee also must abide by the following sections of the Treasurer's Office Statement of Incompatible Activities: Section III(A)(1)(a), (b) and (c) entitled "Activities that Conflict with Official Duties," and Section III(C) entitled "Advance Written Determination".

12.0 Reporting

In accordance with the provisions of California Government Code Section 53646, which states that the Treasurer may render a quarterly report or a monthly report on the status of the investment portfolio to the Board of Supervisors, Controller and Mayor, the Treasurer regularly submits a monthly report. The report includes the investment types, issuer, maturity date, par value, and dollar amount invested; market value as of the date of the report and the source of the valuation; a statement of compliance with the investment policy or an explanation for non-compliance; and a statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why moneys will not be available if that is the case.

13.0 Social Responsibility

In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the forgoing socially responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to investments permitted by state law.

13.1 Social and Environmental Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms, or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing 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 I

Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASK/OFFER: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The CAFR is the City's official annual financial report. It consists of three major sections: introductory, financial, and statistical. The introductory section furnishes general information on the City's structure, services, and environment. The financial section contains all basic financial statements and required supplementary information, as well as information on all individual funds and discretely presented component units not reported separately in the basic financial statements. The financial section may also include supplementary information not required by GAAP. The statistical section provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY INSTITUTIONS: These institutions hold City and County moneys in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FDIC DEPOSIT INSURANCE COVERAGE: The FDIC is an independent agency of the United States government that protects against the loss of insured deposits if an FDIC-insured bank or savings association fails. Deposit insurance is backed by the full faith and credit of the United States government. Since the FDIC was established, no depositor has ever lost a single penny of FDIC-insured funds. FDIC insurance covers funds in deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit (CDs). FDIC insurance does not, however, cover other financial products and services that insured banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or municipal securities. There is no need for depositors to apply for FDIC insurance or even to request it. Coverage is automatic. To ensure funds are fully protected, depositors should understand their deposit insurance coverage limits. The FDIC provides separate insurance coverage for deposits held in different ownership categories such as single accounts, joint accounts, Individual Retirement Accounts (IRAs) and trust accounts.

Basic FDIC Deposit Insurance Coverage Limits*

Single Accounts (owned by one person) \$250,000 per owner

Joint Accounts (two or more persons) \$250,000 per co-owner

IRAs and certain other retirement accounts \$250,000 per owner

Trust Accounts \$250,000 per owner per beneficiary subject to specific limitations and requirements**

*The financial reform bill, officially named the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, made the \$250,000 FDIC coverage limit permanent.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest that depository institutions lend monies overnight to other depository institutions. Also referred to as the overnight lending rate. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market. Congress defined this mission in (their) 1970 charter. Freddie Mac buys mortgage loans from banks, thrifts and other financial intermediaries, and re-sells these loans to investors, or keeps them for their own portfolio, profiting from the difference between their funding costs and the yield generated by the mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

GOVERNMENT SECURITIES: Obligations of the U.S. Government and its agencies and instrumentalities.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

NRSRO: Nationally Recognized Statistical Rating Organization; Credit rating agencies that are registered with the SEC. Such agencies provide an opinion on the creditworthiness of an entity and the financial obligations issued by an entity.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE: The principal amount of a bond returned by the maturity date.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC TIME DEPOSITS (Term Certificates Of Deposit): Time deposits are issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C))3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX D

SUMMARY OF THE LEGAL DOCUMENTS

(THIS PAGE INTENTIONALLY LEFT BLANK)

Summary of the Legal Documents

The following is a summary of certain of the definitions and terms of the Master Indenture, First Supplemental Indenture and Second 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 and First Supplemental Indenture are on file with the Trustee. Following delivery of the Series 2013 Bonds, the Second 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 depository, as custodian for the institution issuing the deposits or interests. Such third party must have a perfected first lien in the Government Obligations and Government Certificates serving as collateral, and such collateral must be free from all other third party liens.

(g) Long-term or medium-term corporate debt guaranteed by any corporation that is rated at the time of purchase of the investment in one of the two highest rating categories by the Rating Agencies then rating the Bonds.

(h) Repurchase agreements, including those of the Trustee or any of its affiliates, longer than one year with financial institutions such as banks or trust companies organized under State or federal law, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated at the time of purchase of the investment “AA” or better by the Rating Agencies then rating the Bonds. The repurchase agreement must be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition.

(i) Prime commercial paper of a corporation, finance company or banking institution rated at the time of purchase of the investment in the highest short-term rating category by the Rating Agencies then rating the Bonds.

(j) State or public agency or municipality obligations rated at the time of purchase of the investment in the highest credit rating category by the Rating Agencies then rating the Bonds.

(k) Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, as amended, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that has been rated in the highest rating category by the Rating Agencies then rating the Bonds.

(l) Money market mutual accounts of any state or federal bank, or bank whose holding parent company is, rated in the top two short-term or long-term rating categories by the Rating Agencies then rating the Bonds, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.

(m) Investment agreements the issuer of which is rated at the time of purchase of the investment “AA” or better by the Rating Agencies then rating the Bonds.

(n) The City and County of San Francisco Treasurer's Investment Pool.

(o) Any other debt or fixed income security specified by an Authorized SFMTA Representative and rated at the time of purchase of the investment in the highest short-term rating category or one of the three highest long-term rating categories by the Rating Agencies then rating the Bonds.

“Principal Amount” shall mean, as of any date of calculation, (a) with respect to any Capital Appreciation Bond, the Accreted Value thereof, and (b) with respect to any other Bonds, the stated principal amount thereof.

“Principal Payment Date” shall mean, with respect to any Series of Bonds, each date specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof for the payment of the Principal Amount of such Bonds either at maturity or upon prior redemption from mandatory sinking fund payments.

“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.

“Special Facility” shall mean any existing or planned facility, structure, equipment or other property, real or personal, which is under the jurisdiction of the SFMTA or a part of any facility or structure which is under the jurisdiction of the SFMTA and which is designated as a Special Facility pursuant to the Indenture.

“Special Facility Bonds” shall mean any revenue bonds, notes, bond anticipation notes, commercial paper or other evidences of indebtedness for borrowed money issued by, or certificates of participation executed on behalf of, the SFMTA to finance a Special Facility, the principal, premium, if any, and interest with respect to which are payable from and secured by the Special Facility Revenue derived from such Special Facility, and not from or by Pledged Revenues.

“Special Facility Revenue” shall mean the revenue earned by the SFMTA from or with respect to a Special Facility and which is designated as such by the SFMTA, including but not

limited to contractual payments to the SFMTA under a loan agreement, lease agreement or other written agreement with respect to the Special Facility by and between the SFMTA and the person, firm, corporation or other entity, either public or private, as shall operate, occupy or otherwise use the Special Facility.

“Standard & Poor’s” shall mean Standard & Poor’s Rating Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by an Authorized SFMTA Representative.

“Subordinate Bonds” shall mean any evidences of indebtedness for borrowed money issued from time to time by the SFMTA pursuant to the Indenture, including but not limited to, bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein.

“Supplemental Indenture” shall mean an indenture supplementing or amending the provisions of the Indenture which is adopted by the SFMTA pursuant to the Indenture.

“Swap Counter Party” shall mean a member of the International Swap Dealers Association rated (either directly or by means of guaranty or credit enhancement) in one of the three top rating categories by both Rating Agencies.

“Swap Payments” shall mean as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Swap Counter Party by the SFMTA or the Trustee, on behalf of the SFMTA.

“Swap Receipts” shall mean as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the SFMTA or the Trustee for the account of the SFMTA by the Swap Counter Party.

“Tax Certificate” shall mean a certificate executed by an Authorized SFMTA Representative on behalf of the SFMTA with respect to any Series of Bonds relating to the federal tax aspects of the use of the proceeds of such Bonds and other related matters.

“Tax Credit Bonds” shall mean a Series of Bonds that are subject to Section 54AA of the Code pursuant to an irrevocable election of the SFMTA or similar tax credit bonds.

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

“Treasurer” shall mean the Treasurer of the City, and any successor to his or her duties under the Indenture.

“Trustee” shall mean U.S. Bank National Association, and any successor to its duties under the Indenture.

“Variable Rate Bonds” shall mean any Bonds the interest rate on which is not fixed to maturity as of the date of calculation.

THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture.

Funds

Creation of Funds and Accounts. The Enterprise Account is created under the Indenture and shall be held by the SFMTA or the Treasurer on behalf of the SFMTA. The Indenture also creates a Debt Service Fund and a Reserve Fund to be held by the Trustee in trust for the benefit of the Bondholders. The SFMTA may create such other Funds or Accounts for the allocation and application of Pledged Revenues or other moneys as it shall deem necessary or desirable. Any Fund or Account held by the SFMTA pursuant to the terms of the Master Indenture may include and/or consist of one or more accounts of the SFMTA then in existence or created from time to time as necessary or desirable for accounting and operational purposes.

Debt Service Fund. The SFMTA shall establish with the Trustee a separate account or accounts in the Debt Service Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Debt Service Fund and the accounts therein shall be held in trust by the Trustee and applied to pay Principal Amount and purchase price of and interest and redemption premium on such Bonds, in the amounts, at the times and in the manner set forth in the Indenture and in the Supplemental Indentures with respect thereto; provided, however, that each Supplemental Indenture shall require to the extent practicable that amounts be accumulated in the applicable accounts in the Debt Service Fund so that moneys sufficient to make any regularly scheduled payment of Principal Amount of or interest on the Bonds are on deposit therein at least one (1) Business Day prior thereto. Moneys in the accounts in the Debt Service Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indentures with respect thereto.

If and to the extent provided for in any Supplemental Indenture authorizing the issuance of a Series of Bonds, Swap Payments may be paid directly out of, and Swap Receipts paid directly into, the account or accounts in the Debt Service Fund established with respect to such Series of Bonds.

Reserve Fund. The Reserve Fund or an account therein shall be funded in an amount at least equal to the Reserve Requirement established for each Series of Bonds (provided that a Series of Bonds may be issued that is not supported by the Reserve Fund and that has no Reserve Requirement). The SFMTA may by Supplemental Indenture establish a separate Account or Accounts in the Reserve Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Reserve Fund and the accounts therein shall be held in trust by the Trustee for the

benefit and security of the Holders of the Bonds to which such accounts are pledged, and shall not be available to pay or secure the payment of any other Bonds. Each account in the Reserve Fund shall be funded and replenished in the amounts, at the times and in the manner provided in the Indenture or in the Supplemental Indentures with respect thereto. Moneys in the respective Accounts in the Reserve Fund shall be applied to pay and secure the payment of such Bonds as provided in the Indenture or in the Supplemental Indenture with respect thereto. Moneys in an Account in the Reserve Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indenture with respect thereto.

The Reserve Requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank if the obligations insured by such insurer or issued by such bank, as the case may be, initially have ratings at the time of issuance of such policy or surety bond or letter of credit in one of the two highest rating categories of the Rating Agencies then rating the Bonds.

Investment of Moneys. Moneys in all Funds and Accounts held by the Trustee shall be invested as soon as practicable upon receipt in Permitted Investments as directed in writing by an Authorized SFMTA Representative; provided, that (i) pursuant to such written direction, the maturity date or the date on which such Permitted Investments may be redeemed at the option of the holder thereof shall coincide as nearly as practicable with (but in no event shall be later than) the date or dates on which moneys in the Funds or Accounts for which the investments were made will be required for the purposes thereof, and (ii) in the absence of direction from an Authorized SFMTA Representative, the Trustee shall invest moneys in the Permitted Investments described in clause (l) of the definition thereof or such other Permitted Investment identified in writing by an Authorized SFMTA Representative. Anything in the Indenture to the contrary notwithstanding, moneys in all Funds and Accounts held by the Treasurer shall be invested in Permitted Investments in accordance with the policies and procedures of the Treasurer in effect from time to time.

Investment of amounts in any Fund or Account shall be made in the name of such Fund or Account.

Amounts credited to a Fund or Account may be invested, together with amounts credited to one or more other Funds or Accounts, in the same Permitted Investment; provided, however, that (i) each such investment complies in all respects with the provisions of the Indenture as they apply to each Fund or Account for which the joint investment is made, and (ii) separate records are maintained for each Fund and Account and such investments are accurately reflected therein.

The Trustee may make any investment permitted by the Indenture through or with its own commercial banking or investment departments, unless otherwise directed by the SFMTA, provided, however, that the details of such transactions and relationships and all fees charged or received by the Trustee in such transactions shall be disclosed to the SFMTA.

Except as otherwise specifically provided in the Indenture, in computing the amount in any Fund or Account, Permitted Investments purchased as an investment of moneys therein shall

be valued at the current market value thereof or at the redemption price thereof, if then redeemable at the option of the holder, in either event inclusive of accrued interest.

Any transfer to or deposit in any Fund or Account required by the Indenture may be satisfied by transferring or depositing an investment with a market value equal to the required transfer or deposit in lieu of transferring or depositing cash.

Earnings in any Fund or Account shall remain on deposit in such Fund or Account unless otherwise provided in the Indenture or in a written direction of an Authorized SFMTA Representative.

Except as otherwise specifically set forth in the Indenture, upon request of an Authorized SFMTA Representative, the Trustee shall deliver any investment earnings on any Funds or Accounts held by the Trustee to the SFMTA.

General Covenants of the SFMTA

Payment of Principal and Interest; Negative Pledge.

(a) The SFMTA covenants and agrees that it promptly will pay or cause to be paid the Principal Amount and purchase price of, premium, if any, and interest on each Bond issued under the Indenture at the place, on the dates and in the manner provided in the Indenture, in any applicable Supplemental Indenture and in said Bond according to the terms thereof but solely from the sources pledged to such payment or from such other sources or revenue as may lawfully be used for such payment.

(b) The SFMTA covenants and agrees that it will not create any pledge of, lien on, security interest in or encumbrance upon, or permit the creation of any pledge of, lien on, security interest in or encumbrance upon, Pledged Revenues except as provided in the Indenture for the benefit of the Bonds or other Parity Obligations or except for a pledge, lien, security interest or encumbrance subordinate to the pledge, lien and security interest provided in therein for the benefit of the Bonds.

(c) The SFMTA covenants that it shall not issue, or cooperate with the issuance of, any bonds or other obligations secured by Pledged Revenues prior to the Bonds so long as any Bonds remain Outstanding under the Indenture.

Covenant to Adopt Balanced Budget and Maintain Adequate Pledged Revenues.

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

(b) The SFMTA covenants that if it is unable to comply with subsection (a) above, the SFMTA will review the SFMTA's operations and its schedule of fares, rates, fees and charges and prepare a plan with reasonable measures to comply with subsection (a). The SFMTA shall take such plan into account for future budgets and management.

Operation and Maintenance of Transportation Operations. The SFMTA covenants that it will operate and maintain its operations and the Transportation System as a revenue producing enterprise in accordance with law, including but not limited to the Act. The SFMTA will make such repairs to its facilities and equipment as shall be required to enable it to perform its covenants contained in the Indenture.

The SFMTA will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon its facilities or equipment or upon any part thereof, or upon the revenue from the operation thereof, when the same shall become due, as well as any lawful claim for labor, materials or supplies which, if unpaid, might by law become a lien or charge upon its facilities or equipment or such revenue, or which might materially impair the security of the Bonds. Notwithstanding the foregoing, the SFMTA need not pay or discharge any tax, assessment or other governmental charge, or claim for labor, materials or supplies, if and so long as the SFMTA shall contest the validity or application thereof in good faith.

The SFMTA will continuously operate its facilities and equipment and the Transportation System so that all lawful orders of any governmental agency or authority having jurisdiction in the premises shall be complied with, but the SFMTA shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith.

Maintenance of Powers; Retention of Assets. The SFMTA covenants that it will use its reasonable efforts to maintain the powers, functions, duties and obligations now reposed in it pursuant to law, and will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to materially, adversely impact the payment of the Bonds or any other obligation secured under the Indenture or the performance or observance of any of the covenants therein contained.

The SFMTA covenants that it will not dispose of assets necessary to operate the Transportation System in the manner and at the levels of activity required to enable it to perform its covenants contained in the Indenture.

The SFMTA covenants that it shall not apply Pledged Revenues or any other revenue of the SFMTA for other than SFMTA purposes as provided in the Charter.

Insurance. Subject in each case to the condition that insurance is obtainable at reasonable rates from responsible insurers and upon reasonable terms and conditions:

(a) The SFMTA shall procure or provide and maintain, at all times while any of the Bonds shall be outstanding, insurance or Qualified Self-Insurance on its facilities and equipment and with respect to its operations and the Transportation System against such risks as are usually insured by other transportation agencies which are similar in their operations to the SFMTA. Such insurance or Qualified Self-Insurance shall be in an adequate amount as to the

risk insured against as determined by the SFMTA. The SFMTA need not carry insurance or Qualified Self-Insurance against losses caused by land movement, including but not limited to seismic activity.

(b) Any Qualified Self-Insurance shall be established in accordance with applicable law; shall include reserves or reinsurance in amounts which the SFMTA determines to be adequate to protect against risks assumed under such Qualified Self-Insurance, including without limitation any potential retained liability in the event of the termination of such Qualified Self-Insurance.

(c) The proceeds of any material claim on insurance shall be applied solely for SFMTA purposes. Further, the proceeds of any casualty insurance shall, within a reasonable period of time, be applied to (1) replace the SFMTA facilities which were damaged or destroyed, (2) provide additional revenue-producing SFMTA facilities, (3) redeem Bonds and other Parity Obligations or (4) create an escrow fund pledged to pay specified Bonds (and other Parity Obligations) and thereby cause such Bonds to be deemed to be paid as provided in Article X of the Indenture.

Financial Records and Statements. The SFMTA shall maintain proper books and records in which full and correct entries shall be made in accordance with generally accepted accounting principles, of all its business and affairs. The SFMTA shall have an annual audit made by an Independent Auditor and shall on or before 270 days after the end of each of its Fiscal Years furnish to the Trustee copies of the audited financial statements of the SFMTA for such Fiscal Year.

All such books and records pertaining to the SFMTA shall be open and available for inspection upon reasonable notice during regular business hours to the Trustee or the representatives thereof duly authorized in writing.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the SFMTA covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The SFMTA will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

(b) Arbitrage. The SFMTA will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The SFMTA will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The SFMTA will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(e) Miscellaneous. The SFMTA will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

(f) Taxable Bonds and Tax Credit Bonds. Notwithstanding the foregoing, the SFMTA may issue a Series of Bonds that are intentionally not exempt from taxation and may issue Series of Bonds that are Tax Credit Bonds.

Eminent Domain. If SFMTA facilities or equipment are taken by eminent domain proceedings or conveyance in lieu thereof, the SFMTA shall create within the Enterprise Account a special account and credit the net proceeds received as a result of such taking or conveyance to such account and shall within a reasonable period of time, not to exceed three years after the receipt of such amounts, use such proceeds to (1) replace the SFMTA facilities which were taken or conveyed, (2) provide additional revenue-producing SFMTA facilities, (3) redeem Bonds and other Parity Obligations or (4) create an escrow fund pledged to pay specified Bonds (and other Parity Obligations) and thereby cause such Bonds to be deemed to be paid as provided in the Indenture.

Default and Remedies

Events of Default. Each of the following is declared an “Event of Default” under the Indenture:

(a) if payment of any installment of interest on any Bond shall not be made in full when the same becomes due and payable;

(b) if payment of the Principal Amount of any Bond shall not be made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;

(c) if payment of the purchase price of any Bond tendered for optional or mandatory purchase in accordance with the provisions of the Supplemental Indenture providing for the issuance of such Bond shall not be made in full when due;

(d) if the SFMTA shall fail to observe or perform any other covenant or agreement on its part under the Indenture for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the SFMTA by the Trustee, or to the SFMTA and the Trustee by the Owners of at least 25% in aggregate Principal Amount of Bonds then Outstanding; provided, however, that if the breach of covenant or agreement is one which cannot be completely remedied within the 60 days after written notice has been given, it shall not be an Event of Default as long as the SFMTA has taken active steps within the 60 days after written notice has been given to remedy the failure and is diligently pursuing such remedy (in the case of a failure to comply with the covenant under the Indenture

to adopt a balanced budget, active steps by the SFMTA to remedy the failure include steps to comply with the covenant under the Indenture to prepare a plan with reasonable measures to adopt a balanced budget and diligent pursuit of such remedy includes compliance with the covenant to maintain a balanced budget in the next Fiscal Year);

(e) if either the SFMTA or the City shall institute proceedings to be adjudicated a bankrupt or insolvent, or shall consent to the institution of bankruptcy or insolvency proceedings against it, or shall file a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the SFMTA or of any substantial part of its property, or shall fail to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or shall consent to entry of an order for relief under the federal Bankruptcy Code, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due;

(f) The occurrence of any other Event of Default with respect to other Parity Obligations as provided in a Supplemental Indenture.

Acceleration. (i) In each and every such case of the continuance of an Event of Default under the Indenture, the Trustee may, and upon the written request of the Credit Provider or Providers as provided in any Supplemental Indenture or the Holders of not less than fifty-one percent (51%) in aggregate Principal Amount of the Bonds then Outstanding shall, by notice in writing to the SFMTA, declare the Principal Amount of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon such declaration of the same, payment of the Principal Amount of all of the Bonds then Outstanding, and the interest accrued thereon, shall be and shall become immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

(ii) Promptly after any acceleration of the Bonds, the Trustee shall cause a notice thereof to be mailed, first class, postage prepaid, to all Holders of Bonds and, if provided by a Supplemental Indenture, to one or more Credit Providers. Failure to mail any such notice, or any defect in any notice so mailed, shall not affect such acceleration.

(iii) Notwithstanding paragraph (i) above, if at any time after the Principal Amount of the Bonds shall have become due and payable pursuant to an acceleration thereof, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, (i) sufficient moneys (other than moneys drawn by the Trustee under any Credit Facility) shall have accumulated in the Debt Service Fund to pay the Principal Amount of all matured Bonds of each Series and all arrears of interest, if any, upon all such Bonds then Outstanding (except the Principal Amount of any such Bonds not then due and payable by their terms and the interest accrued on such Bonds since the last Interest Payment Date), (ii) the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the SFMTA under the Indenture shall have been paid or

moneys sufficient to pay the same shall have been deposited with the Trustee, and (iii) every other default known to the Trustee in the observance or performance of any covenant, condition, agreement or provision contained in the Bonds of each Series or in the Indenture (other than a default in the payment of the Principal Amount of such Bonds then due and payable only because of a declaration under the Indenture) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee shall, by a notice in writing to the SFMTA, rescind and annul such acceleration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Remedies and Enforcement of Remedies. Subject to the provisions of Supplement Indentures regarding the rights of any Credit Providers, the occurrence and continuance of an Event of Default, the Trustee may, or upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate Principal Amount of the Bonds together with indemnification of the Trustee to its satisfaction therefor shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders under the Indenture and under the Act and such Bonds by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Actions to recover money or damages due and owing;
- (ii) Actions to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds; and
- (iii) Enforcement of any other right of such Bondholders conferred by law, including the Act, or by the Indenture, including without limitation by suit, action, injunction, mandamus or other proceedings to enforce and compel the performance by the SFMTA of actions required by the Act or the Indenture, including the fixing, charging and collection of fees or other charges and the application of Pledged Revenues and amounts in the Enterprise Account to the payment of Bonds.

Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

Application of Moneys After Default. During the continuance of an Event of Default, all moneys held and received by the Trustee with respect to the Bonds pursuant to any right given or action taken under the provisions of the Indenture, after payment of the costs and expenses of the proceedings which result in the collection of such moneys and of the fees, expenses and advances incurred or made by the Trustee with respect to such Event of Default and any outstanding fees and expenses of the Trustee be applied as follows; provided, however, that any proceeds of a Credit Facility, if any, and amounts held in the Debt Service Fund and the Reserve Fund pledged to a particular Series of Bonds shall be applied solely to pay Principal Amount, premium, if any, purchase price, if any, of or interest, as applicable, on the related Series of Bonds:

First: To the payment to the persons entitled thereto of all installments of interest then due on such Bonds in the order of maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Amounts and premium, if any, of any such Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), whether at maturity, upon tender or purchase or acceleration or by proceedings for redemption or otherwise, in the order of their due dates as provided in the Indenture and in the Supplemental Indenture under which they were issued, and if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the Principal Amounts due on such date, to the persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Trustee after a default, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine in accordance with the Indenture, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee shall give such notice as it may deem appropriate in accordance with the Indenture of the deposit with it of any such moneys, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever the Principal Amount, premium, if any, purchase price, if any, and interest thereon of all Bonds of a Series have been paid under the provisions of the Indenture and all expenses and charges of the Trustee have been paid, and each Credit Provider, if any, has been reimbursed for all amounts drawn under the applicable Credit Facility, if any, and used to pay Principal Amount, premium, if any, purchase price, if any, and interest on the Bonds and no Repayment Obligation shall be outstanding, any balance remaining shall be paid first to such Credit Provider to the extent any other amounts are then owing to such Credit Provider under the applicable agreement, and then to the SFMTA or as a court of competent jurisdiction may direct.

Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Bondholders or any Credit Provider is intended to be exclusive of any other remedy but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute, including the Act, on or after the date of the Indenture.

Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Trustee may be brought in its name as the Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the provisions of the Indenture, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Bonds.

Control of Proceedings. If an Event of Default shall have occurred and be continuing, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of the Bonds of one or more Series then Outstanding shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken with respect to funds or assets solely securing such one or more Series in connection with the enforcement of the terms and conditions of the Indenture; provided, that such direction is in accordance with law and the provisions of the Indenture (including indemnity to the Trustee as provided in the Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders of such Series of Bonds not joining in such direction; and provided further, that nothing therein shall impair the right of the Trustee in its discretion to take any other action thereunder which it may deem proper and in accordance with the Indenture and which is not inconsistent with such direction by Bondholders.

If an Event of Default with respect to 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 of Bonds; and
- (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.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY REVENUE BONDS, SERIES 2013

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 Second Supplement to Indenture of Trust dated as of December 1, 2013 between the SFMTA and the Trustee (the “Second 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. 13 205 of the Board of Directors of the SFMTA (the “Board”) adopted on September 3, 2013, and Resolution No. 337-13 of the Board of Supervisors adopted on September 24, 2013, concurring as to the issuance of the San Francisco Municipal Transportation Agency Revenue Bonds, Series 2013 (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 2012-13 Fiscal Year (which is due not later than March 27, 2014), 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 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:

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;

Modifications to rights of Bond holders;

Unscheduled or contingent Bond calls;

Release, substitution, or sale of property securing repayment of the Bonds;

Non-payment related defaults;

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

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: December 4, 2013.

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 2013

Date of Issuance: December 4, 2013

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 2013 Bonds, payment of principal, interest and other payments on the Series 2013 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series 2013 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 2013 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2013 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2013 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 2013 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 2013 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 and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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.

APPENDIX G
PROPOSED FORM OF LEGAL OPINION OF CO-BOND COUNSEL

(THIS PAGE INTENTIONALLY LEFT BLANK)

San Francisco Municipal Transportation Agency
San Francisco, California

**Re: \$75,440,000 San Francisco Municipal Transportation Agency Revenue
 Bonds, Series 2013**

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 San Francisco Municipal Transportation Agency Revenue Bonds, Series 2013 (the "Series 2013 Bonds"). The Series 2013 Bonds are being issued pursuant to the laws of the State of California, including the Charter and Administrative Code of the City and County of San Francisco (the "City"), including but not limited to Chapter 43, Article XIII, Sections 43.13.1 through 43.13.8 (collectively, the "Act"), Resolution No. 13-205 duly adopted by the SFMTA on September 3, 2013 (the "SFMTA Resolution"), Resolution No. 337-13, duly adopted by the Board of Supervisors of the City and County of San Francisco on September 24, 2013 and signed by Mayor Edwin M. Lee on October 3, 2013 (the "City Resolution") and an 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, and a Second Supplement to Indenture of Trust, dated as of December 1, 2013 providing for the issuance of the Series 2013 Bonds (collectively, the "Indenture").

In our capacity as Co-Bond Counsel we have reviewed the Act, the SFMTA Resolution, the City Resolution, the Indenture, the Tax Certificate executed by the SFMTA on the date hereof (the "Tax Certificate"), certificates of the SFMTA, the Trustee and others, an opinion of the City Attorney and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings assigned thereto in the Indenture.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the SFMTA. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof.

We call attention to the fact that the rights and obligations under the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2013 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 authorized, executed and delivered by, and constitutes a valid and binding obligation of, the SFMTA. The Indenture creates a valid pledge, to secure the payment of principal and interest on the Series 2013 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. The Series 2013 Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues except Pledged Revenues. The General Fund of the City is not liable for the payment of the principal of, redemption premium, if any, or interest on the Series 2013 Bonds. Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof is pledged to the payment of principal of, redemption premium, if any, or interest on the Series 2013 Bonds, and the SFMTA is not obligated to pay the principal of, redemption premium, if any, and interest on the Series 2013 Bonds except from Pledged Revenues.

4. The SFMTA previously issued its Series 2012 Bonds in accordance with the Indenture, and Additional Series of Bonds and other obligations of the SFMTA which are payable from Pledged Revenues on a parity basis with the Series 2013 Bonds may from time to time hereafter be issued in accordance with the Indenture.

5. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below (i) interest on the Series 2013 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2013 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the SFMTA and others in connection with the Series 2013 Bonds, and we have assumed compliance by the SFMTA with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2013 Bonds from gross income under Section 103 of the Code. The Code establishes certain requirements that must be met subsequent to the issuance of the Series 2013 Bonds in order that, for Federal income tax purposes, interest on the Series 2013 Bonds be excluded from gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Series 2013 Bonds, restrictions on the investment of proceeds of the Series 2013 Bonds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2013 Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained. On the date of delivery of the Series 2013 Bonds, the SFMTA will execute the Tax Certificate containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the SFMTA covenants that it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Series 2013 Bonds will, for Federal income tax purposes, be excluded from gross income. In rendering the opinion in this paragraph 5, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the Series 2013 Bonds, and (ii) compliance by the SFMTA with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

6. Under existing statutes, interest on the Series 2013 Bonds is exempt from present State of California personal income taxes.

Except as stated in paragraphs 5 and 6 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Series 2013 Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2013 Bonds, or under State and local tax law.

We render our opinion under existing statutes and court decisions as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272