

*In the opinions of Sidley Austin Brown & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., San Francisco, California, Co-Bond Counsel with respect to the Series 2002A Bonds, and Sidley Austin Brown & Wood LLP, San Francisco, California, and Elizabeth C. Green, Esq., Los Angeles, California, Co-Bond Counsel with respect to the Series 2002B Bonds, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinions of Co-Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinions of Co-Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.*

**\$29,345,000**

**CITY AND COUNTY OF SAN FRANCISCO  
 GENERAL OBLIGATION BONDS**

consisting of

**\$6,210,000**

**GENERAL OBLIGATION BONDS  
 (ZOO FACILITIES BONDS, 1997)  
 SERIES 2002A**

**\$23,135,000**

**GENERAL OBLIGATION BONDS  
 (BRANCH LIBRARY FACILITIES  
 IMPROVEMENT BONDS, 2000)  
 SERIES 2002B**

**Dated: Date of Delivery****Due: June 15, as shown below**

The \$29,345,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds, consisting of \$6,210,000 General Obligation Bonds (Zoo Facilities Bonds, 1997) Series 2002A (the "2002A Bonds") and \$23,135,000 General Obligation Bonds (Branch Library Facilities Improvement Bonds, 2000) Series 2002B (the "2002B Bonds," and together with the 2002A Bonds, the "Bonds") are being issued under the Government Code of the State of California and the Charter of the City and County of San Francisco (the "City"). The specific terms and conditions for issuance and sale of the 2002A Bonds are contained in Resolution No. 677-98 adopted by the Board of Supervisors of the City (the "Board") on August 17, 1998 and approved by the Mayor on August 23, 1998, and Resolution No. 381-02 adopted by the Board on June 3, 2002 and approved by the Mayor on June 14, 2002. The specific terms and conditions for issuance and sale of the 2002B Bonds are contained in Resolution No. 389-01 adopted by the Board on May 14, 2001 and approved by the Mayor on May 25, 2001, and Resolution No. 589-02 adopted by the Board on August 26, 2002 and approved by the Mayor on August 29, 2002. See "THE BONDS—Authority for Issuance." The proceeds of the Bonds will be used to finance the acquisition, construction and/or reconstruction of library and zoo facilities and properties and other related improvements, as described herein, and to pay for certain costs related to the issuance of the Bonds.

The 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"). Individual purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Beneficial Owners of the Bonds will not receive physical delivery of bond certificates. Payments of principal of and interest on the Bonds will be made by the Treasurer of the City, as paying agent, to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. See "APPENDIX E—DTC AND THE BOOK-ENTRY ONLY SYSTEM." The Bonds will be dated and bear interest from their date of delivery. Interest on the Bonds will be payable semiannually on June 15 and December 15 of each year, commencing December 15, 2002. The Bonds will be subject to optional redemption prior to their respective stated maturities as described herein. See "THE BONDS—Redemption."

The Bonds represent the general obligation of the City. The Board of Supervisors of the City has the power and is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City without limitation as to rate or amount (except certain property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.

**AGGREGATE MATURITY SCHEDULE**

<b>Maturity Date (June 15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>Maturity Date (June 15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>
2003	\$ 855,000	5.000%	1.150%	2013	\$1,450,000	3.300%	3.300%
2004	1,125,000	3.000	1.200	2014	1,495,000	3.500	3.500
2005	1,155,000	2.500	1.450	2015	1,555,000	3.700	3.700
2006	1,185,000	2.500	1.700	2016	1,610,000	3.800	3.850
2007	1,215,000	2.500	2.050	2017	1,670,000	4.000	4.000
2008	1,245,000	2.500	2.350	2018	1,735,000	4.000	4.100
2009	1,275,000	2.750	2.500	2019	1,805,000	4.125	4.200
2010	1,315,000	4.000	2.850	2020	1,880,000	4.200	4.200
2011	1,365,000	3.000	3.000	2021	1,960,000	4.250	4.250
2012	1,410,000	3.200	3.200	2022	2,040,000	4.250	4.250

A Municipal Bond New Issue Insurance Policy has been issued with respect to the Bonds maturing in the years 2013 to 2022 (the "Insured Bonds") by:



**Financial Guaranty Insurance  
 Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

*This cover page contains certain information for general reference only. It is not a summary of this issue. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision.*

*The Bonds are offered when, as, and if issued by the City and accepted by the purchasers, subject to approval of legality of issuance by Sidley Austin Brown & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., San Francisco, California, Co-Bond Counsel with respect to the 2002A Bonds and Sidley Austin Brown & Wood LLP, San Francisco, California, and Elizabeth C. Green, Esq., Los Angeles, California, Co-Bond Counsel with respect to the 2002B Bonds. Certain legal matters will be passed upon for the City by the City Attorney. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about October 1, 2002.*

Dated: September 18, 2002.

**\$6,210,000**  
**CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS**  
**(ZOO FACILITIES BONDS, 1997) SERIES 2002A**  
**(Base CUSIP Number: 797645)**

**MATURITY SCHEDULE**

<b>Maturity Date (June 15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP Suffix</b>	<b>Maturity Date (June 15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP Suffix</b>
2003	\$180,000	5.000%	1.150%	V62	2013	\$305,000	3.300%	3.300%	W87
2004	240,000	3.000	1.200	V70	2014	315,000	3.500	3.500	W95
2005	245,000	2.500	1.450	V88	2015	330,000	3.700	3.700	X29
2006	250,000	2.500	1.700	V96	2016	340,000	3.800	3.850	X37
2007	255,000	2.500	2.050	W20	2017	355,000	4.000	4.000	X45
2008	265,000	2.500	2.350	W38	2018	365,000	4.000	4.100	X52
2009	270,000	2.750	2.500	W46	2019	380,000	4.125	4.200	X60
2010	280,000	4.000	2.850	W53	2020	400,000	4.200	4.200	X78
2011	290,000	3.000	3.000	W61	2021	415,000	4.250	4.250	X86
2012	300,000	3.200	3.200	W79	2022	430,000	4.250	4.250	X94

**\$23,135,000**  
**CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS**  
**(BRANCH LIBRARY FACILITIES IMPROVEMENT BONDS, 2000) SERIES 2002B**  
**(Base CUSIP Number: 797645)**

**MATURITY SCHEDULE**

<b>Maturity Date (June 15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Suffix</b>	<b>Maturity Date (June 15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP Suffix</b>
2003	\$675,000	5.000%	1.150%	2A5	2013	\$1,145,000	3.300%	3.300%	Y85
2004	885,000	3.000	1.200	2B3	2014	1,180,000	3.500	3.500	Y93
2005	910,000	2.500	1.450	2C1	2015	1,225,000	3.700	3.700	Z27
2006	935,000	2.500	1.700	2D9	2016	1,270,000	3.800	3.850	Z35
2007	960,000	2.500	2.050	Y28	2017	1,315,000	4.000	4.000	Z43
2008	980,000	2.500	2.350	Y36	2018	1,370,000	4.000	4.100	Z50
2009	1,005,000	2.750	2.500	Y44	2019	1,425,000	4.125	4.200	Z68
2010	1,035,000	4.000	2.850	Y51	2020	1,480,000	4.200	4.200	Z76
2011	1,075,000	3.000	3.000	Y69	2021	1,545,000	4.250	4.250	Z84
2012	1,110,000	3.200	3.200	Y77	2022	1,610,000	4.250	4.250	Z92

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

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

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

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)2 for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

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

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**CITY AND COUNTY OF SAN FRANCISCO**

Willie L. Brown, Jr., *Mayor*

**BOARD OF SUPERVISORS**

Tom Ammiano, *President, District 9*

Chris Daly, <i>District 6</i>	Jake McGoldrick, <i>District 1</i>
Matt Gonzalez, <i>District 5</i>	Gavin Newsom, <i>District 2</i>
Tony Hall, <i>District 7</i>	Aaron Peskin, <i>District 3</i>
Mark Leno, <i>District 8</i>	Gerardo Sandoval, <i>District 11</i>
Sophie Maxwell, <i>District 10</i>	Leland Yee, <i>District 4</i>

**CITY AND COUNTY OFFICIALS**

Susan Leal, *Treasurer*

Edward M. Harrington, *Controller*

Dennis J. Herrera, *City Attorney*

**SPECIAL SERVICES**

Treasurer of the City and County of San Francisco  
*Paying Agent and Registrar*

SIDLEY AUSTIN BROWN & WOOD LLP  
San Francisco, California

LESLIE M. LAVA, ESQ.  
San Francisco, California

*Co-Bond Counsel—2002A Bonds*

SIDLEY AUSTIN BROWN & WOOD LLP  
San Francisco, California

ELIZABETH C. GREEN, ESQ.  
Los Angeles, California

*Co-Bond Counsel—2002B Bonds*

SPERRY CAPITAL INC.  
Sausalito, California

-and-

CAUSEWAY FINANCIAL CONSULTING  
Oakland, California

*Co-Financial Advisors*

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## **OFFICIAL STATEMENT**

### **\$29,345,000 CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS**

**consisting of**

**\$6,210,000 GENERAL OBLIGATION BONDS  
(ZOO FACILITIES BONDS, 1997)  
SERIES 2002A**

**\$23,135,000 GENERAL OBLIGATION BONDS  
(BRANCH LIBRARY FACILITIES  
IMPROVEMENT BONDS, 2000)  
SERIES 2002B**

## **INTRODUCTION**

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the issuance by the City and County of San Francisco (the “City”) of its \$29,345,000 aggregate principal amount of General Obligation Bonds, consisting of \$6,210,000 General Obligation Bonds (Zoo Facilities Bonds, 1997) Series 2002A (the “2002A Bonds”) and \$23,135,000 General Obligation Bonds (Branch Library Facilities Improvement Bonds, 2000) Series 2002B (the “2002B Bonds”), herein referred to collectively as the “Bonds”. The Bonds represent the general obligation of the City. The Board of Supervisors of the City (the “Board of Supervisors”) has the power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES” herein. For information on the City’s tax base, tax collection system and property tax revenues, see “SECURITY FOR THE BONDS” and “APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES.”

## **THE BONDS**

### **Purpose**

Proceeds of the 2002A Bonds will be available for, but are not limited to, funding the acquisition, construction and/or reconstruction of San Francisco Zoo facilities and properties and all other works, property and structures necessary or convenient for the foregoing purposes, and to pay for certain costs related to the issuance of the Bonds.

Proceeds of the 2002B Bonds will be used for payment of the cost of acquisition, renovation and construction of branch libraries and other library facilities, other than the Main Library, and all other works, property and structures necessary and convenient for the foregoing purposes, and to pay for certain costs related to the issuance of the Bonds.

### **Authority for Issuance**

The Bonds are issued under the Government Code of the State of California and pursuant to the Charter of the City (the “Charter”).

The City authorized the issuance of the 2002A Bonds in Resolution No. 677-98, adopted by the Board on August 17, 1998 and approved by the Mayor on August 28, 1998 and Resolution No. 381-02 adopted by

the Board on June 3, 2002 and approved by the Mayor on June 14, 2002 (such resolutions being referred to collectively herein as the “Zoo Resolution”). The 2002A Bonds constitute the third issuance of the total authorized amount of \$48,000,000 of City and County of San Francisco General Obligation Bonds (Zoo Facilities Bonds, 1997), duly approved by at least two-thirds of the voters voting on the proposition at a special election held on June 3, 1997 to provide funds to finance the acquisition, construction and/or reconstruction of San Francisco Zoo facilities and properties and all other works, property and structures necessary or convenient for the foregoing purposes.

The City authorized the issuance of the 2002B Bonds in Resolution No. 389-01, adopted by the Board on May 14, 2001 and approved by the Mayor on May 25, 2001 and Resolution No. 589-02 adopted by the Board on August 26, 2002 and approved by the Mayor on August 29, 2002 (such resolutions being referred to collectively herein as the “Library Resolution”). The 2002B Bonds constitute the second issuance of the total authorized amount of \$105,865,000 of City and County of San Francisco General Obligation Bonds (Branch Library Facilities Improvement Bonds, 2000) duly approved by at least two-thirds of the voters voting on the proposition at a special election held on November 7, 2000 to provide funds to finance the acquisition (including land), renovation, and construction of branch libraries and other library facilities, other than the Main Library and other related improvements.

The Zoo Resolution and the Library Resolution are herein collectively referred to at times as the “Resolution.”

### **Description of the Bonds**

The Bonds are issued in the principal amounts set forth on the front cover hereof, in the denomination of \$5,000 each or any integral multiple thereof, and will be dated and bear interest from their date of delivery. The Bonds are issued as fully registered bonds, without coupons, with interest payable on each June 15 and December 15 in each year, commencing December 15, 2002. The Treasurer of the City (the “Treasurer”) will act as paying agent and registrar for the Bonds. Payments of principal of and interest on the Bonds will be made by the Treasurer, as paying agent, to the registered owners whose names appear on the bond registration books of the Treasurer as of the close of business on the last day of the month immediately preceding each interest payment date (the “Record Date”), whether or not such day is a business day. The Bonds will be initially registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, which is required to remit payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See “APPENDIX E–DTC AND THE BOOK–ENTRY ONLY SYSTEM.” Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (“FGIC”), has issued its municipal bond new issue insurance policy in respect of the Bonds maturing in the years 2013 to 2022 (the “Insured Bonds”). See “BOND INSURANCE” and “APPENDIX G–SPECIMEN OF MUNICIPAL BOND NEW ISSUE INSURANCE POLICY” herein.

### **Redemption Provisions**

#### *Optional Redemption*

The Bonds maturing on or before June 15, 2010 are not subject to redemption prior to their respective stated maturities. Bonds maturing on and after June 15, 2011 are subject to optional redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (with the maturities to be redeemed to be determined by the City and by lot within a maturity), on or after June 15, 2010, at the redemption prices in the following table expressed as percentages of the principal amount of Bonds to be redeemed, together with accrued interest to the date fixed for redemption.

<b><u>Redemption Period</u></b> <b><u>(both dates inclusive)</u></b>	<b><u>Optional</u></b> <b><u>Redemption Price</u></b>
June 15, 2010 through June 14, 2011	101%
June 15, 2011 through June 14, 2012	100.5%
June 15, 2012 and thereafter	100%

Optional redemption of Bonds and notice thereof may be rescinded under certain circumstances. See “Conditional Notice; Right to Rescind Notice of Optional Redemption” herein.

#### *Selection of Bonds for Redemption*

Whenever less than all the outstanding Bonds maturing on any one date are called for redemption on any one date, the Treasurer will select the Bonds or portions thereof, in denominations of \$5,000 or any integral multiple thereof, to be redeemed from the outstanding Bonds maturing on such date not previously selected for redemption, by lot, in any manner which the Treasurer deems fair.

#### *Notice of Redemption*

So long as DTC or its nominee is the registered owner of the Bonds, the City shall mail notice of redemption to DTC not less than 30 days and not more than 60 days prior to any redemption date. If for any reason DTC or any other securities depository shall not be engaged by the City with respect to some or all of the Bonds so called for redemption, the Treasurer, or any agent appointed by the Treasurer, shall give notice of any redemption of the Bonds by mail, postage prepaid, to the respective registered owners thereof at the addresses appearing on the bond registration books not less than 30 and not more than 60 days prior to any redemption date. See “APPENDIX E–DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

The actual receipt by the registered owner of any Bond of such notice of redemption shall not be a condition precedent to redemption of such Bond, and failure to receive such notice, or any defect in such notice, shall not affect the validity of the proceedings for the redemption of such Bond or the cessation of the accrual of interest on such Bond on the redemption date.

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

The City may provide a conditional notice of redemption or rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption funds are not or will not be available in the respective Redemption Account relating to such series of Bonds in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

## **Defeasance**

Payment of all or any portion of the Bonds may be provided for prior to their respective stated maturities by irrevocably depositing with the Treasurer (or any commercial bank or trust company designated by the Treasurer to act as escrow agent with respect thereto): (a) an amount of cash equal to the principal amount of all of such Bonds or a portion thereof, and all unpaid interest thereon to maturity, except that in the case of Bonds which are to be redeemed prior to their respective stated maturities and in respect of which notice of such redemption shall have been given as provided in the applicable provisions of the Resolution or an irrevocable election to give such notice shall have been made by the City, the amount to be deposited shall be the principal amount thereof, all unpaid interest thereon to the redemption date, and any premium due on such redemption date; or (b) Defeasance Securities (as herein defined) not subject to call, except as provided in the definition thereof as described below, maturing and paying interest at such times and in such amounts, together with interest earnings and cash, if required, as will, without reinvestment, as certified by an independent certified public accountant, be fully sufficient to pay the principal and all unpaid interest to maturity, or to the redemption date, as the case may be, and any premium due on the Bonds to be paid or redeemed, as such principal and interest come due; provided, that, in the case of the Bonds which are to be redeemed prior to maturity, notice of such redemption shall be given as provided in the applicable provisions of the Resolution or an irrevocable election to give such notice shall have been made by the City; then, all obligations of the City with respect to said outstanding Bonds shall cease and terminate, except only the obligation of the City to pay or cause to be paid from the funds deposited pursuant to the provisions of the Resolution described in subparagraphs (a) and (b) above, to the owners of said Bonds all sums due with respect thereto; provided, that the City shall have received an opinion of nationally recognized bond counsel, that provision for the payment of said Bonds has been made in accordance with the above-described provisions of the Resolution.

For purpose of the above-described provisions of the Resolution, "Defeasance Securities" shall mean any of the following which at the time are legal investments under the laws of the State of California for the moneys proposed to be invested therein: (1) United States Obligations (as herein defined); and (2) Pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or United States Obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund or the redemption account) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations serving as security for the municipal obligations are held by the Treasurer, or if appointed by the Treasurer pursuant to the Resolution, an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated "AAA" by S&P and "Aaa" by Moody's.

For purposes of the above-described provisions of the Resolution, "United States Obligations" shall mean (i) direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including without limitation, the interest component of Resolution Funding Corporation (REFCORP) bonds which have been stripped by request to the Federal Reserve Bank of New York in book-entry form or (ii) any security issued by an agency or instrumentality of the United States of America which is selected by the Director of Public Finance that results in the escrow fund being rated "AAA" by Standard & Poor's and "Aaa" by Moody's at the time of the initial deposit to the escrow fund and upon any substitution or subsequent deposit to the escrow fund.

## SOURCES AND USES OF FUNDS

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

### Sources

Principal Amount of Bonds	\$29,345,000.00
Original Issue Premium	<u>235,859.10</u>
TOTAL SOURCES OF FUNDS	<u>\$29,580,859.10</u>

### Uses

Deposit to Series 2002A Project Account	\$6,165,552.98
Deposit to the Series 2002A Bond Account <sup>(1)</sup>	3,408.63
Deposit to Series 2002B Project Account	22,965,000.00
Deposit to the Series 2002B Bond Account <sup>(1)</sup>	11,838.57
Underwriter's Discount <sup>(2)</sup>	220,611.90
Cost of Issuance <sup>(3)</sup>	<u>214,447.02</u>
TOTAL USES OF FUNDS	<u>\$29,580,859.10</u>

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(1) Consists of net original issue premium.

(2) Includes premium for municipal bond insurance policy.

(3) Includes fees for services of rating agencies, Co-Financial Advisors and Co-Bond Counsel, costs of the City, printer and other miscellaneous costs associated with the issuance of the Bonds.

## Debt Service Schedule

Debt service payable with respect to the Bonds is as follows:

CITY AND COUNTY OF SAN FRANCISCO					
Fiscal Year Debt Service					
General Obligation Bonds					
(Zoo Facilities Bonds, 1997), Series 2002A					
(Branch Library Facilities Improvement Bonds, 2000), Series 2002B					
Fiscal Year Ending June 30	Series 2002A		Series 2002B		Aggregate Fiscal Year Debt Service
	Principal	Interest	Principal	Interest	
2003	\$180,000	\$156,568.07	\$675,000	\$583,375.38	\$1,594,943.45
2004	240,000	212,907.50	885,000	793,081.25	2,130,988.75
2005	245,000	205,707.50	910,000	766,531.25	2,127,238.75
2006	250,000	199,582.50	935,000	743,781.25	2,128,363.75
2007	255,000	193,332.50	960,000	720,406.25	2,128,738.75
2008	265,000	186,957.50	980,000	696,406.25	2,128,363.75
2009	270,000	180,332.50	1,005,000	671,906.25	2,127,238.75
2010	280,000	172,907.50	1,035,000	644,268.75	2,132,176.25
2011	290,000	161,707.50	1,075,000	602,868.75	2,129,576.25
2012	300,000	153,007.50	1,110,000	570,618.75	2,133,626.25
2013	305,000	143,407.50	1,145,000	535,098.75	2,128,506.25
2014	315,000	133,342.50	1,180,000	497,313.75	2,125,656.25
2015	330,000	122,317.50	1,225,000	456,013.75	2,133,331.25
2016	340,000	110,107.50	1,270,000	410,688.75	2,130,796.25
2017	355,000	97,187.50	1,315,000	362,428.75	2,129,616.25
2018	365,000	82,987.50	1,370,000	309,828.75	2,127,816.25
2019	380,000	68,387.50	1,425,000	255,028.75	2,128,416.25
2020	400,000	52,712.50	1,480,000	196,247.50	2,128,960.00
2021	415,000	35,912.50	1,545,000	134,087.50	2,130,000.00
2022	<u>430,000</u>	<u>18,275.00</u>	<u>1,610,000</u>	<u>68,425.00</u>	<u>2,126,700.00</u>
TOTAL	\$6,210,000	\$2,687,648.07	\$23,135,000	\$10,018,405.38	\$42,051,053.45

## SECURITY FOR THE BONDS

### General

The Bonds represent the general obligation of the City. The Board of Supervisors has the power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) in an amount sufficient for the payment of the principal of and interest on the Bonds. At the option of the Board of Supervisors, other available funds of the City not restricted by law to specific uses may be used to meet debt service on the Bonds.

The annual tax rate will be based on the assessed value of taxable property in the City. Fluctuations in the annual debt service on the Bonds (and other general obligation bonds issued by the City) and the assessed value of taxable property in the City may cause the annual tax rate to fluctuate. Economic and other

factors beyond the City's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, including, without limitation, earthquake, flood, toxic dumping, and similar events or occurrences, could cause a reduction in the assessed value of taxable property within the City and necessitate a corresponding increase in the annual tax rate. Further, a bankruptcy or similar proceeding with respect to the City could delay or impair the payment of the Bonds. See "APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES—Assessed Valuations, Tax Rates and Tax Delinquencies" for information on the City's tax base, tax collection system, and property tax revenues.

For a discussion of the City's overall organization, finances and economic information, see, generally "APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES" and "APPENDIX B—CITY AND COUNTY OF SAN FRANCISCO—ECONOMY AND GENERAL INFORMATION."

### **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 (the "SBE"). See Table A-5 "Principal Property Taxpayers--Fiscal Year Ending June 30, 2002", set forth in "APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES." 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 is allocated to the counties by the SBE, 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.

Ongoing changes in the California electric utility industry structure and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The City is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets, or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the City.

On April 6, 2001, Pacific Gas & Electric ("PG&E") filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. PG&E is one of the largest taxpayers in the City with 1.29% of the total assessed valuation of property taxes collected in fiscal year 2001-02. For a discussion of the impact of the bankruptcy of Pacific Gas & Electric on the City's economy and finances, see "APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES—Assessed Valuations, Tax Rates and Tax Delinquencies" and Table A-5, captioned "CITY AND COUNTY OF SAN FRANCISCO—Principal Property Taxpayers—Fiscal Year Ending June 30, 2001," set forth therein.

## **Outstanding Indebtedness**

Issuance of general obligation bonds of the City is limited under Section 9.106 of the City Charter to 3% of the assessed value of all real and personal property within the City's boundaries which is subject to City taxes. Pursuant to this provision of the Charter, the City's general obligation debt limit for Fiscal Year 2002-03 is \$ 2,812,149,774, based on a net assessed valuation of \$ 93,738,325,815. As of July 30, 2002, the City will have outstanding \$919,220,000 aggregate principal amount of general obligation bonds, which equals .98% of the net assessed valuation for Fiscal Year 2002-03. Of that amount, \$2,000,000 is to be repaid from enterprise revenues and is not carried on the City's property tax roll. As of August 31, 2002, the City had voter approval to issue up to \$951,845,000 in aggregate principal amount of new general obligation bonds (including the Bonds offered hereunder). As of August 31, 2002, the Board of Supervisors has not authorized the sale of any general obligation bonds other than the Bonds. See "APPENDIX A-CITY AND COUNTY OF SAN FRANCISCO-ORGANIZATION AND FINANCES-Statement of Direct and Overlapping Bonded Debt and Long-Term Obligations" and "-Tax Supported Debt Service."

The City has also incurred a number of bonded lease obligations secured by revenues of the General Fund and consisting of lease revenue bonds and certificates of participation. As of July 30, 2002, the total amount of payments due on outstanding lease obligations through Fiscal Year 2033-2034 was \$1,352,151,240. See "APPENDIX A-CITY AND COUNTY OF SAN FRANCISCO-ORGANIZATION AND FINANCES-Statement of Direct and Overlapping Bonded Debt and Long-Term Obligations" and "-Other Authorized and Unissued Long-Term Obligations."

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

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. With respect to the City's general obligation bonds, 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 City has pledged such taxes as security for payment of the City's general obligation bonds, including the Bonds. The legislative power of the State cannot be used to reduce or repeal the authority for such levy, the obligation to levy such taxes, or to otherwise interfere with performance of the duties of the City with respect to such taxes. While not affecting the City's general obligation bonds, however, 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. A summary of the currently effective limitations is set forth below.

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

Article XIII A 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 after the 1975 assessment period. Furthermore, all real property valuation may be increased to reflect the inflation rate, as shown by the consumer price index, 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 any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voters voting on the proposition, such as the Bonds.

Section 51 of the 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 restore such value to the tax rolls (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure has been challenged in a lawsuit in the Orange County Superior Court entitled *County of Orange v. Orange County Assessment Appeals Board No. 3* (Case No. 00CC03385 in files of that court) and in a similar lawsuit filed by the same plaintiffs in the Los Angeles County Superior Court in a matter entitled *David Bezair, Trustee, et al., vs. County of Los Angeles, et al.* (Case No. BC263013 in files of that court). The procedure has been challenged on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than two percent in a single year violate Article XIII A. This litigation is ongoing and it is possible that additional cases challenging Section 51 may be filed. The City is not a party to these cases nor is it subject to the jurisdiction of the courts in which these cases have been filed. The City is unable to predict the outcome of this litigation and what effect, if any, it might have on assessed values in the City and on the City's property tax revenues.

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 of the California Constitution 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. 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. See "APPENDIX C-EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2001" for information on the City's appropriations limit.

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

Proposition 218, 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 on voter-approved debt, such as the Bonds, once such debt has been approved by the voters. However, Proposition 218 impacts 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. 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 either have been reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the Board of Supervisors' flexibility to deal with fiscal problems by raising revenue 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 not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. However, the initiative powers granted by Article XIII C could not be utilized by voters to reduce any tax levied to pay principal and interest on voter-approved indebtedness, such as the Bonds. See “APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Other City Tax Revenues” for a discussion of other City taxes that could be affected by Proposition 218.

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 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**

Proposition 62 is a statewide statutory initiative which added Sections 53720 to 53730 to the Government Code of the State and requires that all new local taxes be approved by the voters. Several State appellate courts have held that Proposition 62 does not apply to charter cities. The City is a charter city. See “APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Other City Tax Revenues” for a discussion of other City taxes that could be affected by Proposition 62.

### **Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D 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.

## **BOND INSURANCE**

*The following information has been furnished by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (“FGIC”), for use in this Official Statement. The City makes no representation as to the accuracy or completeness of this information or as to the absence of material changes in this information subsequent to the date thereof. Reference is made to Appendix G for a specimen of FGIC’s policy.*

### **Bond Insurance**

Concurrently with the issuance of the Insured Bonds, Financial Guaranty Insurance Company (“Financial Guaranty”) will issue its Municipal Bond New Issue Insurance Policy (the “Policy”) for the Insured Bonds described in the Policy (as used under the heading, the “Insured Bonds”). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Insured Bonds (the “Issuer”). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the “Fiscal Agent”), on the later of the date on which

such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Insured Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Insured Bonds. The Policy covers failure to pay principal of the Insured Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Insured Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Insured Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 2002, the total capital and surplus of Financial Guaranty was approximately \$1.03 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

## **TAX MATTERS**

In the opinions of Sidley Austin Brown & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., San Francisco, California, Co-Bond Counsel with respect to the 2002A Bonds, and Sidley Austin Brown & Wood LLP, San Francisco, California, and Elizabeth C. Green, Esq., Los Angeles, California, Co-Bond Counsel with respect to the 2002B Bonds, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Resolution and the Tax Certificate executed with respect to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the

timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. Further, Co-Bond Counsel render no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes in the event any action is taken or omitted to be taken relating to such covenants or requirements upon the approval of counsel other than Co-Bond Counsel.

In the further opinions of Co-Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Co-Bond Counsel express no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Bonds.

In the further opinion of Co-Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

### **Original Issue Discount**

The initial public offering price of certain of the Bonds (collectively, the "Discount Bonds") is less than the principal amount of the Discount Bonds. The difference between the principal amount of a Discount Bond and its initial public offering price is original issue discount. Original issue discount on a Discount Bond accrues over the term of such Discount Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Bond is treated as interest excludable from gross income for federal income tax purposes under the conditions and limitations described above. The amount of original issue discount that accrues on a Discount Bond in each year is not an item of tax preference for purposes of calculating federal alternative minimum taxable income, but is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Bond will increase the owner's adjusted basis in such Discount Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount Bond upon the redemption, sale or other disposition of such Discount Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, sale or other disposition of a Discount Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Bonds, other federal income tax consequences of owning and disposing of the Discount Bonds and any state and local tax consequences of owning and disposing of the Discount Bonds.

### **Premium Bonds**

Certain of the Bonds may be purchased in the initial offering for an amount in excess of their principal amount (hereinafter, the "Premium Bonds"). The excess of the tax basis of a purchaser of a Premium Bond (other than a purchaser who holds a Premium Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) is "bond premium." Bond premium is amortized for federal income tax purposes over the term of a Premium Bond based on the purchaser's yield to maturity in the Premium Bond, except that in the case of a Premium Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Bond. A purchaser of a Premium Bond is required to decrease his or her adjusted basis in such Premium Bond by the amount of bond premium attributable to each taxable year in which such owner holds such Premium Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of Premium Bonds, and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Copies of the proposed forms of opinion of Co-Bond Counsel are attached hereto as APPENDIX F.

### **LEGAL OPINIONS**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Sidley Austin Brown & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., San Francisco, California, Co-Bond Counsel with respect to the 2002A Bonds, and the approving opinion of Sidley Austin Brown & Wood LLP, San Francisco, California, and Elizabeth C. Green, Esq., Los Angeles, California, Co-Bond Counsel with respect to the 2002B Bonds. Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by the City Attorney.

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

Sperry Capital Inc., Sausalito, California and Causeway Financial Consulting, Oakland, California have served as Co-Financial Advisors to the City with respect to the sale of the Bonds. The Co-Financial Advisors have assisted the City in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Bonds. The Co-Financial Advisors have not independently verified any of the data contained herein nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors will receive compensation from the City contingent upon the sale and delivery of the

Bonds. Co-Bond Counsel will also receive compensation from the City contingent upon the sale and delivery of the Bonds. The Treasurer of the City is acting as paying agent and registrar with respect to the Bonds.

### **ABSENCE OF LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds, the corporate existence of the City, the entitlement of the respective officers of the City who shall execute and deliver the Bonds or any other documents and certificates to be executed in connection with the delivery of the Bonds, to their respective offices. The City will furnish to the initial purchaser or purchasers of the Bonds a certificate of the City as to the foregoing as of the time of the original delivery of the Bonds.

### **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the “Annual Report”) not later than 270 days after the end of the City’s fiscal year (which currently ends on June 30), commencing with the report for Fiscal Year 2001-02, which is due not later than March 27, 2003, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. The notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in “APPENDIX D–FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the purchasers in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

The City may, from time to time, but is not obligated to, post its Comprehensive Annual Financial Statements and other financial information on the Controller’s web site at [www.sfgov.org/controller](http://www.sfgov.org/controller).

### **RATINGS**

Moody’s Investors Service, Inc., Standard & Poor’s, A Division of the McGraw-Hill Companies, and Fitch Inc., doing business as FitchRatings, have assigned their municipal bond ratings of “Aa3,” “AA” and “AA,” respectively, to the Bonds, and municipal bond ratings of “Aaa,” “AAA” and “AAA,” respectively, to the Insured Bonds, with the understanding that, upon delivery of the Bonds, FGIC will issue its policy insuring the Insured Bonds. The ratings issued reflect only the views of such rating agencies and are not a recommendation to buy, sell or hold the Bonds. The City has provided information to the rating agencies at their request, including certain information which does not appear in this Official Statement. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. There is no assurance that such ratings will be retained for any given period of time 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 Bonds.

### **SALE OF THE BONDS**

The Bonds were sold at competitive bid on September 18, 2002 and awarded to Morgan Stanley DW Inc. (the "Underwriter") at a purchase price of \$29,580,859.. The Underwriter's compensation with respect to the Bonds is \$220,611.90. The Underwriter has represented to the City that the Bonds have been re-offered to the public at the prices or yields stated on the inside cover page hereof. The Official Notice of Sale provides that all Bonds will be purchased if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Co-Bond Counsel, and certain other conditions.

### **MISCELLANEOUS**

The issuance and delivery of this Official Statement has been duly authorized by the Board of Supervisors of the City.

### **CITY AND COUNTY OF SAN FRANCISCO**

By: /s/ Edward M. Harrington  
Controller

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## **APPENDIX A**

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

#### **Government and Organization**

San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the “State”), the only consolidated city and county of its kind in the State. San Francisco can exercise the powers of both a city and a county under State law. In the event of conflict, its chartered city powers prevail. On April 15, 1850, several months before California became a state, the original charter was granted to the City and County of San Francisco (the “City”). 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. The San Francisco International Airport, although located fourteen miles south of downtown San Francisco in San Mateo County, is owned and operated by the City. In 1969, the City acquired the Port of San Francisco in trust from the State. Substantial expansions and improvements have been made to these enterprises since the dates of original acquisition.

In November 1995, San Francisco voters approved a new Charter, which went into effect in most respects on July 1, 1996 (the “Charter”). As compared to the 1932 charter, the Charter generally expands the roles of the Mayor and the Board of Supervisors (the “Board”) in setting policy and determining budgets, while reducing somewhat the authority of the various City commissions, which are composed of appointed citizens. Under the Charter, the Mayor’s appointment of commissioners is subject to rejection by a two-thirds vote of the Board. Department heads are appointed by the Mayor from nominations submitted by the commissioners.

The City has an elected Board consisting of eleven members and an elected Mayor, who serves as chief executive officer. The City Attorney, Assessor-Recorder, District Attorney, Treasurer, Sheriff and Public Defender are elected directly by the citizens. School functions are carried out by the San Francisco Unified School District and the San Francisco Community College District, each a separate legal entity with a separate elected governing board. The Charter provides a civil service system for City employees.

On December 12, 1995, Willie L. Brown, Jr. was elected Mayor of San Francisco, the first African American to hold that office in the City. On December 14, 1999, he was re-elected to a second term. Mayor Brown was born in the rural East Texas town of Mineola, where he attended segregated schools before moving to San Francisco in 1951. Mayor Brown attended San Francisco State University, earned a law degree at Hastings School of Law and successfully ran for the California State Assembly in 1964. He was re-elected to fifteen consecutive terms, and in 1980 became the first African American Speaker of the Assembly, a position he held for over fourteen years, longer than any other Speaker in State history.

Tom Ammiano, elected in 1994 and re-elected in 1998 and 2000, is the current President of the Board, elected by a majority of the Board of Supervisors in January 2001. Gavin Newsom, a local small business owner, was appointed to the Board by Mayor Willie L. Brown, Jr. in February 1997, elected later in that year and re-elected in 2000. Leland Yee, a former School Board member, was elected to the Board in 1996 and re-elected in 2000. Mark Leno, a small business owner, was appointed to the Board by Mayor Brown

in April 1998, elected later that year and then re-elected in 2000. The following Supervisors were newly elected in November 2000: Jake McGoldrick, a college English teacher; Aaron Peskin, president of an environmental non-profit organization; Matt Gonzalez, a trial attorney in the Public Defender's Office; Chris Daly, an affordable housing organizer; Tony Hall, a City employee; Sopenia ("Sophie") Maxwell, an electrician; and Gerardo Sandoval, a deputy public defender. To ensure that only half of the Board is up for election at any one time, it was decided by lot that Chris Daly, Mark Leno, Sopenia Maxwell, Gavin Newsom, and Leland Yee would serve an initial two-year term and Tom Ammiano, Matt Gonzalez, Tony Hall, Jake McGoldrick, Aaron Peskin, and Gerardo Sandoval would serve four-year terms.

Dennis J. Herrera, City Attorney, was elected to a four-year term on December 11, 2001 and assumed office on January 8, 2002. Before becoming City Attorney, Mr. Herrera was a partner in a private law firm and 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. Mr. Herrera received his law degree from George Washington University School of Law and became a member of the California Bar in 1989.

Edward M. Harrington serves as the City Controller. Mr. Harrington was appointed to a ten-year term as Controller in March 1991 by then-Mayor Art Agnos and was re-appointed to a new 10-year term in 2000, by Mayor Willie L. Brown, Jr. As Chief Fiscal Officer and Auditor, he monitors spending for all officers, departments and employees charged with receipt, collection, or disbursement of City funds, including those in the \$5 billion annual operating budget. The Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for 29,000 employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Harrington had been the Assistant General Manager and Finance Director of the San Francisco Public Utilities Commission (the "PUC"). He was responsible for the financial activities for the Municipal Railway (public transit), Water Department, and Hetch Hetchy Water and Power System. Mr. Harrington worked with the PUC from 1984 to 1991. Mr. Harrington was an auditor with KPMG, Peat Marwick, from 1980 to 1984, specializing in government, non-profit, and financial institution clients. He was responsible for the audit of the City and County of San Francisco. While working for KPMG, Mr. Harrington became a Certified Public Accountant.

Susan Leal, City Treasurer, was elected on November 4, 1997. On November 6, 2001, she was re-elected to a second term. Ms. Leal joined City government in 1993 when she was appointed to the Board of Supervisors by then-Mayor Frank M. Jordan. She was subsequently elected to a four-year term on the Board of Supervisors in November 1994. During her final year on the Board, Ms. Leal chaired the Finance Committee which has jurisdiction over the City's budget and certain bond offerings. Prior to her work with the City, she served as Counsel to a subcommittee of the U.S. House of Representatives Energy and Commerce Committee; Senior Consultant to the California Assembly's Committee on Ways and Means; and Vice President of a health care consulting group. Ms. Leal is a native of San Francisco, and earned a bachelor's degree in Economics and a Juris Doctorate from the University of California at Berkeley. Ms. Leal is a member of the California Debt and Investment Advisory Committee, a position she has held since September 1999 upon her appointment by State Treasurer Philip Angelides.

Doris M. Ward, City Assessor-Recorder, was elected on June 7, 1994. On June 2, 1998, she was re-elected to a second term. Ms. Ward was first appointed as Assessor-Recorder by then-Mayor Frank M. Jordan on April 3, 1992. Prior to becoming Assessor-Recorder, Ms. Ward served on the Board of Supervisors where she was first elected in 1979. She was elected President of the Board in 1990. Ms. Ward earned a Ph.D. in Education from the University of California at Berkeley, a Masters of Arts degree in Counseling from San Francisco State University and a Masters of Science degree in Education and Bachelor of Arts degree in Government from Indiana University.

Under the Charter, the City Administrator (formerly the Chief Administrative Officer) is a non-elective office appointed by the Mayor for a five-year term and confirmed by the Board. William L. Lee was appointed as Chief Administrative Officer by then-Mayor Frank M. Jordan on March 22, 1995. Pursuant to the Charter, on July 1, 1996, Mr. Lee succeeded to the position of City Administrator, a position he held for a five-year term from his initial appointment. On April 26, 2000, Mr. Lee was re-appointed by Mayor Willie L. Brown, Jr. Mr. Lee previously worked in the Department of Health and Human Services and the Department of Public Health. He has also worked for several Fortune 100 companies.

## **City Budget and Finances**

### *General*

The Controller's Office is responsible for the processing of all payroll, accounting and budget information for the City. All payments to City employees and to parties outside the City are processed and controlled by this office. An obligation to expend City funds cannot be incurred without the prior certification by the Controller that sufficient revenues are or will be available in the current fiscal year to meet such obligation as it becomes due. The Controller monitors revenues throughout the fiscal year. If actual revenues are less than estimated, the Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board. The City's annual expenditures are often different from the estimated expenditures in the annual appropriation ordinance or "budget" due to supplemental appropriations, continuing appropriations of prior years and unexpended current year funds.

### *Budget Process*

The City's budget process begins in February of each year as departments prepare their budgets and seek approval thereof by the various City Commissions. Departmental budgets are then submitted to the Mayor. Each June 1, the Mayor is required by the Charter to submit a proposed budget to the Board. The Controller provides an opinion to the Board regarding the reliability of the revenue estimates in the proposed budget. The Board has the power to reduce or augment any expenditure in the proposed budget, provided the total budget is not higher than the Mayor's proposed budget. The Board must adopt the annual budget by July 31<sup>st</sup> of each year.

In November 2001, the Board of Supervisors and the Mayor amended the City's Administrative Code to expand the existing budget process. Pursuant to the amendment, the Mayor is required to submit a preliminary budget to the Board by April 1 each year, which summarizes the departmental budget submissions made to the Mayor but which does not reflect those budgetary adjustments required to balance the budget. This submission is intended to provide a framework for the Board to begin its review of the annual budget in April rather than June. The Charter requirement for the Mayor to submit a balanced budget by June 1 of each year remained unchanged by this amendment. The Board adopted the fiscal year 2002-03 budget on July 29, 2002 and it was signed by the Mayor on August 8, 2002.

### *Interfund Transfers and Short-Term Borrowing*

Under provisions of the City's Administrative Code, the Treasurer, upon recommendation of the Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any idle funds then held in the pooled investment fund. The operating cash reserve currently 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 idle moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other funds of the City. Any such transfers must be repaid within one year of the transfer, together with interest at the then current interest rate earned on the pooled funds. See "Investment Policy" below.

From fiscal year 1993-94 through fiscal year 1996-97, the City funded its General Fund cash flow deficits through the annual issuance of tax and revenue anticipation notes ("TRANs"). The City has not issued TRANs since fiscal year 1996-97.

### **General Fund Results**

The City's fiscal year 2001-02 adopted budget was \$5.2 billion, with \$2.3 billion allocated to the General Fund. The remaining \$2.9 billion was appropriated for expenses of enterprise fund departments including but not limited to the Airport, Municipal Railway, Water/Hetch Hetchy, and the San Francisco Port as well as for bond sales. At the time of the budget's adoption on July 30, 2001, the General Fund balance was set at \$28.1 million. The Controller's Nine-Month Budget Status Report, released in April 2002, had projected a year-end General Fund balance of \$116.6 million. The increase is a result of a \$50.2 million increase in the fiscal year 2000-01 fund balance as a result of higher than projected actual revenues; \$5 million in additional reserves; \$43.3 million in expenditure reductions; and \$28.9 million in reserve fund balance closeouts and lease financing and fee legislation. These sources were offset by a revenue reduction of \$38.5 million. The Controller is in the process of conducting its year-end closing process for fiscal year 2001-02 and until such financials are audited, the City can make no assurances that such projections will materialize.

On July 29, 2002, the Board adopted the fiscal year 2002-03 budget in the amount of \$5.0 billion. The Mayor signed the fiscal year 2002-03 budget on August 8, 2002. The fiscal year 2002-03 budget provides for services to be maintained at levels nearly equal to the prior fiscal year, despite the economic downturn that began in 2001 and the impact of the events of September 11, 2001. (See discussion below on the impact of September 11, 2001.) Furthermore, the budget contained no new taxes and only some adjustments in assessments and user fees and charges.

Table A-1 shows revised budgets for fiscal years 1998-99, 1999-2000, 2000-01, 2001-02 and the original budget for fiscal year 2002-03 for the General Fund portion of the City's budgets.

TABLE A-1

<b>CITY AND COUNTY OF SAN FRANCISCO</b> <b>Budgeted General Fund Revenues and Appropriations for</b> <b>Fiscal Years 1998-99 through 2002-03</b> <b>(000s)</b>					
	FY 1998-99 Revised Budget	FY 1999-00 Revised Budget	FY 2000-01 Revised Budget	FY 2001-02 Revised Budget	FY 2002-03 Original Budget
Prior Year Surplus	\$101,956	\$106,820	\$127,333	\$193,720	\$173,289
<u>Budgeted Revenues</u>					
Property Taxes	\$346,027	\$388,945	\$426,305	\$461,715	\$513,235
Business Taxes	231,263	246,450	270,077	275,669	282,110
Other Local Taxes	341,965	349,129	394,715	459,814	387,955
Licenses, Permits and Franchises	14,909	15,396	16,357	18,775	16,982
Fines, Forfeitures and Penalties	4,922	14,541	6,816	5,793	4,497
Interest and Investment Earnings	21,687	25,154	25,103	24,842	17,132
Rents and Concessions	22,188	19,059	18,922	19,992	17,833
Grants and Subventions	614,081	654,745	639,907	660,271	684,516
Charges for Services	90,868	86,344	95,831	94,828	100,387
Other	456	598	978	1,302	37,578
Total Budgeted Revenues	\$1,688,366	\$1,800,361	\$1,895,011	\$2,023,001	\$2,062,225
<u>Expenditure Appropriations</u>					
Public Protection	\$542,924	\$567,128	\$617,714	\$654,982	\$676,746
Public Works, Transportation & Commerce	84,469	103,428	99,395	64,665	57,206
Human Welfare & Neighborhood Development	382,580	422,534	465,113	465,868	510,715
Community Health	385,813	395,365	416,705	427,342	456,539
Culture and Recreation	81,950	91,133	94,663	79,592	90,183
General Administration & Finance	116,333	133,242	155,511	132,368	153,971
General City Responsibilities	88,236	73,619	89,469	52,028	61,814
Total Expenditure Appropriations	\$1,682,305	\$1,786,449	\$1,938,570	\$1,876,845	\$2,007,174
Projects, Capital & Facilities Maintenance <sup>[1]</sup>				\$121,639	
Reserves				\$27,901	\$30,017
Transfers In	-	-	\$156,996	\$127,963	\$130,421
Transfers Out	-	-	(240,770)	(285,724)	(301,643)
Net Transfers In/Out	\$ (108,017)	\$ (120,732)	(\$83,774)	(\$157,761)	(\$171,222)
Excess (Deficiency) of Sources					
Over (Under) Uses	\$ -	\$ -	\$ -	\$32,575	\$27,100
<sup>[1]</sup> For fiscal year 2002-03, Projects, Capital and Facilities Maintenance included Expenditure Appropriations. 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, however, are funded only as payments are required to be made. As of June 30, 2001, accrued liabilities of \$2.1 million are included in the \$479.2 million General Fund balance prepared on a GAAP basis. Such General Fund balance was derived from audited revenues of \$2 billion for the same period. General Fund balances as of June 30, 2001 are shown in Table A-2 on both a budget basis and a GAAP basis, respectively.

**TABLE A-2**

<b>CITY AND COUNTY OF SAN FRANCISCO</b> <b>General Fund Balances</b> <b>As of June 30, 2001 <sup>[1]</sup></b> <b>(000s)</b>	
Reserved for cash requirements	\$93,293
Reserved for emergencies	4,198
Reserved for assets not available for appropriation	6,089
Reserved for encumbrances	37,743
Reserved for appropriation carryforward	77,060
Reserved for subsequent years' budgets	53,337
Total reserve	271,720
Designated for litigation and other contingencies	17,294
Designated for extraordinary one-time expenditures	1,380
Unreserved - available for appropriation	198,953
Total unreserved amounts	217,627
Fund balance, June 30, 2001 - Budget basis	\$489,347
Fund balance - Budget basis	\$489,347
Unrealized gain on investment	5,590
Expenditure accruals excluded from Budget basis:	
Estimated claims payable	(2,104)
Cumulative excess property tax revenues	
recognized on Budget basis	(16,461)
Franchise fees and utility tax full accrual	2,500
Other	315
Fund balance, June 30, 2001 - GAAP basis	\$479,187
<sup>[1]</sup> Fund balances as of June 30, 2002 are not yet available. Office of the Controller, City and County of San Francisco Source: Comprehensive Annual Financial Report	

Table A-3, entitled “Statement of Revenues, Expenditures and Changes in General Fund Balances,” is extracted from information in the City's audited financial statements (Comprehensive Annual Financial Reports) for the five most recent fiscal years. Excluded from these General Fund statements are special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) as well as all of the enterprise operations of the City including the water storage and electrical generation at the Hetch Hetchy Water and Power System, the Water Enterprise, the Municipal Railway, the Airport, the Port, the Clean Water Enterprise, General Hospital, Laguna Honda Hospital and various parking garages, each of which prepares separate audited financial statements. See Appendix C—“EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2001—Enterprise Funds.”

**TABLE A-3**

CITY AND COUNTY OF SAN FRANCISCO					
Statement of Revenues, Expenditures and Changes in General Fund Balances (000s) <sup>[1]</sup>					
	Fiscal Year Ended June 30,				
	2001	2000	1999	1998	1997
<u>Revenues:</u>					
Property Taxes	\$462,171	\$405,560	\$388,222	\$342,051	\$316,509
Business Taxes	277,094	267,197	229,171	222,904	200,923
Other Local Taxes	448,132	411,082	359,973	333,271	307,378
Licenses, Permits and Franchises	17,714	16,106	15,673	14,505	13,357
Fines, Forfeitures and Penalties	9,097	9,113	14,204	1,432	376
Interest and Investment Income	27,693	18,792	17,617	21,323	15,735
Rents and Concessions	19,298	20,395	19,373	21,242	16,671
Intergovernmental	636,430	615,318	520,580	529,999	497,865
Charges for Services	100,325	86,591	78,025	88,375	61,669
Other	17,395	9,706	11,034	9,219	11,514
Total Revenues	\$2,015,349	\$1,859,860	\$1,653,872	\$1,584,321	\$1,441,997
<u>Expenditures:</u>					
Public Protection	\$626,136	\$597,949	\$557,632	\$571,166	\$509,889
Public Works, Transportation & Commerce	95,486	85,655	60,720	49,295	45,387
Human Welfare and Neighborhood Development	431,266	383,305	338,372	308,936	301,743
Community Health	365,290	355,720	372,792	343,517	307,210
Culture and Recreation	106,728	87,373	81,536	98,727	88,816
General Administration & Finance	127,366	140,211	112,895	135,014	134,436
General City Responsibilities <sup>[2]</sup>	45,380	45,194	48,093	-	-
Total Expenditures	\$ 1,797,652	\$ 1,695,407	\$ 1,572,040	\$ 1,506,655	\$ 1,387,481
Excess of Revenues over Expenditures	\$217,697	\$164,453	\$81,832	\$77,666	\$54,516
<u>Other Financing Sources (uses):</u>					
Operating Transfers In	\$134,983	\$156,984	\$169,405	\$179,254	\$127,519
Operating Transfers Out	(257,317)	(286,660)	(230,742)	(185,020)	(128,153)
Total Other Financing Sources (uses)	\$ (122,334)	\$ (129,676)	\$ (61,337)	\$ (5,766)	\$ (634)
Excess (Deficiency) of Revenues and Other Sources					
Over Expenditures and Other Uses	\$95,363	\$34,777	\$20,495	\$71,900	\$53,882
Fund Balance at Beginning of Year, as restated					
before valuation of investments	\$275,640	\$240,863	\$220,550	\$148,650	\$92,280
Net Change in Reserve for Assets					
Not Available for Appropriation	-	-	-	-	-
Cumulative Effect of Change in Accounting					
Principles	108,184	-	-	-	2,488
Fund Balance at Beginning of Year, as restated	\$ 383,824	\$ 240,863	\$ 220,550	\$ 148,650	\$ 94,768
Fund Balance at End of Year -- GAAP Basis <sup>[3]</sup>	\$479,187	\$275,640	\$240,863	\$220,550	\$148,650
Unreserved and Undesignated Balance					
at End of Year -- GAAP Basis	\$ 207,467	\$ 45,090	\$ 35,725	\$ 44,261	\$ (11,900)
Unreserved & Undesignated Balance, Year End					
-- Budget Basis	\$ 198,953	\$ 148,581	\$ 126,357	\$ 145,332	\$ 80,182

<sup>[1]</sup> Fiscal year ended June 30, 2002 information not yet available.

<sup>[2]</sup> Prior to fiscal year 1998-99, General City Responsibilities were reported in General Administration and Finance

<sup>[3]</sup> Fund Balances include amounts reserved for cash requirements, emergencies, encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved and undesignated fund balances (which amounts constitute unrestricted general fund balances).

Source: Comprehensive Annual Financial Reports for the Years Ended June 30, 1997, 1998, 1999, 2000, and 2001

Office of the Controller, City and County of San Francisco



In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34 - *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34)* which effects how the City collects and reports financial data in its Comprehensive Annual Financial Report (CAFR). All governments with total annual revenues of \$10 million or more but less than \$100 million must comply with GASB 34 for periods beginning after June 15, 2002. The City elected to adopt early the requirements of GASB 34 for its fiscal year ending June 30, 2001. The significant changes under this new reporting model include a narrative introduction and analytical overview of the City's financial activities and government-wide financial statements using full accrual accounting for all of the City's activities. See "APPENDIX C – EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2001."

### **Impact of September 11, 2001**

Following the terrorist attacks in New York and Washington, D.C. on September 11, 2001, both business and tourist travel in San Francisco declined significantly, affecting passenger loads and revenues at San Francisco International Airport and hotel and sales tax revenues to the City. Consequently, the City projected declines in local tax revenue sources for fiscal year 2001-02. The most significant decrease applied to hotel tax revenues, which are projected to decline approximately 28% from fiscal year 2000-01 levels, representing a loss of approximately \$55 million. Sales tax revenues are projected to decline 13%, or over \$18 million over the same period. As projected in the Controller's Nine-Month Budget Status Report released in April 2002, the City expects total revenue losses in the General Fund in fiscal year 2001-02 of approximately \$38.5 million. Under the direction of the Mayor's Office, and in direct response to the decline in revenue, the City enacted measures to create General Fund savings of approximately \$43.3.

San Francisco International Airport (SFO) has been impacted by the economic downturn and subsequent loss of business travel and decline in air traffic due to the events of September 11, 2001. Fiscal year 2001-02 total enplaned passenger traffic declined by approximately 20% from the prior fiscal year. Security requirements have restricted access to post-security shops and restaurants. SFO anticipates that concession rents, which were temporarily reduced, will be reinstated during fiscal year 2002-03. SFO estimates that for fiscal year 2001-02 the impact of reduced passenger traffic, and subsequent loss of revenue will result in an operating revenue shortfall of \$90 to \$95 million. SFO's transfer of concession revenues to the City's General Fund, budgeted at \$29 million, is anticipated to be approximately \$17.9 million. SFO expects to meet the revenue shortfall through the achievement of substantial savings in operating expenses and use of other revenue sources, such as passenger facilities charges.

### **Impact of State Budget**

For fiscal year 2001-02, the State experienced a significant budget shortfall due to the economic slowdown and a decrease in taxable income from the exercise of stock options and capital gains in particular. To address the changing economic conditions facing the State, the Governor directed state departments to make operating expense reductions. During fiscal year 2001-02, the City received over \$500 million in state subventions to provide services to its residents, a small decrease in funding due to State budget cuts during the 2001-02 fiscal year.

On September 1, 2002, the State Senate passed a fiscal year 2002-03 budget. The State budget package, which the Governor is scheduled to sign on September 5, 2002, does not substantially change major local government subventions provided by the State to the City, including those associated with property tax, sales tax and vehicle license fees. However, the Governor must still cut about \$750 million in government

operations in order to balance the budget for fiscal year 2002-03 as required by State law. It is unclear at this time what economic impact, if any, the State budget in its final form will have on the City. However the City continues to monitor the situation and has established a \$20 million State Revenue Stabilization Reserve in its fiscal year 2002-03 budget to address any decrease in funding.

## **Welfare Reform**

On August 22, 1996, the United States Congress passed into law the “Personal Responsibility and Work Opportunity Reconciliation Act of 1996” (the “Welfare Reform Act”). The Welfare Reform Act restructured the welfare system, including Aid to Families with Dependent Children (“AFDC”), food stamps, Medicaid and Supplementary Security Income. The Welfare Reform Act provides flexibility to the states while imposing various constraints designed to reduce the number of people receiving aid, including work requirements and limits on the amount of time a recipient may receive welfare. On August 11, 1997, then-Governor Pete Wilson signed the State’s welfare reform legislation into law. As of January 1, 1998, AFDC became “CalWORKs,” with a 60-month cumulative time limit on the receipt of aid for all adults. Adult recipients are required to enter into welfare-to-work plans and receive employment and training services for up to 18 months with a possible 6-month extension available on a case-by-case basis. After the employment and training services time limit has expired, adult recipients who are not working at least 32 hours per week must participate in community service activities to remain eligible for assistance. The children of adults that exceed the time limits remain eligible for income assistance.

The City implemented its CalWORKs program on April 6, 1998. Some recipients began reaching their time limits for employment and training services in April 2000. However, up to 20% of the CalWORKs caseload may be continued beyond the time limits subject to the discretion of the local agency. Caseloads in the City decreased by 58% from fiscal year 1995-96 to fiscal year 2001-02 and the City received approximately \$14.0 million in one-time incentive funds as a result of those reductions. These one-time funds are projected to be fully spent by the end of fiscal year 2003-04.

The Welfare Reform Act created the Temporary Assistance for Needy Families (TANF) block grant to states, which is transferred by states to local administrators of the welfare system, such as the City. Authorization for the TANF program ends September 30, 2002. For the TANF program to continue, the United States Congress must pass legislation reauthorizing the program prior to that date. The U. S. House of Representatives and the Senate have each passed bills setting forth their respective versions of a TANF reauthorization and are expected to resume consideration of Welfare Reform Act reauthorization in September 2002. Several proposed modifications are under consideration and it is not possible, at this time, to predict the impact of any federal changes to this program on City finances.

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

Table A-4 provides a five-year record of assessed valuations of taxable property within the City. The tax rate is comprised of two components: (1) the 1.0% countywide Proposition 13 portion, and (2) voter-approved overrides which funds debt service for general obligation indebtedness. The total tax rate shown in Table A-4 includes taxes assessed on behalf of the San Francisco Unified School District, San Francisco Community College District, Bay Area Air Quality Management District, Bay Area Rapid Transit (BART) District, and San Francisco Redevelopment Agency, all of which are legally separate entities from the City. See also “Statement of Direct and Overlapping Bonded Debt” below.

Total assessed value has increased on average by 9.6% each year since fiscal year 1998-99. Property tax delinquencies, based on the weighted average of the secured and unsecured delinquency rates, have averaged 1.56% over the five years ending in fiscal year 2000-01.

**TABLE A-4**

CITY AND COUNTY OF SAN FRANCISCO									
Assessed Valuation of Taxable Property <sup>[1]</sup>									
Fiscal Years 1998-99 through 2002-03									
(\$000s)									
Fiscal	Assessed Valuation			Total	%		Total		Current
Year	Land	Improvements	Personal	Assessed	Change		Tax Rate	Total Tax	Levy
		on Land	Property	Valuation	from Prior	Exclusions <sup>[2]</sup>	per	Levy	Delinquent
					Year		\$100 <sup>[3]</sup>	(000s) <sup>[4]</sup>	June 30,
1998-99	24,291,885	39,173,881	3,716,239	67,182,005	9.1%	3,174,036	1.165	747,145	1.49%
1999-00	26,990,485	43,148,894	3,501,927	73,641,306	9.6%	3,159,743	1.129	798,142	1.49%
2000-01	30,294,991	46,572,658	4,198,154	81,065,803	10.1%	3,416,264	1.136	881,608	1.48%
2001-02	34,849,574	51,294,178	4,744,367	90,888,119	12.1%	3,625,783	1.124	981,775	n/a <sup>[5]</sup>
2002-03	37,851,208	55,002,726	4,681,815	97,535,748	7.3%	3,797,422	1.117	1,047,597	n/a

<sup>[1]</sup> For comparison purposes, all years show full cash value as assessed value.

<sup>[2]</sup> Exclusions include non-reimbursable exemptions and homeowner exemptions.

<sup>[3]</sup> Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community College District, Bay Area Air Quality Management District, Bay Area Rapid Transit District, and San Francisco Redevelopment Agency. Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.

<sup>[4]</sup> Final levy as of year end.

<sup>[5]</sup> Fiscal year 2001-02 delinquencies not yet available.

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

The fiscal year 2002-03 total assessed valuation is \$97,535,748,109. After non-reimbursable and homeowner exemptions, but including San Francisco Redevelopment Agency tax increment, net valuation is \$93,738,325,815. Of this total, \$86,020,166,356 (92%) represents secured valuations and \$7,718,159,459 (8%) represents unsecured valuations. The net valuation will result in total property tax revenues of \$1,047,597,370, before correcting for delinquencies. The City's General Fund will receive approximately \$537.5 million of the property tax revenues, representing 51% of the total received. Debt service of \$118.5 million for general obligation bonds is also funded through property tax revenues. The San Francisco Community College District, the San Francisco Unified School District and the Educational Resource Augmentation Fund (ERAF) will receive approximately \$317.3 million and the San Francisco Redevelopment Agency will receive approximately \$40.7 million. The remaining portion will be allocated to various special funds.

Under Article XIII A of the State Constitution, property sold after March 1, 1975 must be reassessed to full cash value. There currently are property tax appeals pending which seek reductions in assessed valuations, retroactive in some cases over several years. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" in the forepart of this Official Statement.

Generally, property tax levied by the City on real property becomes a lien on that property by operation of law. A tax levied on personal property does not automatically become a lien against real property without an affirmative act of the City tax authority. Real estate 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.

In the State, property which is subject to ad valorem taxes is entered on separate parts of the assessment roll maintained by the county assessor. The secured roll is that part of the assessment roll containing State-

assessed property and property on which liens are sufficient, in the opinion of the assessor, 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 taxing authority has four ways of collecting unsecured personal property taxes: (1) civil action against the taxpayer; (2) filing a certificate in the office of the county clerk 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 record in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. 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 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.

On October 6, 1993, the City’s Board passed a resolution which adopted the Alternative Method of Tax Apportionment (“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 Controller to allocate to the City’s taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City’s General Fund retains such amounts. The former method only allowed allocation of 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, together with the required reserve, from internal borrowing. The Tax Loss Reserve for the Teeter Plan was approximately \$8.1 million as of June 30, 2001 and will be approximately \$9.2 million as of June 30, 2002.

On April 6, 2001, Pacific Gas & Electric Company (PG&E) filed for voluntary protection under Chapter 11 of the Bankruptcy Code. The case is pending in the United States Bankruptcy Court for the Northern District of California, San Francisco Division. PG&E is one of the largest taxpayers in the City with 1.29% of the total fiscal year 2001-02 assessed property values.

PG&E initially paid only a portion of its second installment of its 2000-01 property taxes, due April 10, 2001. PG&E took the position that it was not able to make full payment without Bankruptcy Court permission. On May 16, 2001, the Bankruptcy Court ruled that PG&E could pay the remaining portion of its outstanding property taxes and on May 23, 2001, PG&E made such payment to the City. PG&E made complete and timely payment of property taxes due on December 10, 2001 and April 10, 2002 in an aggregate amount of \$8,603,253. PG&E also paid its 2001 franchise fees in the amount of \$6,718,524.

It should be noted that bankruptcies involving large and complex companies typically take several years to reach a conclusion. In the interim, it is possible that PG&E's payment of property taxes may not be made on a timely basis.

Assessed valuations of the ten largest taxpayers in the City for the fiscal year ending June 30, 2003 are shown in Table A-5.d

**TABLE A-5**

<b>CITY AND COUNTY OF SAN FRANCISCO</b> <b>Principal Property Taxpayers</b> <b>Fiscal Year Ending June 30, 2003</b>			
Fiscal Year 2002-03 Net Assessed Valuation:		\$94,401,169,815	
<u>Taxpayer</u>	<u>Type of Business</u>	<u>AV (\$000s)</u>	<u>% Total AV</u>
Embarcadero Center Venture	Offices, Commercial	\$ 1,356,255	1.44%
555 California Street Partners	Offices, Commercial	890,850	0.94%
Pacific Gas & Electric	Utilities	861,722	0.91%
Pacific Bell	Utilities, Communications	574,803	0.61%
YBG Associates LLC (Marriott Hotel)	Hotel	371,633	0.39%
Post-Montgomery Associates	Offices, Commercial	367,796	0.39%
Knickerbocker Properties	Offices	304,688	0.32%
SHC Embarcadero LLC	Hotel, Offices	299,387	0.32%
China Basin Ballpark Company LLC	Possessory Interest - Stadium	291,054	0.31%
101 California Venture	Offices	266,151	0.28%
Ten Largest Taxpayers		\$ 5,584,339	5.92%
All Other Taxpayers		\$ 88,816,831	94.08%
Total Taxable Assessed Valuation - All Taxpayers		<u>\$ 94,401,170</u>	<u>100.00%</u>
Source: Office of the Assessor, City and County of San Francisco			

## Other City Tax Revenues

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

The following is 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 and Employers' Payroll Tax

Businesses in the City are assessed a payroll expense tax at a current rate of 1.5%. The tax is levied on businesses with payroll expenses which are 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.

Prior to April 23, 2001, the City imposed an "alternative-measure" tax scheme pursuant to which a business's tax liability was calculated as a percentage of either its gross receipts or its payroll expense, and

a business paid the greater of the two amounts. From 1999 to 2001, approximately 325 businesses filed claims with the City and/or lawsuits against the City arguing that the alternative-measure tax scheme violated the Commerce Clause of the United States Constitution.

In 2001, the City entered into a settlement agreement resolving a significant number of these lawsuits and claims for considerably less than the total amount of outstanding claims, including interest. The City also repealed the alternative-measure tax scheme in 2001 curing any alleged constitutional defects. No additional requests for refunds are expected to be received, since all claims had to be filed by November 2001. Any payments related to lawsuits or claims already filed that remain unsettled will be covered through the settlement reserve fund.

## Sales and Use Tax

The State collects the City's 1% local sales tax on retail transactions, along with State and special district sales taxes, and rebates the local sales tax collections to the City. The 1% local sales tax is deposited in the City's General Fund. Budgeted revenue from the local sales and use tax for fiscal year 2002-03 is \$130.6 million. The Controller's fiscal year 2001-02 Nine-Month Budget Status Report projected revenue of \$125.2 million by the end of fiscal year 2001-02. This significant decline from budgeted revenue of \$155.2 million in fiscal year 2001-02 is a result of the economic slowdown and the drop in tourism and business travel. A history of sales and use tax revenues is presented in Table A-6.

**TABLE A-6**

CITY AND COUNTY OF SAN FRANCISCO				
Sales and Use Tax Receipts (000's)				
Fiscal Years 1996-97 through 2000-01 <sup>[2]</sup>				
<u>Fiscal Year</u>	<u>Tax Rate</u>	<u>City Share</u>	<u>Revenue</u>	<u>% Change</u>
1996-97	8.50%	1.00%	\$108,099	4.96%
1997-98	8.50%	1.00%	112,950	4.49%
1998-99	8.50%	1.00%	116,760	3.37%
1999-00	8.50%	1.00%	133,395	14.25%
2000-01	8.25%	1.00%	143,815	7.81%
<sup>[1]</sup> State Sales Tax Rate for last six months of FY 1999-00 and first six months of FY 2000-01 was 8.25%; the City Share remained unchanged at 1.00%				
<sup>[2]</sup> Fiscal year 2001-02 not yet available.				

## Transient Occupancy Tax

Pursuant to the City's Municipal Code, a 14% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators. Budgeted revenue from transient occupancy tax for fiscal year 2002-03 is \$153.8 million, net of \$6.4 million allocated to the Redevelopment Agency. Nine-month projections for fiscal year 2001-02 estimated a year-end transient occupancy tax decline of 28% (or approximately \$57 million) from the \$204.5 million budgeted in fiscal year 2001-02. The decrease is due to the drop in business travelers and tourism. Table A-7 sets forth a history of transient occupancy tax receipts.

**TABLE A-7**

CITY AND COUNTY OF SAN FRANCISCO Transient Occupancy Tax Receipts (000's) Fiscal Years 1996-97 through 2000-01 <sup>[1]</sup>			
<u>Fiscal Year</u>	<u>Tax Rate</u>	<u>Revenue</u>	<u>% Change</u>
1996-97	14.00%	\$137,649	33.69%
1997-98	14.00%	150,163	9.09%
1998-99	14.00%	161,518	7.56%
1999-00	14.00%	182,102	12.74%
2000-01	14.00%	195,140	7.16%
<sup>[1]</sup> Fiscal year 2001-02 not yet available.			
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. The current rate is \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued less than \$250,000, \$6.80 per \$1,000 for properties valued from \$250,000 to \$999,999; and \$7.50 per \$1,000 for properties valued over \$1 million. Budgeted revenue from real property transfer tax for fiscal year 2002-03 is \$45.2 million.

### **Utility Users Tax**

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone utilities, as well as all cellular telephone and enhanced specialized mobile radio communication services for San Francisco billing addresses. Budgeted revenue from utility user taxes for fiscal year 2002-03 is \$78.2 million.

### **Parking Tax**

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the City's Municipal Code and paid by the occupants of the spaces and remitted by the operators of the parking facilities. Budgeted General Fund revenue from parking tax for fiscal year 2002-03 is \$34.4 million. The Controller's fiscal year 2001-02 Nine-Month Budget Status Report projected General Fund parking tax revenue of \$33 million by the end of fiscal year 2001-02. The decline of \$2 million from the fiscal year 2001-02 budgeted General Fund revenue is a result of the economic downtown and the decline in business travelers and tourism.

### **Parking Fines**

Budgeted revenue from parking fines is \$65.2 million for fiscal year 2002-03.

### **Intergovernmental Revenues, Grants and Subventions**

Intergovernmental revenues, grants and subventions for fiscal year 2002-03 are budgeted at \$251.2 million from the Federal government and \$736.8 million from the State government across all City funds.

### *Health and Welfare Realignment*

In fiscal year 1991-92, the State transferred to counties the responsibility for determining service levels and administering most mental health, public health and some social service programs, thus reducing the State's obligations. The State also increased its share of certain welfare costs formerly borne by counties. In order to meet these obligations, counties receive the proceeds of a 0.5% statewide sales tax and a portion of vehicle license fees. These sources are projected to provide \$188.8 million to the City's General Fund and its two county hospitals for fiscal year 2002-03.

### *Motor Vehicle License Fees*

San Francisco's total allocation as a city and county is budgeted to be \$105.6 million for fiscal year 2002-03

### *Public Safety Sales Tax*

State Proposition 172, passed by the voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. Budgeted revenue from this source is \$71.9 million for fiscal year 2002-03. The Controller's fiscal year 2001-02 Nine-Month Budget Status Report projected public safety sales tax revenue of \$69.1 million by the end of fiscal year 2001-02. This decline from budgeted revenue of \$75.1 million in fiscal year 2001-02 is a result of the economic slowdown and the decline in tourism and business travel.

### *Other Intergovernmental, Grants and Subventions*

The City receives approximately \$370.5 million in social service subventions from the State and \$251.2 from the Federal governments to fund programs such as Food Stamps, CalWORKs, Child Support Services, and Transportation Projects. Health and welfare subventions are often based on State and Federal funding formulas, which currently reimburse counties according to actual spending on these services.

## **Investment Policy**

The management of the City's surplus cash is governed by an Investment Policy administered by the City Treasurer. The objectives of this Investment Policy, in order of priority, are the preservation of capital, liquidity and yield. The preservation of capital is the foremost goal of any investment decision, and investments generally are made so that securities can be held to maturity. Once safety and liquidity objectives have been achieved, the City Treasurer then attempts to generate a favorable return by maximizing interest earnings without compromising the first two objectives. A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board monthly.

The investment portfolio is sufficiently flexible to enable the City to meet all disbursement requirements that are anticipated from any fund. As of June 30, 2002, the City's surplus investment fund consisted of the investments classified in Table A-8, and the investment maturity distribution is presented in Table A-9.



**TABLE A-8**

CITY AND COUNTY OF SAN FRANCISCO Investment Portfolio As of June 30, 2002		
<u>Type of Investment</u>	<u>Book Value</u>	<u>Par Value</u>
Treasury Bills	\$ 1,543,650,468	\$ 1,553,000,000
Treasury Notes	821,837,936	833,005,000
FNMA Discount Notes	207,561,980	209,900,000
Farm Credit Discount Notes	10,830,258	11,000,000
Federal Home Loan Disc Notes	63,264,996	64,000,000
FMC Discount Notes	160,885,863	163,770,000
Negotiable CDs	10,000,000	10,000,000
Public Time Deposit	100,000	100,000
Total	<u>\$ 2,818,131,501</u>	<u>\$ 2,844,775,000</u>
Source: Office of the Treasurer, City and County of San Francisco		

**TABLE A-9**

CITY AND COUNTY OF SAN FRANCISCO Investment Maturity Distribution As of June 30, 2002		
<u>Maturity</u>	<u>Cost</u>	<u>Percentage</u>
1 to 2 Months	\$ 1,634,367,666	58.0%
2 to 3 Months	188,501,902	6.7%
3 to 4 Months	50,661,595	1.8%
4 to 5 Months	122,762,401	4.4%
5 to 6 Months	-	0.0%
6 to 12 Months	74,513,391	2.6%
12 to 18 Months	278,169,702	9.9%
18 to 24 Months	373,420,469	13.3%
24 to 36 Months	-	
36 to 48 Months	-	
48 to 60 Months	95,734,375	3.4%
	<u>\$ 2,818,131,501</u>	<u>100%</u>
Weighted Average Maturity: 296 Days		
Source: Office of the Treasurer, City and County of San Francisco		

### Statement of Direct and Overlapping Bonded Debt

The pro forma statement of direct and overlapping bonded debt and long-term obligations (the “Debt Report”), presented in Table A-10 has been compiled by the Mayor’s Office of Public Finance. The Debt Report is included for general information purposes only.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within 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. For this purpose, lease obligations of the City, which support indebtedness incurred by others, are included.

TABLE A-10

CITY AND COUNTY OF SAN FRANCISCO		
Statement of Direct and Overlapping Debt and Long-Term Obligations		
<b>2002-2003 Assessed Valuation</b> (net of non-reimbursable & homeowner exemptions):	\$ 93,738,325,815	
<b>DIRECT GENERAL OBLIGATION BOND DEBT</b>	<b>Outstanding 6/30/2002</b>	<b>Self-Supporting, Enterprise Rev.</b>
General City Purposes Carried on the Tax Roll	\$ 917,220,000	
Harbor Bonds (paid from Port revenues)	2,000,000	\$ 2,000,000
<b>GROSS DIRECT DEBT</b>	\$ 919,220,000	\$ 2,000,000
<b>NET DIRECT DEBT</b>	\$ 917,220,000	
<b>LEASE PAYMENT AND OTHER LONG-TERM OBLIGATIONS</b>		
San Francisco Courthouse Corporation COPs, Series 1995	\$ 44,315,000	
San Francisco COPs, Series 1997 (2789 25th Street Property)	9,145,000	
San Francisco COPs, Series 1999 (555-7th Street Property)	8,040,000	
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)	8,185,000	
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)	137,235,000	
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Project)	15,460,000	
San Francisco Settlement Obligation Bonds, Series 2001 (Business Tax Judgment)	54,820,000	
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	37,170,000	
San Francisco Finance Corporation	255,760,000	
San Francisco Permit Center, Series 1993	7,995,000	
San Francisco Redevelopment Agency Moscone Convention Center	272,798,250	
San Francisco Lease Revenue Refunding Bonds, Series 1998-I	5,060,000	
San Francisco Social Services Corporation, Series 1976	900,000	
<b>LONG-TERM OBLIGATIONS</b>	\$ 856,883,250	
<b>GROSS DIRECT DEBT &amp; OBLIGATIONS</b>	\$ 1,776,103,250	
<b>OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</b>		
Bayshore Hester Assessment District	\$ 955,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	167,296,667	
San Francisco Community College District General Obligation Bonds - 2002	38,000,000	
San Francisco Parking Authority Meter Revenue Bonds -1994	2,645,000	
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	22,070,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994	19,310,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998	55,455,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	306,362,514	
San Francisco Unified School District COPs (1235 Mission Street), Series 1992	10,100,050	
San Francisco Unified School District COPs - 1992 Refunding	3,010,000	
San Francisco Unified School District COPs - 1996 Refunding	3,250,000	
San Francisco Unified School District COPs - 1998	3,790,000	
<b>TOTAL OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</b>	\$ 632,244,231	
<b>GROSS COMBINED TOTAL OBLIGATIONS</b>	\$ 2,408,347,481	<sup>[1][2]</sup>
<b>Ratios to Assessed Valuation:</b>	<b>Actual Ratio</b>	<b>Charter Req'mt</b>
Gross Direct Debt (General Obligation Bonds)	0.98%	< 3.00%
Net Direct Debt (less self-supporting bonds)	0.98%	n/a
Gross Direct Debt & Obligations	1.89%	n/a
Gross Combined Total Obligations	2.57%	n/a
STATE SCHOOL BUILDING AID REPAYMENT FOR FY 02-03	\$ 254,817	
<sup>[1]</sup> Reflects Cross-over Refunding and includes \$53,333,740 in accreted value to be paid upon final maturity.		
<sup>[2]</sup> Excludes revenue and mortgage revenue bonds, notes, and non-bonded capital lease obligations.		
Source: Mayor's Office of Public Finance, City and County of San Francisco		

## Tax Supported Debt Service

Under the State Constitution and the Charter, general obligation bonds can only be authorized through voter approval. The full amount of general obligation bonds authorized by the electorate and as yet unissued is \$951,845,000. See Table A-12 below. As of June 30, 2002, the City had \$919,220,000 in general obligation bonds outstanding including \$2,000,000 of general obligation bonds repaid from Port Commission revenues and not carried on the City's property tax roll.

Table A-11 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

**TABLE A-11**

<b>CITY AND COUNTY OF SAN FRANCISCO</b> <b>Direct Tax Supported Debt Service</b> <b>As of June 30, 2002 <sup>[1]</sup></b>			
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2003	\$ 62,095,000	\$ 48,018,676	\$ 110,113,676
2004	65,010,000	44,031,941	109,041,941
2005	61,065,000	41,037,839	102,102,839
2006	63,610,000	38,078,296	101,688,296
2007	66,785,000	34,807,546	101,592,546
2008	67,850,000	31,408,608	99,258,608
2009	71,205,000	27,137,196	98,342,196
2010	71,650,000	24,356,099	96,006,099
2011	72,820,000	20,672,054	93,492,054
2012	60,835,000	16,917,096	77,752,096
2013	51,345,000	13,853,940	65,198,940
2014	45,355,000	11,107,054	56,462,054
2015	34,255,000	8,725,684	42,980,684
2016	34,595,000	6,896,456	41,491,456
2017	23,525,000	4,974,545	28,499,545
2018	25,790,000	3,583,393	29,373,393
2019	22,190,000	2,308,416	24,498,416
2020	12,345,000	1,072,310	13,417,310
2021	<u>6,895,000</u>	<u>381,365</u>	<u>7,276,365</u>
TOTAL <sup>[2]</sup>	<u>\$ 919,220,000</u>	<u>\$ 379,368,514</u>	<u>\$ 1,298,588,514</u>
<sup>[1]</sup> The City's only outstanding direct tax supported debt is general obligation bonds. This table does <u>not</u> reflect any debt other than direct tax supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.			
<sup>[2]</sup> Total debt includes general obligation bonds repaid from Port revenues and not levied on the City's property tax roll.			
Source: Mayor's Office of Public Finance, City and County of San Francisco			

The City issued \$449,085,000 of General Obligation Refunding Bonds, Series 1997-1 (the “1997 Refunding Bonds”) on October 29, 1997 to refund \$421,540,000 of outstanding general obligation bonds. As a result of the issuance of the 1997 Refunding Bonds, the City reduced total general obligation bond debt service by \$22 million on a present value basis. The issuance of the 1997 Refunding Bonds resulted in an increase in the principal amount of then outstanding general obligation bonds by approximately \$27.5 million.

On April 23, 2002, the City issued the second series of General Obligation Refunding Bonds, Series 2002-R1 (the “Series 2002 Refunding Bonds”) in the amount of \$118,945,000 to refund \$118,510,000 of outstanding general obligation bonds. As a result of the issuance of the Series 2002 Refunding Bonds, the City reduced the total general obligation bond debt service by \$6.2 million on a present value basis. However, the issuance of the Refunding Bonds resulted in an increase in the principal amount of then outstanding general obligation bonds by approximately \$0.4 million.

In November 1999, voters approved Proposition A, which authorizes up to \$299 million in bonded debt, other evidences of debt, and lease financing for the reconstruction, improvement and expansion of unsafe and outdated facilities at Laguna Honda Hospital. The City anticipates issuing a portion of the total authorized amount for the project in early 2003.

In March 2000, voters approved Propositions A and B. Proposition A authorizes up to \$110 million in general obligation bonds to acquire, construct, or reconstruct recreation and park facilities and properties. The City issued the first series of the Recreation and Park Bonds in June 2000 and the second series in February 2001. Proposition B authorized up to \$87.4 million in general obligation bonds to acquire, construct, or reconstruct the facilities of the California Academy of Sciences. The City anticipates issuing a third series of Recreation and Park Bonds and the first series of the California Academy of Sciences Bonds in 2003.

In November 2000, voters approved Proposition A. Proposition A authorizes up to \$105,565,000 in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The first series was issued in July 2001. The City anticipates issuing a second series in the fall of 2002.

Table A-12 on the following page lists the City's voter-authorized general obligation bonds including authorized programs where 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 June 30, 2002, the City had authorized and unissued general obligation bond authority of \$951,845,000.

#### *Overlapping Debt*

In November 2001, voters approved Proposition A. Proposition A authorizes the issuance of general obligation bonds up to \$195 million to finance construction of new Chinatown and North Beach campuses of the San Francisco Community College District, to improve access for the disabled and to make other improvements to existing facilities.

TABLE A-12

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds (as of June 30, 2002)**

<u>Description of Issue (Date of Authorization)</u>	<u>Series</u>	<u>Issued</u>	<u>Outstanding</u>	<u>Authorized &amp; Unissued</u>
Habor Improvement Bonds	A	\$ 20,000,000	\$ 800,000	-
	B	10,000,000	1,200,000	-
Public Safety Improvement Projects (11/7/89)	1994A	3,455,000	165,000	-
	1996B	7,645,000	1,310,000	-
Public Safety Improvement Projects (6/5/90)	1994B	18,100,000	855,000	-
	1995A	18,480,000	6,430,000	- [1]
Golden Gate Park Improvements (6/2/92)	1995B	26,000,000	9,405,000	-
	1997A	25,105,000	20,865,000	-
	2001A	17,060,000	16,480,000	-
	1994D	10,105,000	480,000	-
	1996C	14,285,000	2,450,000	-
Seismic Safety Loan Program (11/3/92)	1994A	35,000,000	26,665,000	\$ 315,000,000
School District Facilities Improvements (6/7/94)	1994C	30,650,000	1,450,000	-
	1996D	42,300,000	7,245,000	-
	1997B	22,050,000	18,325,000	-
Asian Art Museum Project (11/8/94)	1996E	25,000,000	4,285,000	-
	1999D	16,730,000	15,200,000	-
City Hall Improvement (11/8/95)	1996A	63,590,000	14,105,000	-
Steinhart Aquarium Improvement (11/8/95)		-	-	29,245,000
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	17,765,000	-
	1999A	20,000,000	18,435,000	-
	2000D	20,000,000	18,795,000	-
	2001C	17,000,000	16,500,000	-
	2001D	23,000,000	22,410,000	-
City College and School Bonds (6/3/97)	1999A	20,395,000	18,435,000	-
	2000A	29,605,000	27,890,000	-
	1999B	60,520,000	54,715,000	29,480,000
Zoo Bonds (6/3/97)	1999C	16,845,000	15,225,000	-
	2000B	17,440,000	16,430,000	13,715,000 [2]
Laguna Honda Hospital (11/2/99)		-	-	299,000,000
Recreation and Parks (3/7/00)	2000C	6,180,000	5,820,000	-
	2001B	14,060,000	13,580,000	89,760,000
California Academy of Sciences (3/7/00)		-	-	87,445,000
Branch Library Bonds (11/7/00)	2001E	17,665,000	17,080,000	88,200,000 [2]
<b>SUB TOTALS</b>		<b>\$658,265,000</b>	<b>410,795,000</b>	<b>\$951,845,000</b>
General Obligation Refunding Bonds Series 1997-I issued 10/27/97		\$449,085,000	\$389,480,000	
General Obligation Refunding Bonds Series 2002-RI issued 4/23/02		\$118,945,000	\$118,945,000	
<b>TOTALS</b>		<b>\$1,226,295,000</b>	<b>\$919,220,000</b>	<b>\$951,845,000</b>

[1] Reflects reductions from approved FEMA and State grants totaling \$122,460,000 as provided in the bond authorization.

[2] Does not include the Bonds offered hereunder.

Source: Mayor's Office of Public Finance, City and County of San Francisco

**Lease Payment and Other Long-Term Obligations**

Under the Charter, most lease financings may be authorized only through voter approval. Table A-13 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. Note that the annual payment obligations reflected in Table A-13 includes the full accreted value of any capital appreciation obligations that will accrue as of the final payment dates.

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO				
Lease Payment and Other Long-Term Obligations				
As of June 30, 2002				
Fiscal Year		Principal	Interest	Annual Payment Obligation
2003	\$	42,750,000	\$ 30,324,281	\$ 73,074,281
2004		43,196,625	29,272,329	72,468,954
2005		45,436,625	28,157,514	73,594,139
2006		40,685,000	30,448,733	71,133,733
2007		39,230,000	29,283,679	68,513,679
2008		38,970,000	28,174,965	67,144,965
2009		39,740,000	27,035,796	66,775,796
2010		35,405,000	25,852,226	61,257,226
2011		36,330,000	24,817,244	61,147,244
2012		30,365,000	23,720,835	54,085,835
2013		31,435,000	22,838,855	54,273,855
2014		30,760,000	21,881,849	52,641,849
2015		31,420,000	20,932,580	52,352,580
2016		32,900,000	19,603,707	52,503,707
2017		32,650,000	17,823,422	50,473,422
2018		33,130,000	16,053,367	49,183,367
2019		33,615,000	14,264,138	47,879,138
2020		19,015,000	12,416,344	31,431,344
2021		19,825,000	11,368,257	31,193,257
2022		19,085,000	10,275,401	29,360,401
2023		19,420,000	9,228,374	28,648,374
2024		20,420,000	8,161,579	28,581,579
2025		15,785,000	7,038,064	22,823,064
2026		15,870,000	6,239,694	22,109,694
2027		16,870,000	5,421,855	22,291,855
2028		17,585,000	4,551,661	22,136,661
2029		18,615,000	3,643,326	22,258,326
2030		19,375,000	2,681,734	22,056,734
2031		9,675,000	1,680,150	11,355,150
2032		10,185,000	1,164,369	11,349,369
2033		8,345,000	680,794	9,025,794
2034		8,795,000	230,868	9,025,868
TOTAL	[1][2][3]	\$ 856,883,250	\$ 495,267,990	\$ 1,352,151,240
[1] Amount includes \$53,904,273 in accreted value of capital appreciation bonds to be earned upon final maturity.				
[2] Totals reflect rounding to nearest dollar.				
[3] Interest payments on Moscone Center Expansion Project, Series 2000 are based upon an assumed interest rate of 5.02% through the end of the capitalized interest period (8/1/03), and thereafter will be budgeted at 150% of average of BMA over a 2 year period.				
Source: Mayor's Office of Public Finance, City and County of San Francisco				



The City electorate has approved several lease revenue bond propositions in addition to those bonds that have already been issued. When issued, these voter-approved lease revenue bonds will be repaid from lease payments made by the City's General Fund.

In 1989, voters approved Proposition F, 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 North Beach Parking Garage which was completed in February 2002.

In 1990, voters approved Proposition C, which amended the City Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval. Lease revenue bonds issued pursuant to this authorization are repaid from lease payments made by the City from its General Fund. Proposition C stated that the outstanding principal amount of obligations with respect to lease financings may not exceed in the aggregate \$20 million at any time, such amount to be increased by five percent each year commencing July 1991. As of June 30, 2002, the authorized amount for such financings was \$34,206,787, with \$18,870,000 of equipment lease revenue bonds outstanding.

In 1993, voters approved Proposition H, which authorizes the issuance of \$50 million in lease revenue bonds for the acquisition and construction of a citywide emergency radio communication system. The City issued the first series of bonds for the project on January 22, 1998 in an aggregate principal amount of \$31,250,000. The City issued the second and final series of bonds for the project on February 4, 1999 in an aggregate principal amount of \$18,665,000.

In 1994, voters approved Proposition B, which authorized up to \$60 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system. On June 17, 1997, the City issued \$22,635,000 of lease revenue bonds to finance the construction of a building to house the City's combined emergency communications center and related facilities. On July 2, 1998, the City issued \$23,295,000 to finance emergency information and communications equipment for the center. The remaining authorization under the program is approximately \$14 million.

In 1996, voters approved Proposition A, which authorized the issuance of up to \$157.5 million in lease revenue bonds for the expansion of the Moscone Convention Center. The City issued such bonds on November 2, 2000. The Moscone West is expected to open summer 2003.

In June 1997, voters approved Proposition D, which authorized up to \$100 million in lease revenue bonds for the construction of a new football stadium at Candlestick Point, the home of the San Francisco 49ers football team. The existing stadium is considered to be outdated and in need of substantial repairs. If issued, the \$100 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project. 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.

In November 2001, voters approved Proposition B and Proposition H. Proposition B authorized the issuance of up to \$100 million in revenue bonds to finance the acquisition, installation, and improvement or rehabilitation of solar or other renewable energy facilities or equipment for City departments. Proposition H is a Charter amendment that adds another exception to the voter-approval requirement for issuing revenue bonds. Under Proposition H, the Board of Supervisors could authorize the issuance of revenue bonds to buy, build, or improve renewable energy facilities or energy conservation facilities without further voter approval. No bonds have been issued under either Proposition B or Proposition H.

## **Labor Relations**

As of July 1, 2002, the City employed about 30,000 full time personnel, excluding San Francisco Unified School District, San Francisco Community College District and San Francisco Superior Court employees. City workers are represented by 48 different unions and labor organizations. The largest city unions are the Service Employees International Union (Locals 250, 535 and 790); International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of all but a few hundred unrepresented City employees are determined by collective bargaining pursuant to State law and City Charter. Except for nurses and transit workers, the Charter requires that bargaining impasses be resolved through binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final unless legally challenged. Strikes by City employees are prohibited, according to the Charter. Since 1976, no City employees have gone on a union-authorized strike.

Wages, hours and working conditions of nurses and transit workers are not subject to interest arbitration, but are subject to Charter-mandated economic caps.

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.

The City's retirement benefits are established directly by the voters, and not through the regular collective bargaining process; most changes to retirement benefit formulae require a voter-approved charter amendment. Currently, most miscellaneous employees are in a "2% at 60" plan; most uniformed personnel are in "2% at 50" plans.

Almost all of the collective bargaining agreements between the City and various labor organizations will expire on June 30, 2003. The City will begin negotiations with these labor groups in late fall of 2002 for successor agreements.

The current collective bargaining agreements provide for the following increases in fiscal year 2002-2003: Service Employees International Union (representing over 10,000 City employees) received 3.5% in July 2002; Nurse unions received a 2.5% increase in July 2002 and 2% in January 2003; over thirty craft and other labor organizations received 2.5% in July 2002, and 2.5% in January 2003; uniformed police and fire employees received 4% in July 2002, and 4% in January 2003; San Francisco Deputy Sheriffs received 5% in July 2002 and 2% in January 2003; and Transit workers received 4.5% in July 2002.

In addition, the City adopts an annual "Unrepresented Ordinance" for employees who are not exclusively represented by a union. The present ordinance (for fiscal year 2002-03) provides for general wage increases of 2.5% in July 2002 and 2.5% in January 2003.

**TABLE A-14**

CITY AND COUNTY OF SAN FRANCISCO		
Employee Organizations as of July 1, 2002		
<u>Organization</u>	<u>Budgeted Positions</u>	<u>Expiration Date of MOU <sup>[1]</sup></u>
Automotive Machinists, Local 1414	426	June 30, 2003
Bricklayers, Local 3/Hod Carriers, Local 36	16	June 30, 2003
Building Inspectors Association	79	June 30, 2003
CAIR/CIR (Intern & Residents)	204	June 30, 2003
Carpenters, Local 22	106	June 30, 2003
Cement Masons, Local 580	23	June 30, 2003
Deputy Sheriffs Association	808	June 30, 2003
District Attorney Investigators Association	78	June 30, 2003
Electrical Workers, Local 6	791	June 30, 2003
Glaziers, Local 718	8	June 30, 2003
International Alliance of Theatrical Stage Employees, Local 16	3	June 30, 2003
Ironworkers, Local 377	18	June 30, 2003
Laborers International Union, Local 261	1,051	June 30, 2003
Municipal Attorneys' Association	416	June 30, 2003
Municipal Executives Association	962	June 30, 2003
MEA - Police Management	4	June 30, 2003
MEA - Fire Management	9	June 30, 2003
Operating Engineers, Local 3	58	June 30, 2003
Painters, Local 4	116	June 30, 2003
Pile Drivers, Local 34	15	June 30, 2003
Plumbers, Local 38	339	June 30, 2003
Probation Officers Assoc., Teamsters Local 856	174	June 30, 2003
Professional & Technical Engineers, Local 21	4,245	June 30, 2003
Roofers, Local 40	11	June 30, 2003
S.F. Institutional Police Officers Association	19	June 30, 2003
S.F. Firefighters, Local 798	1,744	June 30, 2003
S.F. Police Officers Association	2,447	June 30, 2003
SEIU, Local 250	1,872	June 30, 2003
SEIU, Local 535	1,421	June 30, 2003
SEIU, Local 790	7,782	June 30, 2003
SEIU, Local 790 (Staff Nurse)	1,420	June 30, 2003
SEIU, Local 790 (H-1 Rescue Paramedics)	53	June 30, 2003
SEIU, Local 790 (Superior Court)	166	June 30, 2003
Sheet Metal Workers, Local 104	56	June 30, 2003
Stationary Engineers, Local 39	670	June 30, 2003
Supervising Probation Officers, Operating Engineers, Local 3	23	June 30, 2003
Teamsters, Local 350	2	June 30, 2003
Teamsters, Local 853	134	June 30, 2003
Teamsters, Local 856 (multi-unit)	134	June 30, 2003
Teamsters, Local 856 (Supervising Nurses)	153	June 30, 2003
TWU, Local 200 (SEAM multi-unit & claims)	309	June 30, 2003
TWU, Local 250-A (7410)	126	June 30, 2003
TWU, Local 250-A (9163)	2,092	June 30, 2004
TWU, Local 250-A (multi-unit)	123	June 30, 2003
Union of American Physicians & Dentists	167	June 30, 2003
Unrepresented Employees	152	June 30, 2003
	31,025 <sup>[2]</sup>	
<sup>[1]</sup> Pending completion of legislative approval process <sup>[2]</sup> Budgeted positions include SFUSD personnel.		
Source: Department of Human Resources - Employee Relations Division, City and County of San Francisco		

## **Risk Management**

The City self-insures the majority of the property, liability, and workers' compensation exposures. Each year funds for anticipated claim payments, based on history and outstanding cases expected to be closed in that year, are included in the current budget. The vast majority of the City's insurance is purchased for the enterprise fund departments (Airport, Municipal railway, Water/Hetch Hetchy, the Port, and Moscone Center). The remainder of the insured program is made up of insurance for General Fund departments required to provide coverage by bond financings, coverage for art at City-owned museums, and statutory requirements for bonding of various public officials.

The City allocates workers' compensation costs to departments according to a formula based on claims payment history and payroll. Programs are being developed and implemented focusing on accident prevention, investigation, and by modifying the duty of injured employees with medical restrictions so they can return to work as early as possible.

## **Retirement System**

The City Employee's Retirement System (the "Retirement System") was established in April 1922 and was constituted in its current form by the 1932 charter. 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 Retirement System, and a member of the Board appointed by the President of the Board, who serves ex-officio as a voting member. To aid in the administration of the Retirement System, the Retirement Board appoints an Actuary and an Executive Director. The Executive Director's responsibility extends to four divisions consisting of Administration, Investment, Retirement Services and Accounting, and Deferred Compensation.

The Retirement System estimates that the total active membership as of June 30, 2001 was 30,524 compared to the 29,927 members a year earlier. The total new enrollees for fiscal year 2000-01 was approximately 600. Checks are mailed to approximately 17,800 benefit recipients monthly.

The estimated market value of Retirement System investments as of June 30, 2001 was \$11,246,080,000 compared to \$12,931,306, 000 as of June 30, 2000 and \$10,868,542,000 as of June 30, 1999.

Table A-15 shows Retirement System actual contributions for fiscal years 1996-97 through 2000-01.

**TABLE A-15**

<b>CITY AND COUNTY OF SAN FRANCISCO</b> <b>Employee Retirement System (000s)</b> <b>Fiscal Years 1996-97 through 2000-01<sup>[1]</sup></b>						
Fiscal Years	Ending	Market Value	Actuarial Value	Pension Benefit	Percent	Employee &
	<u>June 30</u>	<u>of Assets</u>	<u>of Assets</u>	<u>Obligation</u>	<u>Funded</u>	Employer
						<u>Contribution</u> <sup>[2]</sup>
1997	\$	8,666,896	\$ 7,245,195	\$ 6,162,138	117.6%	\$ 114,717
1998		9,836,757	7,945,707	6,351,397	125.1%	112,057
1999		10,868,542	8,862,168	6,430,740	137.8%	120,851
2000		12,931,306	10,076,469	7,258,394	138.8%	132,761
2001		11,246,080	10,797,024	8,371,843	129.0%	105,203

<sup>[1]</sup> Fiscal year 2001-02 not yet available.

<sup>[2]</sup> For fiscal years 1998-99 through 2001-02, the City paid most employee contributions.

Source: Employees' Retirement System, City and County of San Francisco

The assets of the Retirement System are invested in a broadly diversified manner including both domestic and international securities. In addition to U.S. equities and fixed income securities, the fund holds international equities, global sovereign debt, domestic real estate and an array of alternative investments including venture capital limited partnerships. The investments are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who are advised by external consultants who are specialists in various areas of investments.

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an outside actuarial firm employed under contract. A valuation of the Retirement System is conducted each year and an experience study is performed periodically, the latest being in December 2001. In November 1980, the voters of San Francisco adopted a change in the method through which the liabilities of the Retirement System are funded. That method is the entry age normal cost method with a level percentage supplemental cost element (supplemental costs to be fully amortized over no more than 20 years). Actuarial gains and losses are amortized over a 15-year period. Assets are calculated based on a 5-year phase-in of realized and unrealized capital gains and losses.

In fiscal year 1996-97, the City's dollar contribution decreased to zero due to lowered funding requirements as determined by the Board's actuary. Based upon the latest valuation report, as of June 30, 2001, the plan was overfunded by \$2.425 billion (entry age normal method). The main factors in reducing the City's contributions to zero have been several years of actual investment earnings exceeding projected investment earnings and actual wage increases being lower than projected wage increases.

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## APPENDIX B

### CITY AND COUNTY OF SAN FRANCISCO ECONOMY AND GENERAL INFORMATION

#### Area and Economy

The corporate limits of the City and County of San Francisco (the "City") encompass over 93 square miles, of which 49 square miles are land, and the balance consists of tidelands and a portion of the San Francisco Bay (the "Bay"). The City is located on a peninsula bounded by the Pacific Ocean to the west, the Bay on the east, the entrance to the Bay and the Golden Gate Bridge to the north and San Mateo County to the south.

The City is at the center of economic activity within the nine-county Bay Area. The nine counties are Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties. The economy of the Bay Area includes a wide range of industries, supplying local needs as well as national and international markets. Its major industries include heavy manufacturing, high technology, semi-conductor manufacturing, petroleum refining, food processing and production and fabrication of electronics and aerospace equipment. Non-manufacturing industries, including tourism, finance and international and wholesale trade, are characteristic of the City and also are major contributors to the wealth of the Bay Area.

#### Population and Income

The City had a population estimated by the State of California (the "State") Department of Finance Demographic Research Unit at 793,600 as of the end of 2001, ranking it the fourth largest city in California behind Los Angeles, San Diego and San Jose. For 2001, the City's per capita income was estimated at \$57,414, well above the State's estimated per capita income of \$32,225 for the same year. The table below reflects the population and per capita income of the City and the State between 1997 and 2001.

**TABLE B-1**

POPULATION AND INCOME 1997 - 2001				
	City and County of San Francisco	State of California	San Francisco Per Capita Income	California Per Capita Income
Year				
1997	760,700	32,985,000	\$40,357	\$26,218
1998	768,700	33,387,000	44,518	28,280
1999	776,300	33,387,000	49,695	29,856
2000	781,900	34,207,000	57,414	32,225
2001	793,600	34,818,000	N/A *	32,678 <sup>P</sup>
* Note: Information not available. County data are compiled from numerous sources by the U.S. Department of Commerce, Bureau of Economic Analysis and are typically released with a significant time lag.				
<sup>P</sup> Preliminary				
Sources: State of California Department of Finance, Demographic and Finance Research Units; U.S. Department of Commerce, Bureau of Economic Analysis.				

## Conventions and Tourism

The City's tourism industry generated approximately \$6.02 billion in 2001 (an average of \$16.5 million per day) to the local economy. The most recent survey data available show that approximately 15.7 million people visit San Francisco each year, representing an average daily tourist population of 130,000. On average, these visitors spend about \$127 per day and stay three to four nights. Hotel occupancy rates decreased from 81.9% in 2000 to 67.7% in 2001. Although visitors who stay in San Francisco hotels account for only 32% of total visitors, they generated 66% of total spending by visitors from outside the Bay Area.

It is estimated that 44% of visitors come to the City for vacation, 30% are convention and trade show attendees, 25% are individual business travelers and the remaining 1% are en route elsewhere. International visitors make up 36% of all visitors. Approximately 45% of the City's international visitors are from Europe and the UK, 31% are from Asia, 9% are from Canada, 5% are from Australia and New Zealand, 5% are from Central and South America, 3% are from Mexico, and 2% are from Africa and the Middle East.

Hotel occupancy rates averaged 78.2% over the seven years ending in 2001. The economic downturn, which began in early 2001, has led to a steep decline. Compounding that downward pressure, the events of September 11, 2001 caused a sharp decrease in air travel and related tourism, exacerbating sagging occupancy rates and triggering steep discounting in average daily room rates. Average daily room rates for fiscal year 2001-02 was approximately \$155 per night with average occupancy of 66%. Based on these averages, the City Controller estimates that hotel room tax revenue decreased by 28% in fiscal year 2001-02. The following table describes visitor growth trends from calendar years 1997 through 2001.

**TABLE B-2**

<b>CITY AND COUNTY OF SAN FRANCISCO San Francisco Overnight Hotel Guests (000s)</b>			
Calendar <u>Year</u>	Annual Average <u>Hotel Occupancy</u>	Total Visitors Staying in <u>Hotels or Motels</u>	Total Hotel Visitor and Convention <u>Related Spending</u>
1997	79.8%	3,610	N/A <sup>[1]</sup>
1998	80.7%	4,140	3,410,000
1999	80.7%	4,180	3,590,000
2000	81.9%	4,300	4,288,000
2001	67.7%	3,658	N/A <sup>[1]</sup>

<sup>[1]</sup> Total spending figure not yet available

Based upon information provided by the San Francisco Convention and Visitor Bureau, convention business is virtually at full capacity for the Moscone Convention Center and is at strong levels at individual hotels, which provide self-contained convention services. The Moscone convention facilities offer 442,000 square feet of exhibit space and 161,000 square feet of meeting rooms. In March 1996, the City electorate approved a lease revenue bond financing to expand the Moscone convention facilities and the City sold the bonds in 2000. The new facilities are currently under construction and are expected to open in Spring 2003. The new facilities will provide approximately 300,000 square feet of additional convention space.



## Employment

The City has the benefit of a highly skilled, professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. According to the California Employment Development Department, the unemployment rate for the City for calendar year 2001 was 3.4%, versus 5.3% for the State and 4.8% for the United States. According to the Bureau of Labor Statistics, San Francisco's unemployment rate has been increasing since mid-2001 and reached 7.3% in January 2002. Since then it has been decreasing; most recent survey data available show the unemployment rate to be about 6.4%.

The table below illustrates average annual employment totals in the City by land use activities from 1996 to 2000. From 1996 to 2000, retail employment grew by 20.8%, industrial employment decreased by 1% and hotel jobs have remained relatively stable during the entire five-year period.

**TABLE B-3**

<b>CITY AND COUNTY OF SAN FRANCISCO Employment by Land Use Activities 1996-2000</b>					
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000<sup>[1]</sup></u>
Office	189,879	194,017	203,512	211,499	224,167
Retail	85,651	89,043	94,220	97,159	103,508
Industrial	120,096	121,706	124,071	120,922	119,922
Hotel	18,176	18,918	19,498	19,522	18,862
Cultural/Institutional	128,705	133,490	134,816	142,064	140,573
Government	N/A	N/A	N/A	N/A	N/A
Other	464	900	39	30	1,307
Total	542,971	558,074	576,156	591,196	608,339
<sup>[1]</sup> Most recent data available.					
<sup>[2]</sup> For years 1996 through 2000, miscellaneous Government employee numbers have been allocated among Office, Industrial, and Cultural/Institutional Land Use categories.					
Source: San Francisco Planning Department- California Employment Development Department					

## Taxable Sales

The following table reflects a breakdown of taxable sales for the City from 1996 to 2000. A detailed breakdown of 2001 and 2002 taxable sales is not yet available; however, data indicate that for fiscal year 2001-02 taxable sales revenue will be down about 9.6% from the prior fiscal year. Total retail sales increased markedly from 1996 through 2000, growing 30% over the period. When business and personal services and other outlet sales are included, taxable sales increased by 36% from 1996 to 2000.

**TABLE B-4**

CITY AND COUNTY OF SAN FRANCISCO					
Taxable Sales 1996 - 2000					
(\$000s)					
	1996	1997	1998	1999	2000 <sup>[1]</sup>
Retail Stores <sup>[2]</sup>					
Apparel	\$667,921	\$718,649	\$688,770	\$722,597	\$792,508
General Merchandise	807,483	823,068	832,104	908,704	1,166,524
Drug Stores	153,503	164,572	172,188	187,630	2,277,432
Food	353,492	369,620	376,229	392,569	416,735
Packaged Liquor	63,872	69,417	70,885	77,452	81,800
Eating/Drinking	1,397,525	1,505,241	1,594,872	1,723,368	1,896,054
Furniture & Appliances	367,803	416,033	475,003	572,425	637,662
Building Materials and Farm Implements	219,075	239,959	260,749	292,107	321,632
Automotive	316,255	351,466	357,924	387,300	456,851
Service Stations	759,521	562,848	272,036	388,696	549,967
Other Retail Stores	1,625,250	1,738,808	1,785,928	2,023,242	153,291
Retail Stores Total	\$6,731,700	\$6,959,681	\$6,886,688	\$7,676,090	\$8,750,456
Business and Personal Services <sup>[3]</sup>	\$767,641	\$821,089	\$921,855	\$1,063,729	\$1,226,650
All Other Outlets <sup>[3]</sup>	2,892,871	3,185,453	3,460,146	3,596,942	4,112,820
Total All Outlets <sup>[2][3]</sup>	\$10,392,212	\$10,966,223	\$11,268,689	\$12,336,761	\$14,089,926
<sup>[1]</sup> Most recent data available. <sup>[2]</sup> Table 5. Taxable Sales in the 272 Largest Cities by Type of Business. <sup>[3]</sup> Table 3. Taxable Sales in the 36 Largest Counties by Type of Business. Source: California State Board of Equalization - Annual Reports.					

## Building Activity

Table B-5 shows a summary of building activity in the City for fiscal years 1996-97 through 2000-01, during which time approximately 12,615 total housing units were authorized in the City (both market rate and affordable). The total value of building permits was \$1.1 billion in fiscal year 2001.

**TABLE B-5**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>				
<b>Building Activity 1997-2001</b>				
Fiscal Year Ended	Authorized New	Value of Building Permits		
<u>June 30</u>	<u>Dwelling Units</u>	<u>Residential</u>	<u>Non-Residential</u>	<u>Total</u>
1997	1,249	\$319,743,614	\$553,895,086	\$873,638,700
1998	2,441	478,929,229	531,171,692	1,010,100,921
1999	3,297	712,160,699	1,693,705,414	2,405,866,113
2000	3,058	305,828,000	623,257,000	929,085,000
2001	2,570	381,623,000	725,313,000	1,106,936,000

Source: San Francisco Department of Building Inspection, Central Permit Bureau.

### Banking and Finance

The City is a leading center for financial activity in the West. The headquarters of the Twelfth Federal Reserve District is located in the City, as are the headquarters of the Eleventh District Federal Home Loan Bank, and the regional Office of Thrift Supervision. Wells Fargo Bank, California Federal Bank, First Republic Bank, United Commercial Bank, Bank of Canton of California, and Bank of the Orient are headquartered in the City, along with the Pacific Stock Exchange, and Charles Schwab & Co., the nation's largest discount broker. Other investment banks in the City include Banc of America Securities LLC, Deutsche Banc Alex Brown, Thomas Weisel Partners LLC, and Pacific Growth Equities. Table B-6 below lists the ten largest employers in the City as of December 2001.

**TABLE B-6**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>		
<b>Largest Employers in San Francisco</b>		
<u>Employer</u>	<u>Number of Employees</u>	<u>Nature of Business</u>
City and County of San Francisco	31,025	Local government
University of California, San Francisco	13,835	Health services
San Francisco Unified School District	11,296	Education
Charles Schwab & Co. Inc.	9,873	Financial services
Wells Fargo & Co. Inc.	6,366	Banks
United States Postal Service, San Francisco District	5,579	Mail delivery
AT&T	5,200	Telecommunications
PG&E Corp.	5,000	Energy
Pacific Bell/SBC Communications	4,600	Telecommunications
California Pacific Medical Center	4,500	Health care

Source: San Francisco Business Times

## **Commercial Real Estate**

According to the 2nd Quarter 2002 Report from CB Richard Ellis, the San Francisco office market continued to slowly decrease during the second quarter. Class A lease rates decreased to \$31.76, down 4.8% from its first quarter rate of \$33.38. Class B declined by approximately 2.9% from \$22.51 to \$21.84 and Class C declined as well by 5.5% from \$18.89 to \$17.84.

In the second quarter of 2002, citywide vacancy rates increased from a first quarter rate of 15.6% to 16.5% across all space classes.

The Union Square area, adjacent to Yerba Buena, continues to be the City's principal retail area including stores such as Macy's, Neiman Marcus, Saks Fifth Avenue, NikeTown, Disney, Crate and Barrel, Borders Books, Nordstrom, and Virgin Records. Union Square Park has recently reopened after undergoing a \$21.4 million renovation to provide improved public use with a performance area and a small café. Currently underway in the Union Square area is a plan to bring Bloomingdale's to the former Emporium-Capwell building on Market Street, providing a 1.4 million square foot retail and entertainment complex and hotel. Another commercial development project planned in the City is the Fillmore Entertainment Center, a mixed-use commercial and residential development at Geary and Fillmore Streets in the lower Pacific Heights area.

At the center of commercial development in the downtown area is Yerba Buena Gardens which opened in October 1998. The project includes the 350,000 square foot Sony Metreon entertainment/retail center and a Children's Center.

There are several new commercial opportunities on Port property including the renovation of Pier 1 and the Ferry Building, a new restaurant at the Waterfront Park, and the development of other Port buildings. Developments on various piers includes an international cruise terminal at Pier 30-32 and the Mills/YMCA mixed-use recreational/commercial project at Piers 27-31.

Development has begun at the Mission Bay site, portions of which are owned by the City and the Port. The project will consist of affordable and market rate housing for over 10,000 San Francisco residents, retail, a new public school, 49 acres of parks and recreational areas, and a 500-room hotel. In addition, the University of California is constructing a 2,650,000 square foot biotechnology campus on a 43-acre site in Mission Bay.

## **Transportation Facilities**

### *San Francisco International Airport*

San Francisco International Airport ("SFO"), located approximately 14 miles south of downtown San Francisco, is a major commercial airport and has been serving the San Francisco Bay Area and Northern California for 75 years. Traffic reports submitted by the airlines for fiscal year 2001-02 show that SFO served over 31 million passengers (enplanements and deplanements), and handled a total of 357,379 flight operations, 338,772 of which were scheduled air carrier operations. During fiscal year 2001-02, sixty airlines served SFO with non-stop and one-stop service to 121 cities in the United States. Twenty-six airlines provided services to over 69 international destinations. Based on the Airports Council International Preliminary Ranking for calendar year 2001, SFO ranked the tenth most active airport in the United States in terms of total passengers. During fiscal year 2001-02, scheduled passenger aircraft arrivals and departures decreased by 13.9% and total enplanements decreased by 20% over the previous year. U.S. Department of Transportation statistics for the 12 months ended March 31, 2002 show that SFO ranked the eleventh most active airport in the United States in terms of domestic origin and destination passengers.

SFO has been particularly affected by both losses in business travel and by the decline in air traffic of all kinds since the events of September 11, 2001. United Airlines, the largest carrier at SFO, reported a 23.1% decline in enplaned domestic passenger traffic and a 7.8% decline in enplaned international passenger traffic for fiscal year 2001-02. Total passenger traffic during fiscal year 2001-02 declined by 20% from the prior fiscal year. New Department of Transportation rules which restrict post-security access to ticketed passengers only, has significantly decreased business for post-security SFO retail and restaurant tenants. SFO is estimating that lower passenger flows, fees, and parking income will cause a revenue shortfall in the range of \$90 to \$95 million for fiscal year 2001-02. However, SFO has taken steps to cover the shortfall through savings in the operating budget and use of Passenger Facility Charges (PFC) revenue. SFO's transfer of 15% concession revenues to the City's general fund, budgeted at \$29 million, is currently estimated to be \$17.9 million.

The new International Terminal Complex ("ITC"), which opened December 10, 2000, was the centerpiece of the SFO Master Plan. The SFO capital program consists of Near-Term Master Plan (NTMP) projects and infrastructure projects. The NTMP projects include the new ITC, the AirTrain System, elevated circulation roadways to connect the international terminal to Highway 101, and individual projects consisting of parking, cargo, general aviation, emergency response and security improvements. With the exception of the AirTrain system, most NTMP projects have been completed. The infrastructure projects include ongoing improvements, expansion and modification of Airport facilities such as the BART extension to the international terminal (expected to open in 2003), improvements to existing garages, noise mitigation, airfield development and minor modifications relating to runway refurbishment. As of June 30, 2002, the Airport has no outstanding balance on the subordinated commercial paper notes.

Table B-7 presents certain data regarding SFO for the last five fiscal years.

**TABLE B-7**

<b>SAN FRANCISCO INTERNATIONAL AIRPORT</b> <b>Passenger, Cargo and Mail Data for</b> <b>Fiscal Years ending June 30, 1998 through 2002</b>				
Fiscal year Ended June 30.	<b>Passengers</b>		<b>Cargo Traffic</b>	
	Enplanements and Deplanements	Annual Percent Change	Freight and Express Air (Metric Tons)	U.S. and Foreign Mail (Metric Tons)
1998	39,799,907	1.8%	621,538	165,336
1999	39,158,482	-1.6%	618,285	182,158
2000	40,242,096	2.8%	680,051	190,579
2001	38,715,708	3.8%	640,528	154,434
2002	30,950,129	-20.1%	466,809	94,297
Source: San Francisco Airport Commission.				

### *Port of San Francisco*

The Port of San Francisco (the "Port") consists of 7.5 miles of Bay waterfront which are held in "public trust" on behalf of all the people of California. The State transferred responsibility for the Port to the City in 1968. The Port is committed to promoting a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities, as well as protecting the natural resources of the waterfront and developing recreational facilities for public use.

A five-member Port Commission is responsible for the operation, management, development and regulation of the Port. All revenues generated by the Port are to be used for Port purposes only. The Port receives no operating subsidies from the City, and the Port has no taxing power.

The Port posted an increase in net assets of \$42.3 million for fiscal year ending June 30, 2001. Operating income totaled \$6.1 million for the year.

Port properties generated \$50.3 million in operating revenue in fiscal year 2000-01 as shown in Table B-8.

**TABLE B-8**

<b>PORT OF SAN FRANCISCO</b>				
<b>1999 - 2000 REVENUES</b>				
<u>Business Line</u>	<u>FY 1999 Audited Revenue</u>	<u>Percentage of 1999 Revenue</u>	<u>FY 2000 Audited Revenue</u>	<u>Percentage of 2000 Revenue</u>
Commercial & Industrial Rent	\$28,331,000	66.3%	\$30,287,000	65.8%
Parking	5,320,000	12.4%	6,548,000	14.2%
Cargo	1,986,000	4.6%	2,462,000	5.3%
Fishing	1,239,000	2.9%	1,329,000	2.9%
Ship Repair	959,000	2.2%	1,000,000	2.2%
Harbor Services	790,000	1.8%	817,000	1.8%
Cruise	362,000	0.8%	689,000	1.5%
Other Maritime	1,609,000	3.8%	1,562,000	3.4%
Other	<u>2,145,000</u>	<u>5.0%</u>	<u>1,335,000</u>	<u>2.9%</u>
TOTAL	\$42,741,000	100%	\$46,029,000	100%
Source: Port of San Francisco Audited Financial Statements.				

In June 1997, the Port Commission adopted a Waterfront Land Use Plan (the "Port Plan") establishing the framework for determining acceptable uses for Port property. The Port Plan calls for a wide variety of land uses which retain and expand historic maritime activities at the Port, provide revenue to support new maritime and public improvements, and significantly increase public access.

As a result of the finalization of the Port Plan, there are currently several major development projects in negotiation and/or construction including the \$70 million renovation of the Ferry Building, a hotel development at the corner of Broadway and the Embarcadero, a mixed use historic preservation and reuse of Piers 1½-5, a mixed use office/retail complex at Pier 30/32 that will include construction of a new cruise terminal, and a mixed use recreation and historic preservation project at Piers 27-31. In addition, the relocation and expansion of the Downtown Ferry Terminal was recently completed. A maritime office development on Pier 1 was completed during fiscal year 2000-01, and Pacific Bell Park, the home of the San Francisco Giants baseball team, opened on Port property in April 2000.

#### *Other Transportation Facilities*

The nine-county Bay Area region surrounds the predominant topographic feature of the area, the San Francisco Bay. Although the Bay creates a natural barrier to transportation throughout the region, several bridges, highways and public transportation facilities connect the nine-county area through its San Francisco hub, providing access for jobs, entertainment, shopping and other activities. The major transportation facilities connecting the City to the remainder of the region include the Golden Gate and Bay Bridges, the Bay Area

Rapid Transit rail line, CalTrain, and the Alameda-Contra Costa, San Mateo, Santa Clara and Golden Gate Transit Districts' bus lines. Public and private companies also provide ferry service across the Bay.

Other transportation facilities connect the Bay Area to the State, national and global economy. In addition to the San Francisco International Airport, the San Francisco Bay Area is served by two other major airports: the Metropolitan Oakland International Airport in Alameda County, and the San Jose International Airport in Santa Clara County. These airports also serve the region's air passengers with service to all major domestic cities and many international cities and are as important cargo transportation facilities.

The Port of Oakland is an important transportation facility to the Bay Area as it provides a strong link to the Pacific Rim. The Port of Oakland is served by three major railroads with rail lines and/or connections to the midwest and beyond.

### **Public School System**

The City is served by the San Francisco Unified School District (the "District"). The District has a board of seven members who are elected Citywide. Schools within the District are financed from available property taxes and State, Federal and local funds. The District operates thirty-six child development centers; seventy-seven elementary schools, including sixty-nine K-5 elementary schools, seven K-8 elementary schools, and one charter elementary school; seventeen middle schools (grades 6-8); twenty-one senior high schools, including fourteen schools serving grades 9-12, three continuation schools, three charter high schools and one independent study alternative high school; one adult education program and various county school services.

### *Colleges and Universities*

Within the City, the University of San Francisco and California State University at San Francisco offer full four-year degree programs of study as well as graduate degree programs. The University of California, San Francisco is a health science campus consisting of the schools of medicine, dentistry, nursing, pharmacy and graduate programs in health science. The Hastings College of the Law is affiliated with the University of California. The University of the Pacific's School of Dentistry and Golden Gate University are also located in the City. City College of San Francisco offers two-years of college-level work leading to associate degrees.

The nine-county Bay Area region includes approximately twenty public and private colleges and universities. Most notable among them are the University of California at Berkeley and Stanford University. Both institutions offer full curricula leading to bachelors, masters and doctoral degrees, and are known worldwide for their contributions to higher education.

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**APPENDIX C**  
**EXCERPTS\* FROM**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

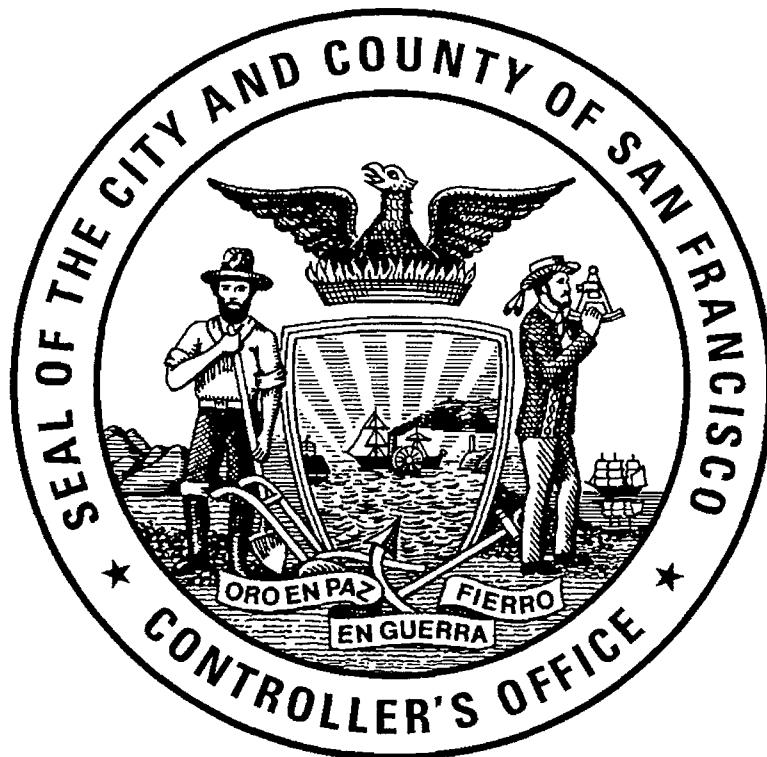
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\* Includes all material listed on Table of Contents, Page C-5, through Note 17.

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# **CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA**

**Comprehensive Annual Financial Report  
Year ended June 30, 2001**



**Prepared by:  
Office of the Controller**

**Edward Harrington  
Controller**

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**CITY AND COUNTY OF SAN FRANCISCO**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2001**

CITY AND COUNTY OF SAN FRANCISCO  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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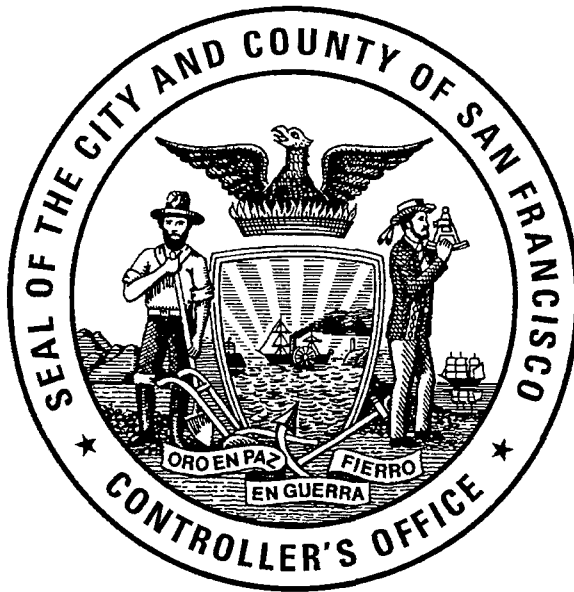
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## **INTRODUCTORY SECTION**

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- **Certificate of Achievement - Government  
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- **Certificate of Award - California Society of  
Municipal Finance Officers**
- **Organization Chart**
- **List of Principal Officials**

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January 22, 2002

The Honorable Mayor Willie L. Brown, Jr.  
The Honorable Members of the Board of Supervisors  
City and County of San Francisco  
San Francisco, California

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the fiscal year ended June 30, 2001 with the Independent Auditors' Report, submitted in compliance with City Charter Sections 2.115 and 3.105 and California Government Code Sections 25250 and 25253. The CAFR has been prepared by the Controller's Office in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. I believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the results of the City's operations as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the City's financial affairs.

This is the first year the City prepares the CAFR using the new financial reporting requirements as prescribed by the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). This new GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Our CAFR is divided into the following sections:

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

**The Financial Section** is prepared in accordance with the GASB 34 requirements by including the MD&A, the Basic Financial Statements including notes and the Required Supplementary Information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary, and other funds. Also included in this section is the Independent Auditors' Report on the financial statements and schedules.

**The Statistical Section** includes tables containing historical financial data, debt statistics, and miscellaneous social and economic data of the City that are of interest to potential investors in our bonds and to other readers. The data includes ten-year revenue and expenditure information on an inflation-adjusted basis.

#### THE REPORTING ENTITY AND ITS SERVICES

The City and County of San Francisco (City), established by Charter in 1850, is a legal subdivision of the State of California with the governmental powers of both a city and a county under California law. The City's powers are exercised through a Board of Supervisors serving as the legislative authority, and a Mayor and other independent elected officials serving as the executive authority. The services provided by

the City include public protection, construction and maintenance of all public facilities, sanitation, water, parks, public health systems, social services, planning, tax collection, and many others.

This CAFR includes the financial activities of the primary government, which encompasses several enterprise activities, as well as all of its component units. Component units include legally separate entities for which the primary government is financially accountable and that have substantially the same board as the City or provide services entirely to the City. For reporting purposes the operations of the San Francisco County Transportation Authority, the San Francisco Parking Authority, and the San Francisco Finance Corporation, are blended with the City. In addition, there are two component units, the San Francisco Redevelopment Agency and the Treasure Island Development Authority, which are legally separate entities but which have some financial interdependency with the City. For reporting purposes these entities are shown as discretely presented component units.

#### SAN FRANCISCO'S GOVERNMENT, ECONOMY AND OUTLOOK

San Francisco is the economic and cultural hub of the Bay Area, a metropolitan region with more than 6.5 million residents in nine counties. The population of the City has grown by approximately 8.8 percent in the past ten years, to 793,459.<sup>i</sup> The year 2000 federal census shows that racial and ethnic diversity continues to be robust in the City, with all minorities groups combined representing a majority of the population, and, for the first time in modern history, no single racial or ethnic group representing a majority of the City's population.<sup>ii</sup>

San Francisco is a charter city, exercising the powers and duties of both a city and county. In November 2000, the eleven members of the Board of Supervisors were elected by district for the first time since the 1970s. Members will serve four-year terms, with the exception that in order to provide for staggered terms, the initial district-elected Board drew lots and determined that an election for seats of even-numbered districts will be conducted in November 2002. The elected Mayor of San Francisco serves as the executive, and appoints the heads of many city departments. Many departments are also advised by a commission whose members are appointed by the Mayor. Elected officials include the Assessor-Recorder, City Attorney, District Attorney, Public Defender, Treasurer, and Sheriff.

The City boasts a strong and diverse collection of both Fortune 500 companies and locally owned small businesses. Thus while the City is home to Chevron, The Gap, Charles Schwab, and Wells Fargo, over eighty-five percent of the City's businesses employ fewer than twenty people.<sup>iii</sup> The economy overall has demonstrated sustained growth since the recession of the early 1990s. Among California counties, the City consistently ranks in the top five in terms of lowest unemployment rates, lowest percentage of persons living in poverty, and highest in per capita incomes.

An overall economic slowdown which began in the middle of fiscal year 2001 has affected the City's economy, and the events of September 11<sup>iv</sup> have compounded the impact of the general slowdown. The technology sector in particular has experienced the closing of large numbers of dot-com companies and significant losses in the value of many other businesses. The economic effects of the downturn are expected to continue in the next fiscal year. While this contraction has affected the City's economy, the overall economic and business environment continues to show strength, and employment, wage and earning trends continue to be strong overall.

Approximately 35,700 jobs have been created in the City during the past five years, showing an aggregate growth during the period of almost 9 percent.<sup>v</sup> As the business, transportation, and travel hub of the Bay Area, the City's economy is dominated by the services sector, which provides approximately 39% of all jobs. Retail trade and financial, insurance and real estate businesses are also critical to the City's employment base and economy. Overall, the unemployment rate in 2000 continued a five-year decline,

<sup>i</sup> Source: California Department of Finance

<sup>ii</sup> Source: United States Census

<sup>iii</sup> Source: California Department of Finance

<sup>iv</sup> Source: California Employment Development Department

dropping to 2.8 percent for the calendar year, lower than the average annual unemployment rate during the period for California of 4.9 percent. With the recent changes in the economy, as of July 2001, San Francisco's unemployment rate had risen to 5.4 percent, approximately the same rate as for the state of California as a whole (5.3 percent), and to approximately 6.1 percent by November 2001.

Tourism, at the heart of San Francisco's economy, continues to thrive. The Convention and Visitors Bureau estimates that 17.3 million visited San Francisco in 2000, representing an average daily population of 142,700. These visitors spent over \$7.6 billion in the City during 2000, over \$20.9 million per day.<sup>v</sup> Hotel occupancy rates averaged 80% during the year. The slowing economy and the events of September 11<sup>th</sup> have changed the outlook for the travel and tourism industry however. Business, convention and tourist travel have all dropped since the spring of 2001, with hotels reporting decreased occupancy rates since September and occupancy rates for 2002 projected to be only in the 65% to 75% range overall.<sup>vi</sup>

Downtown office vacancy rates, at 10% in 1992, fell below one percent during the most recent two fiscal years. However, the commercial rental market has begun to reflect the effects of the economic slowdown, with vacancy rates increasing during the fiscal year for the first time in nearly eight years. Surveys show the vacancy rate rising steadily to 4% halfway through the 2001 fiscal year, 8% by June 2001, and approximately 15% by December 2001. Asking prices for office space rents have also declined by as much as 46%, from an average of \$80 per square foot in July of 2000, to \$43 per square foot by December 2001.<sup>vii</sup> The market is not anticipated to turn around before the end of fiscal year 2002.

Property values in the City remain among the highest in the nation. The housing market has been only minimally affected by the economic slowdown, with demand for housing still far in excess of supply. During calendar year 2000, new construction added 1,626 units to the City's housing stock. However, demand continues to outpace supply, as it has for several years, with a projected deficit of 9,543 needed housing units by 2006. The gap between housing demand and supply has contributed to a worsening affordability gap in the City. In the year 2000, the median price for an average single family home in San Francisco was \$540,000, a level that was affordable by only a small fraction—11% of the population.<sup>viii</sup> Homeownership continues to be out of reach of many of the service workers, teachers, trade and craft workers, and other residents and workers. The jobs/housing imbalance affects the City's ability to manage transportation networks, schools, and other important services. Housing is and will remain a critical challenge for the City's policymakers, planners, employers, and residents.

Transportation also presents a significant challenge for the City. Added capacity in regional road and transit service, bringing workers and visitors to the City, and providing transportation within the City, are both being developed to meet growing needs. Caltrain, which carries passengers between the peninsula and the City, experienced a 9.2% increase in commuter ridership during the fiscal year. The Bay Area Rapid Transit (BART) system is adding service both in the east bay and from the peninsula, with four new BART stations to the south of the City, including one at the San Francisco International Airport, scheduled to open in the fall of 2002. These improvements should relieve congestion on some of the region's major arteries. The success of transit projects both in San Francisco and in neighboring counties remains critical to the economic growth and stability of the City.

Over the last five years, the City's property tax revenues, the single largest source of income for the general fund, have grown in some cases by as much as 16% per year, reflecting extraordinary growth in property values and prices during the time period. From fiscal year 2000 to 2001, revenue from property tax grew by approximately \$83 million, an increase of 15% from the prior year. Trends in other sources of local tax revenue were strong during the fiscal year as well, with business, sales, and other local taxes increasing by between 4% and 10%. These revenue growth results are despite the loss of approximately \$25 million per year from the elimination of the City's gross receipts tax as a result of litigation.

The energy crisis which hit all of California during the year affected the City in a wide variety of ways. Government revenues from utility user taxes increased, however the City also had to fund higher power

<sup>v</sup> Source: San Francisco Convention and Visitor's Bureau

<sup>vi</sup> Source: PKF Consulting

<sup>vii</sup> Source: Grubb & Ellis, Cushman & Wakefield

<sup>viii</sup> Source: California Association of Realtors

purchase costs for the Hetch Hetchy system, with an increased appropriation of \$25 million approved during the year for this purpose. Partly in response to the energy crisis, the City has initiated a \$15 million capital project in 2001 to finance energy efficiency improvements in government which is expected to save approximately \$5 million in avoided energy costs annually over the long term. Pacific Gas and Electric, which is one of the City's largest taxpayers, filed for bankruptcy in April 2001, but has continued to meet its local tax obligations to date with court permission. On a statewide basis, the budget surplus which has been spent on energy purchases is likely to restrict funding available from the state to local governments in many program areas in the next fiscal year and beyond.

Since September 11<sup>th</sup>, both business and tourist travel to San Francisco have dropped significantly, affecting passenger loads and revenues at San Francisco International Airport, and hotel and sales tax revenues to the City, among other factors. For fiscal year 2002, the City is currently projecting decreases from local tax revenue sources. Hotel tax is significant, with a projected decrease of almost 25% from fiscal year 2001—a loss of over \$32 million, followed by sales tax with a projected loss of approximately 10% or over \$12 million. In total, the City expects revenue losses in the general fund in the 2002 fiscal year of between \$60 and \$100 million and consequently has restricted its budget to lower spending to meet that range.

San Francisco International Airport (SFO) has been particularly affected by both losses in business travel which were apparent in the spring of 2001 and by the drops in air traffic of all kinds since September 11<sup>th</sup>. United Airlines, the single largest carrier at SFO, reported a 34% loss in business travel in the last quarter of fiscal year 2001, and airlines overall have reduced flights by 20% on average since September. New Department of Transportation rules which restrict access to most terminal areas to ticketed passengers only has significantly decreased business for SFO retail and restaurant tenants and as a result SFO has temporarily reduced rents for merchants. The SFO is currently forecasting that lower passenger flows, fees, and parking income will cause an operating shortfall in the range of \$100 million in the 2002 fiscal year. SFO's transfer of concession revenues to the City general fund, budgeted at \$29 million, is anticipated to be reduced by 25% or more.

#### MAJOR INITIATIVES AND ACHIEVEMENTS

A number of significant initiatives, outlined below, are underway in San Francisco which should have a positive effect on the City's economic health and its services to residents and businesses.

##### Health Facilities and Systems

The City operates two major hospitals—San Francisco General for acute care, and Laguna Honda for long-term care. The City is in the process of designing and constructing a new campus on the Laguna Honda Hospital site, and a rebuild of the existing hospital, that will provide housing and a complete continuum of long-term healthcare services. The hospital will be built to modern environmental and seismic standards, and will provide for a technologically advanced and flexible facility serving the City's growing need for rehabilitation facilities and residential care. The new Laguna Honda campus is being financed by a \$299 million general obligation bond issue approved by the voters in November 1999. The property tax burden of the bond issue will be reduced by using tobacco settlement funds to be distributed to California counties over the next several years, and by the use of supplemental Medicaid payments made available for the project's debt service through new state legislation. The project is now engaged in the design and community consultation process, with design and environmental review expected to be complete in 2002, and construction to begin in 2003 on the first of the new facilities.

##### Expansions of Convention Center and Cultural Facilities

The City's Moscone Convention Center draws business and industry meetings from around the world, and continues to develop to meet the convention business demand in San Francisco. The Moscone West expansion of the center will add a new, free-standing facility located one half block west of the existing Moscone Convention Center. Moscone West increases the size of the City's convention facilities by fifty percent—adding 300,000 square feet of exhibit and meeting space on three floors. Structural steel erection is about 90% complete and other building trades have begun their work on site, following closely on the

heels of steel erection. Moscone West is scheduled to open in the Spring of 2003 and events are currently being booked.

A number of cultural institutions are currently in the process of major expansions or the construction of new facilities. The Asian Art Museum, to be housed in the renovated Old Main Library, is scheduled to open in the Civic Center in early 2003, and is financed with a combination of \$31 million of voter-approved bonds and \$69 million in private donations. Currently, the museum has the space to display only about six percent of its collection at any time. Once the move is completed, the museum will have the space and facilities to display a much larger portion of its collection. The DeYoung Fine Arts Museum and the Academy of Sciences both are in the process of constructing new facilities in Golden Gate Park. In December of 2000 the DeYoung Museum closed its doors in preparation for replacing its seismically unsafe building. The new DeYoung Museum is scheduled to open in 2005 and will be financed entirely by private contributions. The new Academy building is funded through a combination of \$116 million in local bonds, approved by voters in 1995 and 2000, state funds, and private donations. Design for new Mexican, African-American, and Jewish Museums has begun. These facilities will join the San Francisco Museum of Modern Art in the Yerba Buena district, immediately adjacent to the Moscone Convention Center. All three are scheduled for completion by 2005.

In November 2000, voters approved the Branch Library Improvement Bond measure. The bond program authorizes the sale of approximately \$105.9 million in General Obligation Bonds to renovate nineteen branch libraries including upgrades for earthquake safety and disability access. Interior renovations, and some facility expansions. The first \$17.6 million bond sale will fund planning for seven branches and cover the costs of acquiring sites for the four branch libraries that are currently in leased space.

The transfer of the former Presidio Army Base to civilian uses which was carried out in 1994 has created an array of new recreational, cultural, and development opportunities in San Francisco. Among these is the restoration of Crissy Field and the adjacent shoreline for public recreational use by the National Park Service. This project was completed and a grand opening for the restored Crissy Field was held in May 2001. The park's over 100 acres includes a restored salt marsh and tidal lagoon, beaches, dunes, and over a mile of new shoreline promenade, which are expected to draw thousands of local users and new visitors annually to San Francisco's waterfront.

#### Affordable Housing Projects

In November 1996, the voters of San Francisco approved the issuance of \$100 million in general obligation bonds ("Proposition A") to fund the Affordable Housing and Home Ownership Bond Program. The Board of Supervisors adopted legislation to implement the program in 1997, providing that 85% of the bond proceeds be dedicated to the development of rental housing, and 15% for downpayment assistance to first-time homebuyers.

In March 1998, the first \$20 million of bonds were sold, and the program began full operation in June 1998. In June 1999, the second \$20 million of bonds were sold, and in June 2000 the third \$20 million series, the latter time as a tax-exempt issue. Because of the urgent need for affordable housing in San Francisco, the Mayor's Office of Housing recommended to the Board of Supervisors that the remaining \$40 million be issued for the 2001-2002 fiscal year, and the Board approved that issuance. The final \$40 million were issued in July 2001.

As of August 2001, the City has funded almost \$40 million in loans or grants for the development of rental housing, assisting development of 1,185 units of rental housing and 264 beds in group housing. About \$25 million more has been committed to specific projects in the development pipeline, and the remaining funds will be allocated through a Notice of Funding Availability process in Fall 2001. Altogether, the City expects to develop about 2,350 units and 500 beds of group housing with the Proposition A funds.

The Downpayment Assistance Loan Program funded by the bonds has assisted approximately 175 low and moderate-income households to become first time homebuyers. With a median household income of less than \$45,000, participants in the program have few other opportunities to become homeowners in San Francisco, and the program has been an essential tool to allow these families to remain in the City.

#### Transportation System Improvements

Significant large-scale transportation development projects are underway both to accommodate a growing number of travelers into the region and to improve transportation options and services for the City's residents, workers and businesses.

San Francisco International Airport serves as the key connection between the Bay Area, national, and international economies, receiving 54 percent of the region's air traffic and 94 percent of international traffic. A \$2.4 billion airport construction plan was completed in December 2000 and is designed to accommodate an estimated increase of 11 million passengers – growth of 26 percent – annually by 2006. The centerpiece of the program is the construction of an International Terminal Complex, consisting of a new terminal, new parking garages, a light rail system and improved airport roadways. The recent decreases in passenger and freight traffic using SFO is expected to continue to affect the city in the next fiscal year and beyond, however projections of long-term demand for the airport's new facilities are robust.

The new International terminal opened in December 2000 while construction on the connection to Bay Area Rapid Transit (BART) will be completed in 2002 and will provide a direct rail line from San Francisco and Oakland to the Airport.

The approval of Proposition E by the voters in November 1999 has improved the long-term financial stability of the municipal transportation system. This amendment to the City's Charter changes the funding and operation of the City's public transit system. Proposition E guarantees a minimum level of general revenue support for the system and establishes a more autonomous governing body to direct the system.

Since the adoption of Proposition E, the Municipal Railway (MUNI) has posted major accomplishments. Service has been expanded in the South of Market—an area that has experienced growing demand for transit due to its development as the center of the City's multimedia and internet industries, and to a significant increase in residential housing in the last five years. MUNI expanded the F Line with its historic streetcars to Fisherman's Wharf, and initiated the Castro Shuttle, serving downtown MUNI stations out to Castro Street, in response to customer demand along the Market Street corridor. Progress continues to be made on the Third Street Light Railway, which beginning in 2004 will provide a direct rail link between the Financial District, Mission Bay, and the residential neighborhoods of the southeast portion of the City. Finally, MUNI has been actively replacing its rolling stock, putting into service over 125 motor coaches and 18 light rail vehicles and has expanded its efforts to maintain the existing fleet.

#### Status of City Services

In the spring of 2001, the City, through the Controller's Office, conducted its sixth annual Citizen Survey.

A total of 2,148 San Franciscans were surveyed, providing their opinions of City services such as recreation programs and parks, public transportation (MUNI), libraries, streets, public safety and general City performance.

The 2001 major survey results indicated that:

- Library services, park grounds and MUNI routes continue to receive favorable ratings.
- Ratings of MUNI's timeliness and reliability continue to improve, after reaching a low point in 1999. MUNI's ratings for cleanliness, safety, courtesy and fares have also improved over time.
- Cleanliness and maintenance of park facilities show a positive trend for the past four years.
- Ratings of the pavement condition and cleanliness of City streets are less favorable than a year ago, but remain "fair" on average.
- Feelings of safety walking downtown (both day and night) have improved over the past four years.
- Feelings of safety crossing the street are the worst they have been since 1997.
- About half of respondents rate overall City performance as "fair." People are somewhat less satisfied in 2001 than in previous years.

- Residents of the southeastern quarter of the City are generally less satisfied with City services and with the conditions and safety of their neighborhoods.

## OTHER FINANCIAL INFORMATION

### Internal Controls

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

### Budgetary Process

The City's budget is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services, and activities to be carried on during the fiscal year; (2) the estimated revenue available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process where policy decisions by the Mayor and Board of Supervisors are made, implemented, and controlled. Note 2(d) to the basic financial statements summarizes the budgetary roles of various City officials and the timetable for their various budgetary actions according to the City Charter.

### Pension Trust Fund Operations

The City has a defined benefit retirement plan in which substantially all full-time employees participate. The plan's most recent actuarial calculations, as of July 1, 2000, estimate the plan is 138.8% funded.

### Cash Management

The City's pooled deposits and investments are invested pursuant to policy established by the Treasurer. This policy seeks the preservation of capital, liquidity and yield, in that order of priority. The policy addresses soundness of financial institutions holding our assets and the types of investments permitted by the California Government Code. The earned yield for the fiscal year 2000-01 was 6.056%. The Employees' Retirement System and the Redevelopment Agency deposits and investments are maintained outside the City Treasury and follow policies established by their respective governing boards.

### Risk Management

With certain exceptions, it is the policy of the City not to purchase commercial insurance against property or liability risks. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations. The City maintains limited coverage for certain facilities, primarily property of the San Francisco International Airport, Port of San Francisco, Municipal Railway, Helix Helichy, Water Department, Moscone Convention Center and art at City-owned museums. Additionally, various types of liability insurance coverage are maintained by the City for the Port and the Airport. The City is self-insured for workers' compensation claims. Claims payment history (experience) and payroll costs (exposure) are considered when calculating the claims liabilities and workers' compensation outstanding liabilities for each department. The City's insurance/self-insurance program is reviewed annually in the budget process. The claims liabilities and workers' compensation liabilities reported on the balance sheet have been actuarially determined and include an estimate of incurred but not reported losses.

## INDEPENDENT AUDIT

The City's Charter requires an annual audit of the Controller's records. These records, represented in the Comprehensive Annual Financial Report, have been audited by a consortium headed by the nationally recognized certified public accounting firm, KPMG LLP. The consortium also includes Calvin Louie CPA, (representing a separate consortium known as Associated Asian CPA Firms), Lamorena and Chang CPAs, Yano and Associates, and Rodriguez, Perez, Delgado and Company. The various enterprise funds, the Health Service System, the Employees' Retirement System, the San Francisco County Transportation Authority and the Redevelopment Agency have been separately audited. The Independent Auditors' Report on our current financial statements is presented in the Financial Section.

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2000. This was the nineteenth consecutive year (fiscal years ended June 30, 1982 - 2000) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The California Society of Municipal Finance Officers awarded a Certificate of Award for Outstanding Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2000. This was the third consecutive year that the City has achieved this prestigious award. In order to be awarded a certificate for outstanding financial reporting, a government must publish easily readable and efficiently organized CAFR.

## ACKNOWLEDGMENTS

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

Respectfully submitted,



Edward Harrington  
Controller

# California Society of Municipal Finance Officers

Certificate of Award

**Outstanding Financial Reporting 1999-2000**

Presented to the

**City & County of San Francisco**



This Certificate is issued in recognition of meeting professional standards and criteria in reporting which require a high level of quality in the financial reporting process and in the underlying accounting system from which the report was prepared.

*February 26, 2001*

*David Roberts*  
Chair, Professional & Technical Standards Committee

*Dedicated to Excellence in Municipal Financial Management*

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

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

**For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000**

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Ann Gray Kiny*  
President

*Jeffrey L. Evers*  
Executive Director

# CITY AND COUNTY OF SAN FRANCISCO

## List of Principal Officials As of June 30, 2001

### ELECTED OFFICIALS

Mayor .....	Willie L. Brown, Jr.
Board of Supervisors:	
President .....	Tom Ammiano
Supervisor .....	Chris Daly
Supervisor .....	Matt Gonzalez
Supervisor .....	Tony Hall
Supervisor .....	Mark Leno
Supervisor .....	Sophie Maxwell
Supervisor .....	Jake McGoldrick
Supervisor .....	Gavin Newsom
Supervisor .....	Aaron Peskin
Supervisor .....	Gerardo Sandoval
Supervisor .....	Leland Y. Yee
Assessor-Recorder .....	Doris M. Ward
City Attorney .....	Louise H. Renne
District Attorney .....	Terence Hallinan
Public Defender .....	Kimiko Burton
Sheriff .....	Michael Hennessey
Superior Court .....	
Presiding Judge .....	Ronald E. Quidachay
Treasurer .....	Susan Leal

### APPOINTED OFFICIALS

City Administrator .....	William L. Lee
Controller .....	Edward Harrington

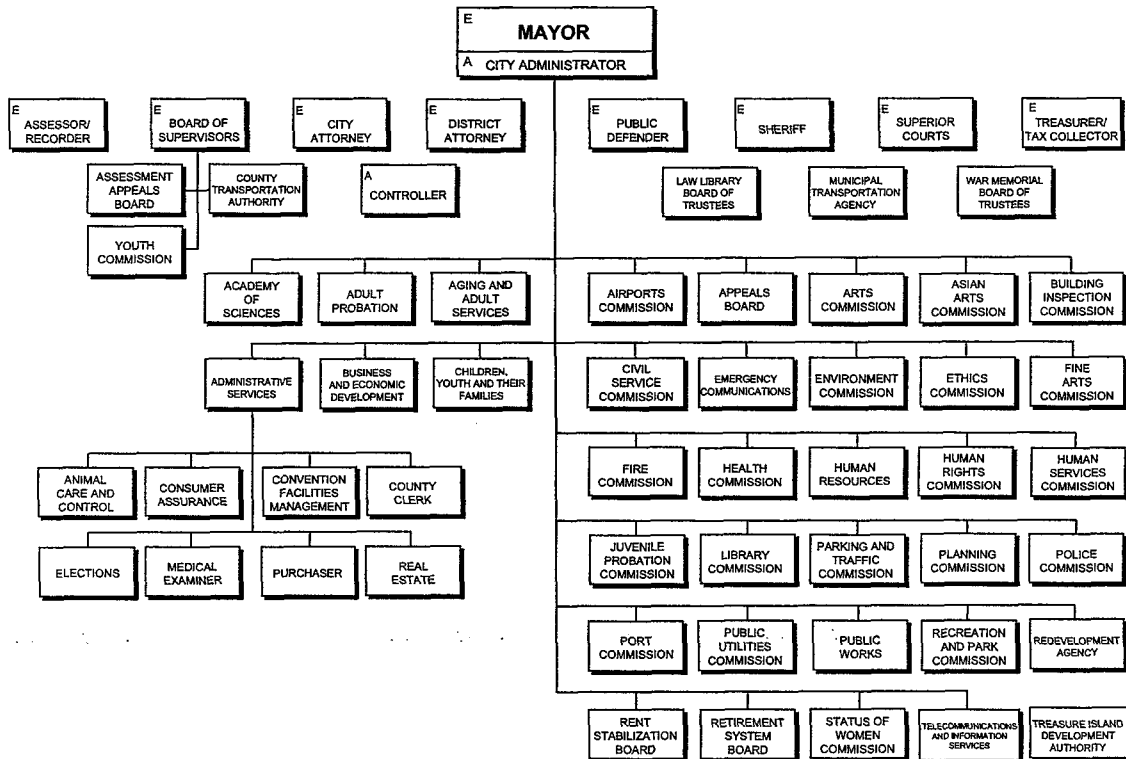
### DEPARTMENT DIRECTORS/ADMINISTRATORS

Administrative services .....	Ryan Brooks
Animal Care and Control .....	Carl Friedman
Consumer Assurance .....	David Frieders
Convention Facilities Management .....	Jack Moerschbaeche
County Clerk .....	Nancy Alfaro
Elections .....	Patricia Fado
Medical Examiner .....	Boyd G. Stephens, M.D.
Purchaser .....	Judith Blackwell
Real Estate .....	Anthony DeLucchi
Academy of Sciences .....	J. Patrick Kociolek, Ph. D.
Adult Probation .....	Armando Cervantes
Aging and Adult Services .....	Sandra Nathan
Airports Commission .....	John Martin

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## San Francisco City and County Government

(As of June 30, 2001)



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A Appointed by Mayor and confirmed by Board of Supervisors  
E Elected

# CITY AND COUNTY OF SAN FRANCISCO

## DEPARTMENT DIRECTORS/ADMINISTRATORS-(Continued)

Appeals Board.....	Robert Feldman
Arts Commission .....	Richard Newirth
Asian Arts Commission .....	Emily Sano
Building Inspection Commission.....	Frank Chiu
Board of Supervisors .....	Gloria Young
Assessment Appeals Board.....	Dawn Duran
County Transportation Authority .....	Jose Luis Moscovich
Youth Commission .....	Colleen Montoya
Business and Economic Development .....	Richard Hillis
Children, Youth and Their Families .....	Deborah Alvarez-Rodriguez
Civil Service Commission .....	Kate Favetti
Emergency Communications .....	Thera Bradshaw
Ethics Commission.....	Ginny Vida
Environment Commission .....	Francesca Vietor
Fine Arts Commission .....	Harry S. Parker III
Fire Commission .....	Paul Tabacco
Health Commission .....	Michelle Katz, M.D.
Human Resources .....	Andrea Gourline
Human Rights Commission .....	Virginia Harmon
Human Services Commission .....	Trent Rohrer
Juvenile Probation Commission .....	Jesse E. Williams, Jr.
Law Library Board of Trustees .....	Marcia Bell
Library Commission .....	Susan Hildreth
Municipal Transportation Agency .....	Michael Burns
Parking and Traffic Commission .....	Fred Hamdun
Planning Commission .....	Gerald Green
Police Commission.....	Fred H. Lau
Port Commission .....	Douglas Wong
Public Utilities Commission .....	Steve Leonard
Public Works.....	Edwin Lee
Recreation and Park Commission .....	Elizabeth Goldstein
Rent Stabilization Board.....	Joseph Grubb
Retirement System Board .....	Clare M. Murphy
Status of Women Commission.....	Rosario Navarrette
Superior Court .....	Gordon Park-Li
Telecommunications and Information Services .....	Liza Lowery
War Memorial Board of Trustees .....	Elizabeth Murray

## DISCRETELY PRESENTED COMPONENT UNITS

Redevelopment Agency .....	James Morales
Treasure Island Development Authority .....	Annamarie Conroy



These Embarcadero Center  
San Francisco, CA 94111

### Independent Auditors' Report

The Honorable Mayor Willie L. Brown, Jr.  
The Honorable Members of the Board of Supervisors  
City and County of San Francisco, California

We have audited the basic financial statements of the City and County of San Francisco, California (the City), as of and for the year ended June 30, 2001, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City and County of San Francisco, California, as of June 30, 2001, and the results of its operations, and the cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2(c) to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*; GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments - Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The management's discussion and analysis and schedules of funding progress, on pages 3 to 16 and 104, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information identified in the table of contents as combining financial statements and supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

January 22, 2002



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2001. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5.59 billion (net assets). Of this amount, \$533.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$565.6 million during the fiscal year.
- As of June 30, 2001, the City's governmental funds reported combined ending fund balances of \$1.49 billion. Approximately 19% of this total amount, \$277.2 million, is unreserved fund balance available for spending at the government's discretion.
- At the close of the current fiscal year, unreserved fund balance for the general fund was \$207.5 million or twelve percent of total general fund expenditures of \$1.8 billion.
- The City's total long-term debt increased by \$751.5 million (11 percent) during the current fiscal year. The key factors in this increase were issuances of \$137.2 million in certificates of participation for the San Bruno Jail Replacement Project, \$238.2 million in revenue bonds for the San Francisco Airport Improvement Project, and \$298.2 million in commercial paper by the City's enterprises including the Airport and Water Departments.
- Following the events of September 11, 2001, the City's revenues in hotel and sales tax showed significant drops from budget estimates. In addition, concession and other revenues received by the San Francisco International Airport have dropped due to new security measures and declining passenger numbers. These factors, combined with the overall slowdown in the information technology industries and in the general economy, have decreased both the unreserved fund balance and operating revenues available to the City in the fiscal year ending June 30, 2002. City management will monitor revenue streams and control expenditures and has already restricted expenditures to budget for a general fund revenue decrease of between \$60 and \$100 million over the fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

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

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

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency and a legally separate development authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. Included within the governmental activities of the government-wide financial statements are the operations of the San Francisco County Transportation Authority, San Francisco Finance Corporation, and San Francisco Parking Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City.

#### Fund Financial Statements

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

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

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

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from

the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (Airport), Port of San Francisco (Port), Water Department/Hetch Hetchy Project, Municipal Railway (Muni), Laguna Honda Hospital, General Hospital Medical Center, Clean Water Program (Clean Water), and various nonprofit parking facilities, all of which are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, its management information systems, and its printing and mail services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

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

## Notes to the Financial Statements

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

## Required Supplementary Information

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

## Combining Statements

The combining statements referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – Management's Discussion and Analysis (MD&A) – for State and Local Governments. Because this reporting model changes significantly both the recording and presentation of financial data, the City has not restated prior fiscal years for the purposes of providing comparative information for the MD&A. In future years when prior-year information is available a comparative analysis of government-wide data will be included in this report.

Net Assets			
June 30, 2001 (in thousands)			
	Governmental activities	Business-type activities	Total
<b>Assets:</b>			
Current and other assets.....	\$ 2,099,581	\$ 2,040,145	\$ 4,139,726
Capital assets.....	1,821,115	7,782,633	9,603,748
<b>Total assets.....</b>	<b>3,920,696</b>	<b>9,822,778</b>	<b>13,743,474</b>
<b>Liabilities:</b>			
Long-term liabilities outstanding...	1,844,956	4,725,413	6,570,369
Other liabilities.....	617,410	970,662	1,588,072
<b>Total liabilities.....</b>	<b>2,462,366</b>	<b>5,696,075</b>	<b>8,158,441</b>
<b>Net assets:</b>			
Invested in capital assets,			
net of related debt.....	779,698	2,970,198	3,749,896
Restricted.....	724,034	577,830	1,301,864
Unrestricted.....	(45,402)	578,675	533,273
<b>Total net assets.....</b>	<b>\$ 1,458,330</b>	<b>\$ 4,126,703</b>	<b>\$ 5,585,033</b>

## Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$5.59 billion at the close of the current fiscal year.

The largest portion of the City's net assets (67 percent) reflects its investment of \$3.75 billion in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets, \$1.30 billion (23 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$533.3 million (10 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities. For the governmental

activities, unrestricted net assets have a deficit of \$45.4 million related in part to debt from general obligation bonds for the San Francisco Unified School district which is recorded with no corresponding assets.

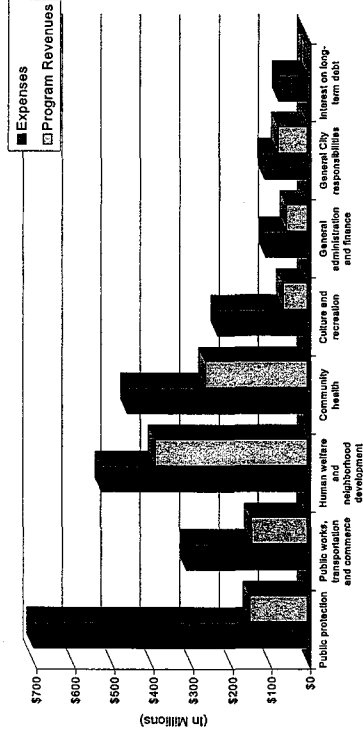
# Changes in Net Assets June 30, 2001 (in thousands)

	Governmental activities	Business-type activities	Total
<b>Revenues</b>			
Program revenues:			
Charges for services.....	\$ 344,721	\$ 1,408,121	\$ 1,752,842
Operating grants and contributions.....	763,863	260,620	1,024,383
Capital grants and contributions.....	22,619	335,520	358,139
General revenues:			
Property taxes.....	628,846	-	628,846
Business taxes.....	277,622	-	277,622
Other local taxes.....	581,460	-	581,460
Interest and investment income.....	61,064	96,493	157,557
Other.....	115,695	28,779	144,474
Total revenues.....	2,816,130	2,129,433	4,945,563
<b>Expenses</b>			
Public protection.....	\$ 699,472	-	699,472
Public works, transportation and commerce.....	309,171	-	309,171
Human welfare and neighborhood development.....	523,827	-	523,827
Community health.....	457,500	-	457,500
Culture and recreation.....	229,721	-	229,721
General administration and finance.....	107,318	-	107,318
General City responsibilities.....	109,804	-	109,804
Unallocated interest on long-term debt.....	73,588	-	73,588
Airport.....	-	529,002	529,002
Transit.....	-	468,753	468,753
Port.....	-	47,587	47,587
Water.....	-	145,858	145,858
Power.....	-	107,000	107,000
Hospitals.....	-	513,486	513,486
Sewer.....	-	149,687	149,687
Garage.....	-	34,155	34,155
Total expenses.....	2,510,401	1,995,528	4,505,929
Increase in net assets before special items and transfers.....	305,729	133,905	439,634
Special items.....	-	128,014	128,014
Transfers.....	(102,154)	-	(102,154)
Increase in net assets.....	203,575	362,073	565,648
Net assets at beginning of year.....	1,254,755	3,764,630	5,019,385
Net assets at end of year.....	\$ 1,458,330	\$ 4,126,703	\$ 5,585,033

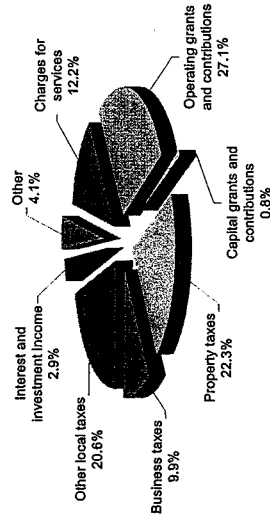
## Analysis of Changes in Net Assets

The City's net assets overall increased by \$565.6 million during the current fiscal year. These increases are explained in the government and business-type activities discussion below, and are primarily a result of revenues increasing faster than ongoing expenses.

## Expenses and Program Revenues - Governmental Activities



## Revenues By Source - Governmental Activities



**Governmental activities.** Governmental activities increased the City's net assets by \$203.6 million, thereby accounting for 36 percent of the total growth in the net assets of the City. Key factors of this increase are as follows:

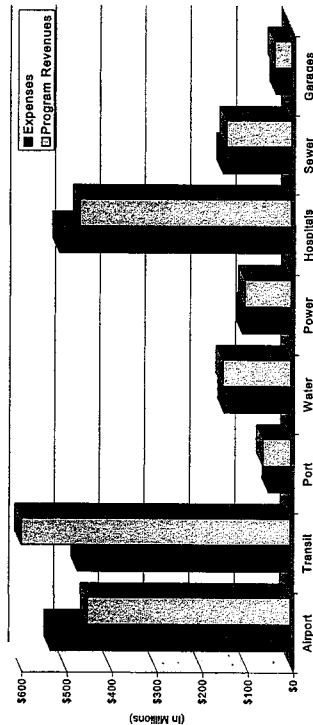
- Property tax revenues increased by approximately \$85 million or 16 percent during the year. Most of this increase is attributable to growth in the assessed value of property, and a decrease in the City's estimated assessment appeals reserve. In addition, the City is processing deeds more efficiently and thereby increasing supplemental property tax revenues.
- Other local taxes including sales, hotel and utility users taxes increased by approximately \$34 million or six percent during the year. The increases are a result of strong economic activity, continued high hotel occupancy rates during the first six months of the fiscal year, and significantly increased prices for electricity that occurred during some months of the fiscal year.

- Interest and investment income grew by approximately \$21 million or 34 percent during the year due to an increase in the average yield of City pooled investments from 5.84 percent to 6.06 percent. Growth in tax revenues also resulted in higher cash flows which allowed the City to invest and earn more interest and investment income.
- Grant and subvention revenue from state and federal sources increased by approximately three percent in the aggregate, largely related to increases of approximately \$30 million in grants for various programs received by the Department of Human Services and Department of Public Health, and to receipt of new state cigarette tax revenues received for early childhood programs through California Proposition 10.

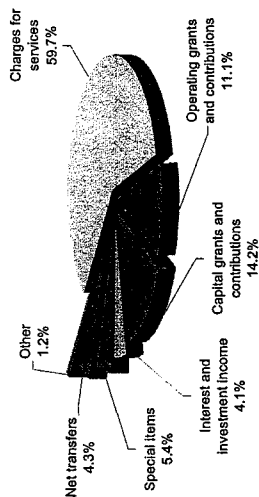
For the most part, increases in expenses paralleled increases in the cost of living in the San Francisco Bay Area and growth in the demand for government services. One notable exception, however, is the City's creation of a reserve to settle litigation regarding the business tax, which accounts for an increase of \$18.8 million in expenses. In addition, the City's General Fund makes transfers each year to help finance the operations of two enterprises; San Francisco General Hospital and Laguna Honda Hospital. These transfers together totaled \$106 million in fiscal year 2001, an increase of 17 percent over the prior fiscal year. This change is a result of increases in the Hospital's proportion of uninsured patients, as well as the cost of health care delivery growing faster than reimbursements from insurers and other governments.

The charts above illustrate the City's governmental expenses and revenues by function, and its revenues by source. As shown, public protection is the largest function in expense (27.9 percent), followed by human welfare and neighborhood development (20.9 percent) and community health (18.2 percent). General revenues such as property, business, and sales taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (27.1 percent), followed by property taxes (22.3 percent) and other local taxes (20.6 percent). As with the statement of net assets and the statement of activities, because the GASB No. 34 reporting model significantly changes the form of financial data, the City has not restated prior fiscal year revenue and expenditure information. Year to year comparisons will be included in future reports.

Expenses and Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



**Business-type activities.** Business-type activities increased the City's net assets by \$362.1 million, accounting for 64 percent of the total growth in the City's net assets. Key factors of this increase are as follows:

- The Municipal Railway's net assets overall increased by \$223.2 million primarily due to the receipt of capital contributions. MUNI received \$291.1 million in capital contributions from various state, federal, and local funding sources for equipment and construction projects to improve transit services. New rolling stock was acquired including articulated buses, and there were increases in the value of construction in progress, primarily through the Third Street Light Rail Project. The capital contribution amount also includes \$25.7 million which was received from the San Francisco County Transportation Authority and paid out to the Port of San Francisco under a Memorandum of Understanding allowing MUNI to use Port property in perpetuity for the Metro East maintenance facility.
- The Water Department net assets increased by \$129 million, primarily due to a one-time gain on the sale of property of \$126 million. The Department sold approximately 500 acres of land in Alameda County.
- The Port's net assets increased by \$42.3 million primarily related to the recognition of a payment of \$25.7 million from the Municipal Railway for the right to use a 17 acre site of Port property for MUNI's Metro East maintenance and repair facility. The Port also received capital contributions related to construction work on the Downtown Ferry Terminal Project, and other projects.
- At the San Francisco International Airport, capital assets increased by approximately \$460 million (13 percent) largely due to projects associated with the Near Term Master Plan, and the ongoing Air Train System project to construct a transportation network between the terminals and parking facilities. The increase in capital assets was partially offset by additional depreciation expense of \$57.0 million.

As shown in the charts above, the largest of San Francisco's business-type activities, the San Francisco International Airport, and the City's two hospitals together, each had expenses in excess of \$500 million in fiscal year 2001, followed closely by transit (the Municipal Railway) with operating expenses of approximately \$468 million. For the fiscal year, revenues exceeded expenses in four areas of business activity—transit, port, water and power, and garages. For all of the business-type activities, fees provide the largest share of revenues (59.7 percent) followed by capital grants and contributions (14.2 percent), and operating grants (11.1 percent), which are primarily received by the Municipal Railway.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

### Governmental funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.49 billion, an increase of \$309.3 million in comparison with the prior year. Approximately \$277.2 million of this total amount constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to liquidate existing contracts and purchase orders (\$410.8 million), (2) to fund continued programs or projects in future fiscal periods (\$586 million), (3) to pay debt service (\$63.3 million), and (4) for a variety of other restricted purposes (\$155.1 million).

Revenues for governmental functions overall totaled approximately \$2.81 billion in the fiscal year ended June 30, 2001, which represents an increase of nine percent from the fiscal year ended June 30, 2000. Expenditures for governmental functions, totaling \$2.79 billion, increased by approximately ten percent from the fiscal year ended June 30, 2000. In the fiscal year ended June 30, 2001, revenues for governmental functions exceeded expenses by approximately \$20.5 million, or slightly less than one percent.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$207.5 million, while total fund balance was \$479.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12 percent of total general fund expenditures of \$1.8 billion, while total fund balance represents 27 percent of that same amount.

The fund balance in the City's general fund increased by \$95.4 million during the fiscal year mainly due to continued growth in local revenues, especially property taxes, other local taxes including hotel, utility and parking taxes, and intergovernmental revenues, particularly state grants and subventions. As noted above, the City's general fund property tax collections increased by approximately 16 percent during the fiscal year related to growth in assessed values, reduced assessment appeals, and growth in supplemental property tax revenues. In addition, many general fund program expenses grew more slowly than projected. Overall, the general fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2001 of \$217.7 million, an increase of 33 percent over the comparable figure from the prior year of \$164 million.

### Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for the San Francisco International Airport were \$272.3 million, the Water Department/Hetch Hetchy Project \$216.6 million, the Clean Water Program \$20.9 million, the Port of San Francisco \$72.2 million, and the Parking Garages were \$62.9 million. Three proprietary funds had deficits in unrestricted net assets—the Municipal Railway fund had a deficit of \$42.7 million, and the San Francisco General Hospital and the Laguna Honda Hospital had deficits in unrestricted net assets of \$9.6 million and \$13.8 million respectively. The internal service funds which are used to account for certain governmental activities also had a deficit in unrestricted net assets of \$3.9 million.

The total growth in net assets for the proprietary funds was \$362.1 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. In particular, the San Francisco International Airport's net assets decreased by \$57.4 million due to an increase in net bonded debt, the issuance of additional commercial paper, and decreased revenues.

### Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public services or employees. As of the end of fiscal year 2000-2001, the net assets of the Retirement System totaled \$11.2 billion, representing a decrease of \$1.7 billion in total net assets since June 30, 2000. The change is primarily related to decreases in the market value of the Retirement System's investments. The Investment Trust Fund's net assets totaled \$275.2 million, with an increase in net assets over the fiscal year of \$80.5 million, primarily resulting from increased contributions from external participants to the fund.

### General Fund budgetary highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year. In fiscal year 2001, significant supplemental appropriations were approved for the Sheriff and Fire departments to fund unanticipated overtime and other expenses (approximately \$2.9 million in each case), for a program to provide rental subsidies for non-profit arts organization (\$3 million), and to fund additional expenses for the Department of Elections related to the cost of new election technology and a run-off election (\$2.4 million).

Differences between the final budget and the actual (budgetary basis) resulted in a \$97.9 million decrease in total charges to appropriations. This is primarily due to the following factors:

- A decrease in expenditures by the Human Services Department of approximately \$31 million related to reduced need for aid payments and other costs under federal and state welfare programs. In particular, the City spent approximately \$25 million less than budgeted in direct aid, services such as employment training, and administrative costs under the CalWorks program. Expenses were also less than budgeted in the foster care and cash assistance to immigrants programs. However, these expense reductions are almost entirely offset by decreases in the subvention funds which San Francisco is able to claim under these programs.
- A decrease in expenditures by the Department of Public Health of approximately \$36.5 million, primarily associated with a reduction in the local match requirement for the SB 855 Medi-Cal disproportionate share program. This decrease is non-program related and does not result in service reductions.
- A decrease in expenditures of approximately \$2.4 million in the General City Responsibilities area resulting primarily from required debt service payments which were less than the budgeted level.
- The General Fund was able to reduce its transfers to other funds by \$3 million, stemming primarily from unanticipated state revenues which were received by San Francisco General Hospital and Laguna Honda Hospital, thus allowing for reduced subsidy transfers.
- Budgetary reserves of \$5.8 million for various programs and payments which had been anticipated and included in the revised budget were liquidated at the close of the fiscal year.

During the year, actual revenues and other resources exceeded budgetary estimates by \$101 million. The majority of this amount is attributable to local taxes—specifically the property, sales, hotel, and utility taxes where actual performance was greater than estimates. The City also started the fiscal year with an available fund balance approximately \$21 million greater than anticipated when the fiscal year 2001 final budget was

developed. The net effect of the under-utilization of appropriations and the receipt of actual revenues greater than estimates resulted in a positive budgetary fund balance of \$199 million.

In creating its budget for the fiscal year ended June 30, 2002, the City used a budgetary fund balance of \$148.7 million (see Note 4 to the Financial Statements).

## Capital Assets and Debt Administration

### Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2001, amount to \$9.6 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. The total increase in the City's capital assets for the current fiscal year was 10.33 percent (a 1.61 percent increase for governmental activities and a 8.72 percent increase for business-type activities) as shown in the table below.

Changes in Capital Assets - Net of Depreciation  
(in thousands)

	Governmental Activities		Business-type Activities		Total
	2001	2000	2001	2000	
Land.....	\$ 131,539	\$ 124,772	\$ 184,299	\$ 182,137	\$ 315,838
Facilities and improvement.....	1,214,496	1,226,524	5,316,447	4,842,297	6,530,943
Machinery and equipment.....	88,372	90,307	493,757	350,718	582,129
Infrastructure.....	-	-	454,899	473,662	454,899
Property held under lease.....	536	536	515	721	1,051
Easements.....	-	-	98,482	94,445	98,482
Construction in progress.....	386,172	238,989	1,234,234	1,079,585	1,620,406
Total.....	\$ 1,821,115	\$ 1,661,130	\$ 7,782,633	\$ 7,023,555	\$ 9,603,748
					\$ 8,704,703

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

- The Airport incurred \$533 million in capital expenditures due primarily to completion of the Near Term Master Plan, opening of the new International Terminal in December 2000, and completion of ramps and elevated roadways for access to the new terminal from the highway.
- MUNI capital assets increased by \$219.9 million due to progress on the Third Street Light Rail Project, acquisition of 160 motor coaches and 25 light rail vehicles, renovation of Woods Division, and a stepped up rail replacement program.
- The Water Department sold approximately 500 acres of land in Alameda County resulting in a net gain of approximately \$126 million.
- Clean Water's capital expenditures included \$7.7 million to complete pump station and primary treatment upgrade projects at the Southeast Plant and to complete the Southeast Water Pollution Control Plan Anaerobic Digestion Facility.
- Hetch Hetchy capital expenditures included \$4.3 million to complete the Moccasin Sewer Replacement, San Joaquin Pipeline repairs, and the Grizzly Creek Canal upgrade.

- Governmental activities construction in progress increased by \$147.2 million due to progress on the Moscone Center Expansion, the Asian Art Museum, and various recreation and park, and public works improvement projects.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

For governmental activities, no major net infrastructure assets are reported at the beginning of the year because the historical costs did not meet the threshold established in GASB 34. In fiscal year 2001, ongoing infrastructure projects are accounted for in construction in progress.

Additional information about the City's capital assets can be found in Note 7 to the financial statements.

### Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$8.3 billion. Of this amount, \$953.5 million is general obligation bonds backed by the full faith and credit of the City and \$5.4 billion is revenue bonds, commercial paper, loans, and other obligations of the City's business enterprises. The remainder includes revenue bonds, certificates of participation, and other obligations of City parking garages, the Moscone Center, and other governmental activities.

During fiscal year 2001, the City's total bonded debt increased by approximately \$511.6 million. The key factors were the issuances of \$137.2 million for the San Bruno Jail Replacement Project, \$157.5 million for the Moscone Expansion Project, and \$238.2 million for the San Francisco Airport Improvement Project.

The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens, and investors. A comparison of these indicators follows:

	FY 2001	FY 2000
Net General Bonded debt	\$941,926,000	\$909,857,000
Net General Bonded debt per capita	\$1,187.11	\$1,136.46
Ratio of net General Bonded debt to net assessed value	1.26%	1.40%
Debt service tax rate per \$100 taxable valuation	\$0.1348	\$0.1277

The City's Charter also imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3% of the assessed value of property in the City—currently about \$2.4 billion. As of June 30, 2001, the City had \$956.7 million in authorized, outstanding property tax-supported general obligation bonds. This amount is reduced by net assets in the General Obligation Bonds Fund of \$14.8 million for net tax supported bonded debt of \$941.9 million, which is equal to approximately 1.26% of the assessed value of property (net of exemptions). There are an additional \$969.5 million in bonds that are authorized but unissued. If all of these bonds were issued and outstanding, the total debt burden would be 2.55% of the assessed value of property (net of exemptions).

The City's ratings on uninsured general obligation bonds as of June 30, 2001 were:

Moody's Investors Service, Inc.	Aaa
Standard and Poor's Corporation	AA
Fitch IBCA, Inc.	AA

The City's enterprise activities have experienced some changes in debt ratings since June 30, 2001. On July 9, 2001, the Water Department's underlying rating on outstanding debt was downgraded by Standard & Poor's from AA- negative outlook to A+ stable outlook, affecting approximately \$233 million of uninsured Water Department debt. Following the events of September 11<sup>th</sup>, Standard & Poor's placed all its North American airport and airport-related facilities, including the San Francisco International Airport, on CreditWatch with negative implications. Moody's Investors Service affirmed its A1 rating for the Airport, but revised the outlook from developing to negative, and Fitch IBCA, Inc. affirmed its AA- rating for the Airport, but revised the outlook from evolving to negative.

In October 2001, related to the events of September 11, and to the expansion of the state budget deficit, a negative outlook was placed on the debt ratings of most California counties. All counties in the state except San Francisco were affected by this action. The City's higher proportion of discretionary revenues, its demonstrated willingness to control spending in response to current economic conditions, and its relatively conservative 2002 budget were credited with San Francisco's retaining a stable outlook on its debt.

Since the close of the 2001 fiscal year, the City has issued additional debt of \$488.5 million in Airport Revenue bonds, \$50.8 million of subordinated commercial paper notes, \$140 million of Water Revenue bonds, \$60.8 million in Settlement Obligation Bonds for business tax obligations related to litigation against the City, \$17.7 million in General Obligation bonds to finance improvements and construction of branch library facilities, and \$52.7 million in Certificates of Participation and Refunding Certificates of Participation related to the financing of City office buildings.

Additional information in the City's long-term debt can be found in Note 8 to the financial statements.

#### Economic factors and next year's budget and rates

- During the current fiscal year, the City appropriated \$148.7 million out of \$199 in available fund balance in the General Fund for spending in fiscal year 2002. It is intended that this use of fund balance will avoid the need to raise fees or charges during fiscal year 2002.
- The City currently faces a less favorable economic environment resulting from the decline in the technology industries. San Francisco's unemployment rate has almost doubled from its low point of 2.9 percent in 2000 to approximately 5.4 percent by the end of June 2001 and 6.1 percent as of November 2001.
- While the City showed a preliminary increase in real property assessments as of January 1, 2001 by approximately 12 percent, slower property tax growth is nonetheless budgeted in fiscal year 2002.
- Sales tax revenue, with slower growth already experienced related to the economic downturn generally and layoffs of information technology workers particularly, has been somewhat aggravated by the September 11 tragedy. The City has restricted departmental spending to budget for this and other reductions in local revenue sources.
- Hotel Room Tax revenue has grown at an average rate of 7.2 percent over the last 15 years. As with sales tax, the economic downturn which began in April of the last fiscal year, coupled with the effect of September 11 events on the tourist market, has resulted in a significant drop in hotel tax revenues. During the first six months of fiscal year 2002, hotel tax revenues have decreased by approximately 25 percent compared to the same period in fiscal year 2001.
- Revenues from airlines and concessionaires at the San Francisco International Airport, including those at the new International Terminal were already projected to be less than expected due to the declining economy. The decrease in passenger traffic following the events of September 11 has accelerated this trend.

- Increased energy costs stemming from California's energy crisis had a significant impact on the City's budget, causing San Francisco to budget for higher energy costs. In addition, due to higher energy costs, and to long-term commitments to sell power, Hetch Hetchy has reduced its transfer to the General Fund from approximately \$29.9 million in fiscal year 2001 to zero budgeted for fiscal year 2002.

- The financial position of the City hospitals continues to deteriorate. Medicare and Medicaid reimbursements and insured patients cover a smaller proportion of the hospitals' costs than in prior years, while the cost of staff, drugs, supplies and medical equipment is increasing significantly faster than the rate of inflation.

All of the above factors were considered in preparing the City's budget for fiscal year 2002.

#### REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller's Office of the City and County of San Francisco at City Hall, Room 316, #1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Net Assets**  
**June 30, 2001**  
**(In Thousands)**

	Primary Government			Component Units		
	Governmental Activities	Business- Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority	
<b>ASSETS</b>						
Current assets:						
Deposits and Investments with City Treasury.....	\$1,246,818	\$ 701,962	\$1,948,780	\$ -	\$ 1,463	
Deposits and Investments outside City Treasury.....	297,948	2,467	300,415	124,069	-	
Receivables (net of allowance for uncollectible amounts of \$10,089 for the primary government):						
Other local taxes.....	29,229	-	29,229	-	-	
Federal and state grants and subventions.....	182,726	-	182,726	-	-	
Charges for services.....	141,128	56,222	197,350	-	36	
Interest and other.....	22,735	149,626	172,361	-	-	
Due from component unit.....	27,133	20,208	47,341	4,427	-	
Loans receivable.....	19,587	-	19,587	-	-	
Inventories.....	-	-	-	17,600	-	
Deferred charges and other assets.....	-	41,369	41,369	-	-	
Total current assets.....	6,972	5,944	12,916	-	-	
	1,874,276	977,798	2,852,074	146,096	1,499	
<b>Restricted assets:</b>						
Deposits and Investments with City Treasury.....	-	648,968	648,968	-	-	
Deposits and Investments outside City Treasury.....	-	331,524	331,524	211,635	-	
Grants and other receivables.....	-	22,279	22,279	1,081	-	
Total restricted assets.....	-	1,002,771	1,002,771	212,716	-	
<b>Noncurrent assets:</b>						
Receivables (net of allowance for uncollectible amounts of \$155,235 and \$92,191 for the primary government and component units, respectively):						
Loans receivable.....	118,117	-	118,117	218,288	-	
Deferred charges and other assets.....	7,188	59,576	66,764	754	-	
Property held for resale.....	-	-	-	5,216	-	
Capital assets:						
Land and other assets not being depreciated.....	517,711	1,418,533	1,936,244	49,731	-	
Facilities, infrastructure, and equipment, net of depreciation.....	1,303,404	6,364,100	7,667,504	130,291	-	
Total capital assets.....	1,821,115	7,782,633	9,603,748	180,022	-	
Total noncurrent assets.....	1,946,420	7,842,209	9,788,629	404,280	-	
Total assets.....	3,820,696	9,822,778	13,743,474	763,092	1,499	

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



CITY AND COUNTY OF SAN FRANCISCO  
Statement of Net Assets (Continued)

June 30, 2001  
(In Thousands)

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority	
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable.....	108,491	127,540	236,031	5,883	308	
Accrued payroll.....	74,585	57,351	131,936	-	68	
Accrued vacation and sick leave pay.....	54,052	38,282	90,314	790	-	
Accrued workers' compensation.....	32,558	25,582	58,140	-	-	
Estimated claims payable.....	114,882	15,470	130,352	-	-	
Bonds, loans, capital leases, and other payables.....	95,260	148,939	245,199	21,185	-	
Accrued interest payable.....	9,166	12,470	21,626	12,933	13	
Accrued interest payable.....	-	-	-	10,850	-	
Unearned grant and subvention revenues.....	30,274	-	30,274	-	-	
Due to primary government.....	40,109	(40,109)	-	19,587	-	
Internal balances.....	57,043	61,429	118,472	9,087	-	
Deferred credits and other liabilities.....	617,410	444,934	1,062,344	80,295	377	
<b>Total current liabilities.....</b>	<b>1,458,330</b>	<b>1,062,344</b>	<b>2,520,674</b>	<b>145,857</b>	<b>385</b>	
Liabilities payable from restricted assets:						
Bonds, loans, capital leases, and other payables.....	-	405,882	405,882	-	-	
Accrued interest payable.....	-	35,704	35,704	-	-	
Other.....	-	84,142	84,142	-	-	
<b>Total liabilities payable from restricted assets.....</b>	<b>-</b>	<b>425,728</b>	<b>425,728</b>	<b>-</b>	<b>-</b>	
<b>Noncurrent liabilities:</b>						
Accrued vacation and sick leave pay.....	59,481	29,084	88,565	884	-	
Accrued workers' compensation.....	118,641	80,011	198,652	-	-	
Estimated claims payable.....	35,065	26,025	61,110	-	-	
Bonds, loans, capital leases, and other payables.....	1,631,769	4,557,088	6,188,857	599,890	-	
Accrued interest payable.....	-	-	-	134,339	-	
Deferred credits and other liabilities.....	-	33,205	33,205	-	-	
<b>Total noncurrent liabilities.....</b>	<b>1,844,956</b>	<b>4,725,413</b>	<b>6,570,369</b>	<b>725,203</b>	<b>-</b>	
<b>Total liabilities.....</b>	<b>2,462,386</b>	<b>5,696,075</b>	<b>8,158,461</b>	<b>871,060</b>	<b>385</b>	
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt.....	779,698	2,970,198	3,749,896	72,642	-	
Restricted for:						
Cash and emergencies requirements by Charter.....	97,491	-	97,491	-	-	
Debt service.....	10,855	276,392	287,247	-	-	
Capital projects.....	118,549	189,103	307,652	58,505	-	
Community development.....	181,264	-	181,264	-	-	
Transportation Authority activities.....	162,037	-	162,037	-	-	
Other purposes.....	153,838	112,335	266,173	3,271	1,122	
Unrestricted (deficit).....	(46,402)	578,675	532,273	(176,924)	-	
<b>Total net assets.....</b>	<b>\$1,458,330</b>	<b>\$4,126,703</b>	<b>\$5,585,033</b>	<b>\$ (42,406)</b>	<b>\$ 1,122</b>	

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

CITY AND COUNTY OF SAN FRANCISCO  
Statement of Activities

Year ended June 30, 2001

(In Thousands)

	Primary Government					Component Units		
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority			
<b>Net (Expense) Revenue and Changes in Net Assets</b>								
<b>Primary government:</b>								
Governmental activities:								
Public protection.....	\$ 699,472	\$ 43,061	\$ 104,937	\$ -	\$ (551,484)	\$ -	\$ -	\$ -
Public works, transportation and commerce.....	309,171	97,432	25,552	19,894	(166,493)	-	(166,493)	-
Human welfare and neighborhood development.....	523,827	12,742	370,471	-	(134,614)	-	(134,614)	-
Community health.....	457,960	29,630	23,630	-	(196,971)	-	(196,971)	-
Culture and recreation.....	223,721	57,191	3,343	1,121	(166,066)	-	(166,066)	-
General administration and finance.....	107,318	49,977	4,043	-	(53,288)	-	(53,288)	-
General City responsibilities.....	109,804	94,329	16,867	1,804	(34,764)	-	(34,764)	-
Unallocated interest on long-term debt.....	73,588	-	-	-	(73,588)	-	(73,588)	-
<b>Total governmental activities.....</b>	<b>2,510,401</b>	<b>344,721</b>	<b>783,985</b>	<b>22,619</b>	<b>(1,379,199)</b>	<b>-</b>	<b>(1,379,199)</b>	<b>-</b>
Business-type activities:								
Alport.....	528,002	414,880	-	33,196	(80,928)	-	(80,928)	-
Traffic.....	485,753	113,196	190,617	291,076	126,136	-	126,136	-
Port.....	47,587	50,346	5	10,978	13,741	-	13,741	-
Water.....	145,858	149,917	210	-	4,269	-	4,269	-
Power.....	107,000	101,983	49	270	(4,718)	-	(4,718)	-
Hospitals.....	513,488	398,481	68,689	-	(46,166)	-	(46,166)	-
Sewer.....	148,937	141,770	770	-	(7,147)	-	(7,147)	-
Garages.....	34,155	37,589	-	-	3,434	-	3,434	-
<b>Total business-type activities.....</b>	<b>1,995,528</b>	<b>1,408,121</b>	<b>280,520</b>	<b>335,520</b>	<b>8,633</b>	<b>8,633</b>	<b>8,633</b>	<b>-</b>
<b>Total primary government.....</b>	<b>\$4,505,929</b>	<b>\$1,752,842</b>	<b>\$1,024,383</b>	<b>\$ 366,139</b>	<b>\$ (1,379,199)</b>	<b>\$ -</b>	<b>\$ (1,379,199)</b>	<b>\$ -</b>
<b>Component units:</b>								
San Francisco Redevelopment Agency.....	\$ 128,089	\$ 39,786	\$ 16,321	\$ -	\$ -	\$ -	\$ (72,862)	\$ -
Treasure Island Development Authority.....	4,892	5,721	567	-	-	-	-	1,408
<b>Total component units.....</b>	<b>\$ 132,971</b>	<b>\$ 45,507</b>	<b>\$ 16,888</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (72,862)</b>	<b>\$ 1,408</b>
<b>General revenues:</b>								
Taxes:								
Property taxes.....				\$ 628,846	\$ -	\$ 628,846	\$ 34,650	\$ -
Business taxes.....				277,822	-	277,822	-	-
Other local taxes.....				581,480	-	581,480	5,474	-
Interest and investment income.....				96,493	-	96,493	22,448	-
Other.....				115,695	-	115,695	144,474	1,598
Special item - land sale.....				(102,154)	-	(102,154)	126,014	-
Transfers - Internal activities of primary government.....				1,582,773	102,154	1,684,927	-	-
Total general revenues, special item, and transfers.....				2,034,755	353,440	2,388,195	84,160	-
Change in net assets.....				1,254,755	362,073	1,616,828	(6,822)	1,408
Net assets (deficit) - beginning.....				\$ 1,458,330	\$ 4,126,703	\$ 5,585,033	\$ (42,406)	\$ 1,122
Net assets (deficit) - ending.....								

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2001**  
**(In thousands)**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Deposits and investments with City Treasury.....	\$ 400,595	\$ 838,427	\$ 1,239,022
Deposits and investments outside City Treasury.....	356	297,592	297,948
Receivables:			
Property taxes and penalties.....	21,697	7,542	29,239
Other local taxes.....	165,587	17,159	182,726
Federal and state grants and subventions.....	62,247	76,881	141,128
Charges for services.....	17,775	4,960	22,735
Interest and other.....	10,935	15,897	26,832
Due from other funds.....	48,937	48,937	97,874
Due from component unit.....	400	19,187	19,587
Loans receivable (net of allowance for uncollectible amounts of \$155,235) ..	183	117,934	118,117
Deferred charges and other assets.....	5,529	1,443	6,972
<b>Total assets.....</b>	<b>\$ 734,211</b>	<b>\$ 1,399,022</b>	<b>\$ 2,133,233</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable.....	\$ 66,338	\$ 36,912	\$ 103,250
Accrued payroll.....	59,439	13,077	72,516
Estimated claims payable.....	2,104	63,000	65,104
Accrued interest payable.....	-	388	388
Deferred tax, grant and subvention revenues.....	27,622	24,840	52,462
Due to other funds.....	-	89,046	89,046
Deferred credits and other liabilities.....	99,321	158,419	257,740
<b>Total liabilities.....</b>	<b>255,024</b>	<b>385,492</b>	<b>640,516</b>
<b>Fund balances:</b>			
Reserved for cash requirements.....	93,293	-	93,293
Reserved for emergencies.....	4,198	-	4,198
Reserved for assets not available for appropriation.....	6,089	51,548	57,637
Reserved for debt service.....	-	63,308	63,308
Reserved for encumbrances.....	37,743	373,088	410,831
Reserved for appropriation carryforward.....	77,060	446,211	523,271
Reserved for subsequent years' budgets.....	53,337	9,664	63,001
Unreserved, reported in:			
General Fund.....	207,467	-	207,467
Special revenue funds.....	-	54,018	54,018
Capital project funds.....	-	11,629	11,629
Permanent fund.....	-	4,064	4,064
<b>Total fund balances.....</b>	<b>479,187</b>	<b>1,015,530</b>	<b>1,492,717</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 734,211</b>	<b>\$ 1,399,022</b>	<b>\$ 2,133,233</b>

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

**City and County of San Francisco**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2001**

**(In Thousands)**

Fund balances - total governmental funds	\$ 1,492,717
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,818,520
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	7,185
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,070,925)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(8,759)
Because the focus of governmental funds is not short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	222,895
Internal service funds are used by management to charge the costs of fleet management, printing and mailing services, and information systems to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(3,294)
Net assets of governmental activities	\$ 1,458,330

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balances**  
**Governmental Funds**  
**Year ended June 30, 2001**  
**(In thousands)**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Property taxes.....	\$ 462,171	\$ 165,483	\$ 627,654
Business taxes.....	277,094	728	277,822
Other local taxes.....	448,132	133,346	581,480
Licenses, permits and franchises.....	17,714	5,789	23,503
Fines, forfeitures and penalties.....	9,097	3,676	12,773
Interest and investment income.....	27,683	63,736	91,429
Rents and concessions.....	19,236	56,064	75,302
Intergovernmental:			
Federal.....	135,410	181,348	296,758
State.....	501,020	74,341	575,361
Other.....	-	6,245	6,245
Charges for services.....	100,325	115,087	215,412
Other revenues.....	17,395	13,724	31,119
<b>Total revenues.....</b>	<b>2,015,349</b>	<b>799,569</b>	<b>2,814,938</b>
<b>Expenditures:</b>			
Current:			
Public protection.....	626,136	45,983	672,119
Public works, transportation and commerce.....	95,486	204,463	299,949
Human welfare and neighborhood development.....	431,266	125,976	557,242
Community health.....	365,280	89,685	454,975
Culture and recreation.....	106,728	127,135	233,863
General administration and finance.....	127,366	23,116	150,482
General City responsibilities.....	45,380	64,373	109,753
Debt service:			
Principal retirement.....	-	89,870	89,870
Interest and fiscal charges.....	-	68,367	68,367
Bond issuance costs.....	-	7,368	7,368
Capital outlay.....	-	170,472	170,472
<b>Total expenditures.....</b>	<b>1,797,652</b>	<b>996,808</b>	<b>2,794,460</b>
<b>Excess (deficiency) of revenues over expenditures.....</b>	<b>217,697</b>	<b>(197,219)</b>	<b>20,478</b>
<b>Other financing sources (uses):</b>			
Transfers in.....	134,983	126,974	261,957
Transfers out.....	(257,317)	(107,861)	(365,178)
Issuance of bonds and loans.....	-	392,070	392,070
<b>Total other financing sources (uses).....</b>	<b>(122,334)</b>	<b>411,183</b>	<b>288,849</b>
<b>Net change in fund balances.....</b>	<b>95,363</b>	<b>213,964</b>	<b>309,327</b>
Fund balance at beginning of year, as previously reported.....	275,640	792,104	1,067,744
Cumulative effect of a change in accounting principles.....	105,164	7,462	112,626
Fund balances at beginning of year, as restated.....	380,804	799,566	1,180,370
<b>Fund balances at end of year.....</b>	<b>\$ 476,167</b>	<b>\$ 1,013,530</b>	<b>\$ 1,492,717</b>

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

**City and County of San Francisco**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Year ended June 30, 2001**  
**(In Thousands)**

Net change in fund balances - total governmental funds	\$ 309,327
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	140,383
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	21,533
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,192
Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities.	42,980
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets while the accrual of accreted interest serves to increase the liability in the statement of net assets and result in additional expense in the statement of activities. This is the amount by which principal payments exceeded newly accreted interest.	7,090
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of net assets. This is the amount by which current year bond issuance costs exceed amortization expense in the current period.	7,245
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which bond proceeds exceeded principal retirement in the current period.	(322,200)
Additional accrued interest calculated on bonds and notes payable.	(4,104)
The net revenues of certain activities of internal service funds is reported with governmental activities.	119
Changes in net assets of governmental activities	\$ 203,575

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Budgetary Comparison Statement - General Fund**  
Year ended June 30, 2001  
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>Budgetary fund balance, July 1</b>	<b>\$ 127,500</b>	<b>\$ 375,043</b>	<b>\$ 396,124</b>	<b>\$ 21,081</b>
<b>Resources (inflows):</b>				
Property taxes.....	426,268	426,305	461,940	35,635
Business taxes.....	270,077	270,077	277,094	7,017
Other local taxes:				
Sales tax.....	130,311	130,311	143,815	13,504
Hotel room tax.....	118,926	119,350	131,402	12,052
Utility users tax.....	58,365	58,365	77,170	18,805
Parking tax.....	30,665	31,426	33,832	2,406
Other local taxes.....	55,398	55,388	65,213	9,825
Licenses, permits, and franchises:				
Licenses and permits.....	8,929	8,929	7,264	(1,665)
Franchise Tax.....	7,428	7,428	11,650	4,222
Fines, forfeitures, and penalties.....	8,816	8,816	9,097	279
Interest and investment income.....	25,103	25,225	34,858	9,433
Rents and concessions:				
Garages - Recreation and Park.....	7,046	7,046	7,560	514
Rents and concessions - Recreation and Park.....	10,576	10,576	10,691	113
Other rents and concessions.....	1,298	1,298	1,288	(10)
<b>Intergovernmental:</b>				
Federal subventions:				
Health and social service subventions.....	130,555	139,152	129,236	(9,916)
Other grants and subventions.....	4,764	2,164	6,174	4,310
State subventions:				
Social service subventions.....	124,028	122,714	93,088	(29,628)
Health and welfare realignment.....	75,731	76,730	75,077	(1,653)
Health/mental health subventions.....	114,787	114,787	123,111	8,324
Public safety sales tax.....	68,467	68,467	71,638	3,171
Motor vehicle in-lieu - county.....	95,284	95,284	97,307	2,023
Other grants & subventions.....	24,537	23,544	40,802	17,268
<b>Charges for services:</b>				
General government service charges.....	27,969	29,909	28,968	(941)
Public safety service charges.....	11,665	12,671	13,298	627
Recreation charges - Recreation and Park.....	8,705	9,897	9,897	-
MediCal, MediCare and health service charges.....	35,417	43,354	46,162	4,908
<b>Other financing sources:</b>				
Transfers from other funds.....	157,710	156,996	123,523	(33,473)
Other resources (inflows).....	574	978	4,147	3,169
<b>Total amounts available for appropriation.....</b>	<b>\$ 2,169,034</b>	<b>\$ 2,432,224</b>	<b>\$ 2,533,224</b>	<b>\$ 100,990</b>

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Budgetary Comparison Statement - General Fund (Continued)**  
Year ended June 30, 2001  
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>Charges to appropriations (outflows):</b>				
Public Protection				
Administrative Services - Animal Care and Control.....	2,858	2,951	2,935	16
Administrative Services - Consumer Assurance.....	1,493	1,543	1,486	57
Administrative Services - Medical Examiner.....	4,182	3,950	3,937	13
Adult Probation.....	8,803	8,769	7,735	1,034
District Attorney.....	20,547	20,603	20,560	43
Fire Department.....	184,511	180,072	186,534	1,538
Juvenile Probation.....	34,528	29,956	28,732	224
Mayor - Office of the Emergency Services.....	658	700	541	159
Police Department.....	237,172	239,578	238,777	802
Public Defender.....	12,814	12,790	12,565	225
Sheriff.....	82,668	85,515	85,278	236
Trial Courts.....	32,970	34,289	33,806	483
Public Works Transportation and Commerce				
Board of Appeals.....	367	450	388	64
Business and Economic Development.....	3,420	4,002	3,503	489
Clean Water.....	202	202	148	54
Department of Public Works.....	23,667	27,257	27,257	-
Emergency Communications.....	17,697	17,555	17,555	-
Light, Heat and Power.....	3,337	5,754	3,668	1,788
Parking and Traffic Commission.....	39,693	40,838	40,410	428
Telecommunications and Information Services.....	2,365	2,500	2,262	238
Human Welfare and Neighborhood Development				
Adult and Aging Services.....	18,065	17,778	17,726	52
Children, Youth and Their Families.....	7,378	6,548	6,154	394
Commission on the Status of Women.....	2,508	2,350	2,065	285
Environment.....	940	926	803	123
Human Rights Commission.....	1,863	1,753	1,753	-
Human Services.....	435,368	430,210	399,166	31,044
Mayor - Housing and Neighborhood.....	440	373	3,733	-
Rent Abatement Board.....	-	36	36	-
Community Health				
Community Health Network.....	60,904	61,492	60,363	1,129
Public Health.....	352,395	341,384	304,930	36,454
Culture and Recreation				
Academy of Sciences.....	2,065	2,158	2,089	69
Administrative Services - Convention Facilities.....	5,276	5,440	5,538	2
Art Commission.....	6,395	7,083	7,077	6
Asian Art Museum.....	1,872	1,869	1,864	5
County Education Office.....	2,613	2,628	2,627	1
Fine Arts Museum.....	5,866	6,615	6,515	100
Law Library.....	414	415	411	4
Mayor - Grants for the Arts.....	14,695	13,459	13,144	45
Recreation and Park Commission.....	65,349	67,651	67,290	361
General Administration and Finance				
Administrative Services.....	8,671	7,930	7,792	138
Assessor/Recorder.....	10,980	11,409	11,409	-
Board of Supervisors.....	8,752	8,743	8,680	63

(Continued)

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

# CITY AND COUNTY OF SAN FRANCISCO

## Budgetary Comparison Statement - General Fund (Continued)

Year ended June 30, 2001

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
City Attorney.....	7,019	11,094	10,981	113
City Planning.....	12,345	11,475	11,054	421
Civil Service.....	652	635	573	82
Controller.....	20,609	20,384	19,914	470
Elections.....	10,327	10,521	10,429	92
Ethics Commission.....	903	764	764	-
Human Resources.....	19,748	20,036	19,732	304
Mayor.....	7,748	9,205	6,818	387
Retirement Services.....	405	339	339	-
Treasurer/Tax Collector.....	19,549	17,144	16,878	266
General City Responsibilities				
General City Responsibilities.....	31,390	38,824	37,381	1,443
General Fund Unallocated.....	-	7,317	6,386	931
Other financing uses:				
Transfers to other funds.....	240,966	250,932	247,919	3,013
Budgetary reserves and designations.....	67,598	12,275	-	12,275
Total charges to appropriations.....	2,109,034	2,141,840	2,043,877	97,963
Budgetary fund balance, June 30	-	\$ 290,394	\$ 489,347	\$ 198,953

### Explanation of differences between budgetary inflows and outflows, and GAAP revenues and expenditures:

Sources/inflows of resources	\$2,533,224
Actual amounts (budgetary basis) "available for appropriation"	
Difference - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes.....	(398,124)
Property tax revenue - Taxer Plan.....	231
Full accrual of franchise fees and utility tax.....	(4,500)
Unrealized gain on investment.....	6,165
Interest reclassified as transfers from other funds.....	(2,154)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.....	(123,523)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.....	\$2,015,349
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	\$2,043,877
Difference - budget to GAAP:	
Estimated claims.....	1,694
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....	(247,919)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.....	\$1,797,552

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

# CITY AND COUNTY OF SAN FRANCISCO

## Statement of Net Assets - Proprietary Funds

June 30, 2001

(In Thousands)

	Business-type Activities - Enterprise Funds										Governmental Activities - Internal Service Funds
	San Francisco	Water Dept./Hetch Hetchy Project	Municipal Railway	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Total		
<b>ASSETS</b>											
Current Assets:											
Deposits and Investments with City Treasury.....	\$ 284,862	\$ 287,505	\$ 9,098	\$ 14,730	\$ 55,061	\$ 70,706	\$ -	\$ -	\$ 701,962	\$ 7,798	
Deposits and Investments outside City Treasury.....	10	50	100	10	-	5	1	2,291	2,467	-	
Receivables (net of allowance for uncollectible amounts of \$10,089):											
Federal and state grants and subventions.....	-	-	53,473	972	-	1,777	-	-	56,222	-	
Charges for services.....	27,255	34,118	4,657	40,576	25,724	3,189	13,867	240	149,628	-	
Interest and other.....	3,701	3,309	1,534	8,128	910	2,528	-	103	20,208	301	
Due from other funds.....	-	1,613	40,932	-	-	-	-	-	42,545	-	
Inventories.....	360	1,635	33,790	3,686	-	1,151	747	-	41,369	-	
Deferred charges and other assets.....	4,108	-	591	-	-	553	-	694	5,944	-	
Total current assets.....	320,294	308,227	144,175	88,100	81,695	79,909	14,615	3,328	1,020,343	8,097	
Restricted assets:											
Deposits and Investments with City Treasury.....	360,652	38,985	58,732	925	142,973	5,049	41,652	-	648,968	-	
Deposits and Investments outside City Treasury.....	235,782	10,623	5,416	28	42,827	10,763	994	21,311	331,524	-	
Grants and other receivables.....	14,065	758	5,499	-	1,534	-	423	-	22,279	-	
Total restricted assets.....	610,499	50,366	69,647	953	187,134	15,812	43,069	21,311	1,002,771	-	
Noncurrent assets:											
Deferred charges and other assets.....	40,785	1,690	4,000	41	2,829	10,227	1	3	59,576	3	
Capital assets:											
Land and other assets not being depreciated.....	681,980	153,002	372,863	1,181	37,300	161,773	8,719	1,635	1,416,533	-	
Facilities, infrastructure, and equipment, net of depreciation.....	3,204,345	581,955	1,028,108	60,160	1,329,744	77,163	8,145	74,481	6,364,100	2,556	
Total capital assets.....	3,886,325	734,957	1,401,069	61,341	1,367,044	238,936	16,864	76,116	7,782,633	2,556	
Total noncurrent assets.....	3,927,090	736,646	1,405,069	61,382	1,369,873	249,163	16,865	76,119	7,842,209	2,598	
Total assets.....	4,261,863	1,095,241	1,518,891	130,436	1,638,702	344,884	74,549	100,758	9,865,323	10,695	

(Continued)

(Continued)

## CITY AND COUNTY OF SAN FRANCISCO

## Statement of Net Assets - Proprietary Funds (Continued)

June 30, 2001

(In Thousands)

	Business-type Activities - Enterprise Funds										Governmental Activities- Internal Service Funds
	San Francisco	Water Dept./ Hetchy Project	Municipal Railroad	General Hospital Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Total		
<b>LIABILITIES</b>											
Current liabilities:											
Accounts payable.....	23,854	15,902	48,448	15,603	2,487	3,916	828	16,592	127,540	5,241	
Accrued payroll.....	7,827	6,464	18,986	11,425	1,871	1,248	9,301	229	57,351	2,069	
Accrued vacation and sick leave pay.....	5,393	9,995	11,311	8,437	1,878	901	4,389	-	38,282	1,244	
Accrued workers' compensation.....	1,800	1,242	16,776	2,687	453	298	2,318	-	26,582	155	
Estimated claims payable.....	269	3,616	11,118	-	294	33	-	-	15,470	-	
Due to other funds.....	1,260	-	-	-	-	-	1,176	-	2,436	-	
Deferred credits and other liabilities.....	10,047	14,104	6,070	23,334	-	5,343	184	1,347	61,423	-	
Accrued interest payable.....	-	2,407	-	-	9,746	213	-	104	12,470	-	
Bonds, loans, capital leases, and other payables.....	-	-	-	-	37,551	2,439	200	860	40,999	1,619	
Total current liabilities.....	75,919	130,250	112,709	61,395	64,288	15,389	19,395	19,132	487,479	10,328	
Liabilities payable from restricted assets:											
Bonds, loans, capital leases, and other payables.....	402,647	-	-	-	-	3,235	-	-	405,882	-	
Accrued interest payable.....	34,584	-	-	-	1,120	-	-	-	35,704	-	
Other.....	63,191	9,428	919	27	2,210	4,342	4,027	-	84,142	-	
Total liabilities payable from restricted assets.....	500,422	9,428	919	27	2,210	8,697	4,027	-	525,728	-	
Noncurrent liabilities:											
Accrued vacation and sick leave pay.....	4,872	4,120	8,804	6,098	1,599	819	2,774	-	29,084	1,306	
Accrued workers' compensation.....	6,000	3,789	50,614	9,824	1,470	849	7,465	-	80,011	423	
Estimated claims payable.....	250	9,809	14,896	-	792	278	-	-	26,026	-	
Deferred credits and other liabilities.....	-	22,783	4,000	-	2,429	3,993	-	-	33,205	-	
Bonds, loans, capital leases, and other payables.....	3,866,003	215,447	-	-	811,193	45,275	432	18,738	4,557,088	1,932	
Total noncurrent liabilities.....	3,877,125	255,948	78,314	15,920	817,483	51,214	10,671	18,738	4,725,413	3,661	
Total liabilities.....	4,253,466	395,624	191,942	77,343	673,991	75,300	33,094	37,870	5,738,620	13,989	
<b>NET ASSETS</b>											
Invested in capital assets, net of related debt.....	93,132	442,106	1,401,069	81,341	758,884	197,434	16,232	-	2,970,198	674	
Restricted:											
Debt service.....	233,097	-	-	-	43,285	-	-	-	276,382	-	
Capital projects.....	9,852	-	-	1,044	141,629	-	36,578	-	189,103	-	
Other purposes.....	-	40,841	68,628	302	-	-	2,464	-	112,335	-	
Unrestricted (deficit).....	272,316	216,570	(42,748)	(9,895)	20,913	72,150	(13,819)	62,886	578,675	(3,988)	
Total net assets (deficit).....	\$ 608,397	\$ 699,617	\$ 1,426,840	\$ 53,092	\$ 984,721	\$ 269,584	\$ 41,455	\$ 62,886	\$ 4,126,703	\$ (3,294)	

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

## CITY AND COUNTY OF SAN FRANCISCO

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2001

(In Thousands)

	Business-type Activities - Enterprise Funds										Governmental Activities- Internal Service Funds
	San Francisco	Water Dept./ Hetchy Project	Municipal Railroad	General Hospital Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Total		
<b>Operating revenues:</b>											
Aviation.....	\$ 218,362	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 218,362	\$ -	
Water and power service.....	-	237,605	-	-	-	-	-	-	237,605	-	
Passenger fees.....	-	-	103,289	-	-	-	-	-	103,289	-	
Net patient service revenue.....	-	-	-	274,728	-	-	108,821	-	383,549	-	
Rental income.....	86,565	8,214	-	2,966	-	40,252	-	1,722	138,821	-	
Parking and transportation.....	80,721	-	-	-	-	8,189	-	35,725	124,635	-	
Charges for services.....	-	6,051	9,907	13,536	4,949	1,904	310	142	66,041	86,025	
Other revenues.....	29,232	251,880	113,166	281,230	141,770	50,345	107,231	37,589	1,408,121	-	
Total operating revenues.....	414,880	61,914	327,359	195,622	34,439	18,530	118,492	5,672	886,304	34,470	
Operating expenses:											
Personnel services.....	136,067	8,492	15,788	93,441	5,924	2,788	2,519	3,340	201,288	34,316	
Contractual services.....	69,016	-	54,803	-	-	-	-	-	123,819	-	
Light, heat and power.....	-	-	7,763	37,892	7,140	2,049	9,891	959	54,903	-	
Materials and supplies.....	10,652	7,763	39,507	37,892	7,140	2,049	9,891	959	115,713	18,289	
Depreciation and amortization.....	120,727	33,847	47,826	6,331	37,938	7,168	1,240	1,054	286,119	2,915	
General and administrative.....	5,390	23,865	13,796	332	10,020	1,151	-	21,532	76,076	59	
Services provided by other department.....	28,273	12,321	18,815	17,753	17,563	8,491	3,612	-	107,228	3,054	
Bad debt expense.....	-	-	-	22,665	4,816	4,180	940	-	32,599	-	
Other.....	10,673	38,903	4,959	24	-	-	-	-	54,559	3,790	
Total operating expenses.....	381,788	240,008	489,049	374,120	117,840	44,285	134,575	32,752	1,793,025	86,882	
Operating income (loss).....	33,092	11,872	(354,693)	(82,696)	23,600	6,060	(27,347)	4,632	(906,705)	(81)	
Nonoperating revenues (expenses):											
Operating grants:											
Federal.....	-	49	12,749	-	258	-	-	-	13,056	-	
State and local.....	-	210	177,689	68,969	612	5	-	-	247,684	-	
Interest and investment income.....	48,608	19,078	6,032	401	15,275	4,108	1,998	992	96,083	50	
Interest expense.....	(147,214)	(12,850)	(704)	(3,298)	(31,847)	(3,302)	(1,282)	(1,398)	(202,003)	(1,117)	
Other, net.....	(51)	2,801	1,905	6,325	2,197	(1,219)	16,841	(20)	28,779	995	
Total nonoperating revenues (expenses).....	(96,657)	9,288	197,850	72,059	(13,605)	(408)	17,578	(426)	183,889	(81)	
Income (loss) before transfers and special items.....	(63,565)	21,160	(157,003)	(10,621)	10,325	5,652	(9,769)	4,406	(201,815)	(948)	
Capital Contributions.....	33,196	270	291,076	-	-	10,978	-	-	335,520	-	
Transfers in.....	-	-	114,792	83,029	-	-	27,977	-	225,798	1,117	
Transfers out.....	(25,064)	(28,850)	-	(88,730)	-	-	-	-	(123,644)	(50)	
Special items.....	-	126,014	(25,700)	-	-	25,700	-	-	126,014	-	
Change in net assets.....	(57,433)	117,594	223,165	3,478	10,325	42,330	18,206	4,406	362,073	119	
Net assets (deficit) at beginning of year.....	866,830	585,023	1,203,794	49,614	954,396	227,254	23,247	58,482	3,764,030	(3,413)	
Net assets (deficit) at end of year.....	\$ 608,397	\$ 699,617	\$ 1,426,840	\$ 53,092	\$ 984,721	\$ 269,584	\$ 41,455	\$ 62,886	\$ 4,126,703	\$ (3,294)	

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

CITY AND COUNTY OF SAN FRANCISCO  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2001  
(In Thousands)

CITY AND COUNTY OF SAN FRANCISCO  
Statement of Cash Flows (Continued)  
Proprietary Funds  
Year ended June 30, 2001  
(In Thousands)

	San Francisco International Airport	Water Dept./Hetch Hetchy Project	Municipal Railway	General Hospital Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garage	Total	Governmental Activities-Internal Service Funds
Cash flows from operating activities:										
Cash received from customers, including cash from patients and third party payors for rent	\$ 432,901	\$ 170,209	\$ 126,780	\$ -	\$ 144,993	\$ 5,831	\$ -	\$ 35,788	\$ 916,300	\$ -
Cash received from deposits, including cash from patients and third party payors for rent	-	8,214	-	265,489	-	38,322	104,003	-	369,492	-
Cash received from non-capital financing activities:	-	-	-	2,967	-	-	-	1,722	51,225	-
Cash received from quasi-external transactions:	-	75,461	-	-	-	3,522	-	-	78,983	95,736
Cash paid to employees for services:	(134,324)	(60,945)	(320,413)	(194,010)	(34,113)	(18,392)	(113,341)	(5,833)	(881,371)	(34,109)
Cash paid to suppliers for goods and services:	(92,091)	(79,929)	(67,287)	(126,471)	(17,205)	(8,978)	(9,383)	(4,006)	(424,350)	(53,845)
Cash paid for quasi-external transactions:	(42,184)	(39,852)	(193,997)	(16,863)	(25,779)	(7,350)	(3,278)	(21,532)	(175,285)	(3,054)
Cash paid for judgments and claims:	-	(2,859)	(7,735)	-	(778)	(35)	-	-	(11,225)	-
Net cash provided by (used in) operating activities:	164,302	71,470	(307,072)	(68,888)	66,809	13,020	(21,989)	8,137	(78,221)	4,928
Cash flows from noncapital financing activities:										
Operating grants:	127	957	198,898	70,278	770	5	27,977	-	270,833	1,117
Transfers in:	-	-	115,465	83,029	-	-	-	-	228,471	(50)
Transfers out:	(25,064)	(29,850)	-	(66,730)	-	-	-	-	(123,644)	(50)
Cost allocation charges received:	-	-	2,123	5,897	-	-	-	-	5,897	-
Transit Impact Development fees received:	-	-	-	-	-	-	-	-	2,123	-
Claims settlement proceeds:	-	-	3,982	-	-	-	-	-	3,982	-
Other noncapital increases:	-	-	-	428	-	2,748	407	-	3,583	-
Other noncapital decreases:	-	-	(29,700)	-	-	(9)	(529)	-	(30,235)	-
Net cash provided by (used in) noncapital financing activities:	(24,937)	(28,893)	260,588	90,900	770	2,748	27,865	-	359,011	1,067
Cash flows from capital financing activities:										
Capital grants:	18,026	-	236,717	-	-	13,042	-	-	257,785	-
Bond sale proceeds and loans received:	238,702	-	-	-	26,300	1,992	-	-	264,994	-
Proceeds from sale of fixed assets:	243,231	55,000	23	-	-	87	-	-	128,454	-
Proceeds from commercial paper borrowings:	-	-	-	-	-	-	-	-	280,231	-
Loans received:	(568,326)	(92,028)	(248,179)	(3,283)	(25,805)	(28,666)	(7,154)	(5,605)	(967,001)	972
Acquisition of capital leases, bonds and loans:	(21,540)	(7,020)	-	(661)	(35,270)	(5,021)	(192)	389	(69,100)	(1,178)
Retirement of capital paper borrowings:	(3,980)	-	-	-	-	-	-	-	(3,980)	(1,136)
Bond issue costs paid:	(210,459)	(14,411)	-	(3,528)	(31,108)	(3,174)	(1,282)	(1,401)	(265,342)	(940)
Interest paid on long term debt:	-	-	-	-	-	30,538	16,886	-	47,902	-
Other capital financing increases:	-	-	-	-	-	(3,025)	-	(20)	(3,225)	-
Other capital financing decreases:	-	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) capital financing activities:	(363,359)	67,905	(11,439)	(7,685)	(65,884)	7,471	8,378	(6,837)	(407,249)	(2,282)
Cash flows from investing activities:										
Purchases of investments with trustees:	(1,680,429)	(20,546)	(34,228)	-	(49,811)	(5,399)	-	(707)	(1,791,000)	-
Proceeds from sale of investments with trustees:	1,671,998	20,082	35,637	-	48,454	-	-	-	1,776,151	-
Purchases of restricted deposits and investments:	(1,124,247)	(17,823)	-	-	(12,754)	-	-	-	(1,154,624)	-
Proceeds from sale of restricted deposits and investments:	737,980	25,000	-	-	10,754	-	-	-	773,414	-
Interest income received:	51,783	15,646	6,087	401	12,281	3,348	1,999	992	92,397	50
Claims settlement proceeds:	-	-	-	-	275	-	-	-	275	-
Other investing activities:	-	2,356	(704)	-	2,585	-	-	-	4,835	809
Net cash provided by (used in) investing activities:	(343,255)	25,495	9,772	401	11,752	(2,111)	1,999	285	(298,632)	859
Net increase (decrease) in cash and cash equivalents:	(507,259)	135,977	(24,171)	14,748	13,477	21,128	16,230	(915)	(417,082)	4,572
Cash and cash equivalents-beginning of year:	522,181	159,592	84,517	913	103,622	58,034	24,588	2,556	1,139,892	3,221
Cash and cash equivalents-end of year:	\$ 24,922	\$ 289,669	\$ 73,346	\$ 15,661	\$ 197,099	\$ 79,632	\$ 41,091	\$ 2,261	\$ 722,811	\$ 7,796

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

(Continued)

	San Francisco International Airport	Water Dept./Hetch Hetchy Project	Municipal Railway	General Hospital Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garage	Total	Governmental Activities-Internal Service Funds
Recapitalization of operating income (loss) to net cash used in operating activities:										
Operating income (loss):	\$ 33,092	\$ 11,872	\$ (354,853)	\$ (82,690)	\$ 23,930	\$ 5,080	\$ (27,347)	\$ 4,832	\$ (385,304)	\$ (867)
Adjustments for non-cash activities:										
Depreciation for non-cash activities:	120,727	33,847	47,828	6,331	37,938	7,156	1,240	1,054	258,119	2,915
Provision for uncollectibles:	968	-	-	22,665	-	-	39	880	24,551	-
Other:	-	22,783	-	-	-	(924)	-	-	21,859	-
Changes in assets/liabilities:	(2,340)	(2,468)	(533)	(14,080)	2,823	(1,489)	(3,228)	(81)	(21,264)	(301)
Receivables, net:	5,413	2,678	(5,181)	(373)	-	-	(169)	-	2,619	-
Due from other funds:	3,264	2,914	3,088	5,650	675	4	3,144	614	19,351	12
Deferred charges and other assets:	1,743	665	1,834	1,200	66	139	2,169	66	7,912	2,808
Accrued payroll:	-	384	978	412	280	138	324	(17)	2,455	155
Accrued vacation and sick leave pay:	-	420	4,045	880	384	71	658	-	6,448	94
Accrued workers' compensation:	-	(5,578)	(4,284)	4,222	653	61	-	-	(16,478)	-
Estimated claims payable:	(1,839)	-	-	(14,970)	-	-	330	-	(16,478)	-
Due to other funds:	3,210	1,449	476	-	-	646	-	(49)	5,381	-
Deferred credits and other liabilities:	131,210	59,598	47,781	14,002	42,878	9,980	5,346	1,355	309,062	5,795
Total adjustments:	\$ 184,302	\$ 71,470	\$ (207,072)	\$ (68,889)	\$ 66,809	\$ 13,020	\$ (21,989)	\$ 6,137	\$ (78,221)	\$ 4,928
Net cash provided by (used in) operating activities:	\$ 284,862	\$ 267,505	\$ 9,088	\$ 14,730	\$ 55,061	\$ 70,708	\$ -	\$ -	\$ 701,962	\$ 7,796
Deposits and investments with City Treasury:	360,852	38,985	58,732	925	142,973	5,049	41,652	-	648,968	-
Unrestricted deposits and investments outside City Treasury:	10	50	100	10	-	5	1	2,291	2,487	-
Total deposits and investments with City Treasury:	645,524	308,540	67,930	15,665	188,034	75,760	41,653	2,291	1,353,397	7,796
Add: Restricted deposits outside City Treasury meeting the definition of cash equivalents:	-	-	5,416	-	-	4,357	984	-	10,767	-
Less: Deposits and investments not meeting the definition of cash equivalents:	(620,602)	(17,871)	-	(4)	(935)	(685)	(1,556)	-	(641,553)	-
Cash and cash equivalents at end of year on statement of cash flows:	\$ 24,922	\$ 289,669	\$ 73,346	\$ 15,661	\$ 197,099	\$ 79,632	\$ 41,091	\$ 2,261	\$ 722,811	\$ 7,796

Non-cash investing, capital and financing activities:  
Tenant improvements financed by rent credits...  
Loss on abandonment of property and equipment...  
Capital expenditures financed by accounts payable...  
Acquisition of fixed assets on accounts payable...

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

CITY AND COUNTY OF SAN FRANCISCO  
Statement of Fiduciary Net Assets

Fiduciary Funds  
June 30, 2001  
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
<b>ASSETS</b>			
Deposits and investments with City Treasury.....	\$ 66,051	\$ 272,960	\$ 84,814
Receivables:	11,855,452	-	-
Charges for services.....	10,321	-	-
Interest and other.....	361,758	2,907	83,975
Invested securities lending collateral.....	1,574,089	-	-
Deferred charges and other assets.....	21	-	6,299
Total assets.....	<u>13,867,892</u>	<u>275,867</u>	<u>\$ 175,088</u>
<b>Liabilities</b>			
Accounts payable.....	20,045	659	7,468
Estimated claims payable.....	10,927	-	-
Agency obligations.....	-	-	167,620
Obligations under fixed coupon dollar repurchase agreements.....	294,688	-	-
Payable to brokers.....	667,617	-	-
Securities lending collateral.....	1,574,089	-	-
Deferred credits and other liabilities.....	19,478	-	-
Total liabilities.....	<u>2,556,844</u>	<u>659</u>	<u>\$ 175,088</u>
<b>Net Assets</b>			
Held in trust for pension and other employee benefits and pool participants.....	\$ 11,280,848	\$ 275,208	

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

CITY AND COUNTY OF SAN FRANCISCO  
Statement of Changes in Fiduciary Net Assets

Fiduciary Funds  
Year ended June 30, 2001  
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
<b>Additions:</b>		
Employees' contributions.....	\$ 211,598	\$ -
Employer contributions.....	192,820	-
Contributions on pooled investments.....	-	2,020,722
Total contributions.....	<u>404,418</u>	<u>2,020,722</u>
<b>Investment income (loss):</b>		
Interest.....	245,792	13,576
Dividends.....	65,122	-
Net decrease in fair value of investments.....	(1,719,999)	-
Securities lending income.....	93,158	-
Fixed coupon dollar repurchase agreement income.....	16,818	-
Total investment income (loss).....	<u>(1,299,009)</u>	<u>13,576</u>
<b>Less investment expenses:</b>		
Securities lending borrower rebates and expenses.....	(79,464)	-
Fixed coupon dollar repurchase finance charges and expenses.....	(17,059)	-
Other expenses.....	(23,839)	-
Total investment expenses.....	<u>(120,362)</u>	<u>-</u>
Total additions, net.....	<u>(1,014,853)</u>	<u>2,034,298</u>
<b>Deductions:</b>		
Benefit payments.....	630,108	-
Refunds of contributions.....	10,857	-
Distribution from pooled investments.....	-	1,953,761
Administrative expenses.....	11,255	-
Total deductions.....	<u>652,220</u>	<u>1,953,761</u>
Change in net assets.....	<u>(1,667,073)</u>	<u>80,537</u>
Net assets at end of year.....	<u>12,947,821</u>	<u>194,671</u>
	<u>\$ 11,280,848</u>	<u>\$ 275,208</u>

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



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS

(1) THE FINANCIAL REPORTING ENTITY

San Francisco is a city and county chartered by the State of California and as such can exercise the powers as both a city and a county under state law. As required by generally accepted accounting principles, the accompanying financial statements present the City and County of San Francisco (the City or Primary Government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationships with the City.

As a government agency, the City is exempt from both federal income taxes and California State franchise taxes.

*Blended Component Units*

Following is a description of those legally separate component units for which the City is financially accountable that are blended with the Primary Government because of their individual governance or financial relationships to the City.

*San Francisco County Transportation Authority (Authority)* - The Authority was created in 1989 by the voters of the City and County of San Francisco to impose a voter-approved sales and use tax of one-half of one percent to fund essential traffic and transportation projects. A Board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the Authority. The operations of the Authority are reported within other governmental funds. Financial statements for the Authority can be obtained from the Authority's administrative offices at 100 Van Ness Avenue, San Francisco, CA 94102.

*San Francisco Finance Corporation (Finance Corporation)* - The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase \$20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. The operations of the Finance Corporation are accounted for in the debt service and capital projects funds. Financial statements for the Finance Corporation can be obtained from the Finance Corporation's administrative offices at City Hall, Room 336, #1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

*San Francisco Parking Authority (Parking Authority)* - The Parking Authority was created in October 1949 pursuant to the Parking Law. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (DPT). The DPT consists of five commissioners appointed by the mayor. Upon creation of the DPT, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the DPT. The staff and fiscal operations of the Parking Authority were also incorporated into the DPT and DPT is reported within other governmental funds.

*Discretely Presented Component Units*

*San Francisco Redevelopment Agency (Agency)* - The Agency is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern it. The Agency has adopted as its mission the creation of affordable housing and economic development opportunities Citywide. Included in its financial data are the accounts of the San Francisco Redevelopment Financing Authority (SFRFA), a component unit of the Agency. The SFRFA is a separate joint-powers authority formed between the Agency and the City to facilitate the long-term

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

financing of Agency activities. The Agency's governing commission serves as the Board of Directors of the SFRFA.

The Agency's governing body is not substantively the same as that of the City, and the Agency does not provide services entirely or almost entirely to the City. The Agency is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the Agency through the appointment of the Agency's Board and the ability of the City to approve the Agency's budget. Disclosures related to the Agency, where significant, are identified separately throughout these notes. Complete financial statements can be obtained from the Agency's administrative offices at 770 Golden Gate Ave., San Francisco, CA 94102.

*Treasure Island Development Authority (TIDA)* - The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern the TIDA. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City. The TIDA has adopted as its mission the creation of affordable housing and economic development opportunities on Treasure Island.

The TIDA's governing body is not substantively the same as that of the City and the TIDA does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes.

*Non Disclosed Organizations*

There are other governmental agencies that provide services within the City and County of San Francisco. These entities have independent governing boards and the City is not financially accountable for them. The City's basic financial statements, except for certain cash held by the City as an agent, do not reflect operations of the San Francisco Airport Improvement Corporation, San Francisco Health Authority, San Francisco Housing Authority, Private Industry Council of San Francisco, San Francisco Unified School District and San Francisco Community College District. The City is represented in two regional agencies, the Bay Area Rapid Transit District (BART) and the Bay Area Air Quality Management District (BAAQM), which are also excluded from the City's reporting entity.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### (b) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are collected within 120 days of the end of the current fiscal period. It's the City's policy to submit reimbursement and claim requests for federal and state grant revenues within 30 days of the end of the program cycle and payment is generally received within 90 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, licenses, and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental fund:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major proprietary (enterprise) funds:

The **San Francisco International Airport Fund** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area. This fund is authorized by section 4.115 of the City Charter.

The **Water Department/Hetch Hetchy Project Fund** accounts for the activities of the San Francisco Water Department and the Hetch Hetchy Project (Water/Hetch Hetchy). Water/Hetch

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Hetchy was established in 1930 and is engaged in the collection, transmission, and distribution of water and electricity to the City and certain suburban areas.

The **Municipal Railway Fund** accounts for the activities of the San Francisco Municipal Railway (Muni) and the San Francisco Municipal Railway Improvement Corporation (SFMRIC). Muni was established in 1912 and is responsible for the operations of the City's public transportation system. SFMRIC is a nonprofit corporation established to provide capital financial assistance for the modernization of Muni by acquiring, constructing, and financing improvements to the City's public transportation system.

The **General Hospital Medical Center Fund** accounts for the activities of the San Francisco General Hospital Medical Center, a City-owned acute care hospital. This Fund was established in 1980, pursuant to the Board of Supervisors Resolution No. 865-81.

The **Clean Water Program Fund** accounts for the activities of the Clean Water Program. It was created after the San Francisco voters approved a proposition in 1976, authorizing the City to issue \$240 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City municipal sewage treatment and disposal system.

The **Port of San Francisco Fund** accounts for the activities of the Port of San Francisco. This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California under the terms and conditions set forth in California Statutes of 1969, Chapter 1333.

The **Laguna Honda Hospital Fund** accounts for the activities of Laguna Honda Hospital, the City-owned skilled nursing facility which specializes in serving elderly and disabled residents. This Fund was established in 1983.

The **Parking Garages Fund** accounts for the activities of various non-profit corporations formed to provide financial and other assistance the City to acquire land, construct facilities, and manage various parking facilities.

Additionally, the City reports the following fund types:

The **Permanent Fund** accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.

The **Internal Service Funds** account for the financing of goods or services provided by one City department to another City department on a cost reimbursement basis. Internal Service Funds account for the activities of the equipment maintenance services, centralized printing and mailing services, centralized telecommunications and information services.

The **Pension and Other Employee Benefit Trust Funds** reflect the activities of the Employees' Retirement System and the Health Service System. The Retirement System accounts for employee contributions, City contributions, and the earnings and profits from investments. It also accounts for the disbursements made for employee retirements, withdrawals, disability and death benefits as well as administrative expenses. The Health Service System accounts for contributions from active and retired employees and surviving spouses, City contributions, and the earnings and profits from investments. It also accounts for the disbursements to various health plans for medical expenses of beneficiaries.

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The *Investment Trust Fund* accounts for the external portion of the Treasurer's Office Investment pool. The funds of the San Francisco Community College District, San Francisco Unified School District, and the Trial Courts are accounted for within the Investment Trust Fund.

The *Agency Funds* account for the resources held by the City in a custodial capacity on behalf of other agencies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between Water, Health/Hetchy and other City departments because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, airline fees and charges, parking fees, commercial and industrial rents, printing services, vehicle maintenance fees, and telecommunication and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

#### (c) Implementation of New Accounting Principles

##### (i) Governmental Accounting Standards Board Statement No. 33

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial and capital resources such as taxes and grants. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. This statement affects the timing of recognition of nonexchange transactions – that is, when governments recognize them in the financial statements. Accordingly, the City has recognized revenue in the basic financial statements for certain nonexchange

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

transactions that occurred in the current year, and has restated fund balances as of July 1, 2000 to reflect the cumulative effect of the change as of that date (note 2(p)).

##### (ii) Governmental Accounting Standards Board Statement No. 34

The City adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the City records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

**Management's Discussion and Analysis** – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the City's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

**Government-Wide Financial Statements** – The reporting model includes financial statements prepared using full accrual accounting for all of the City's activities. This approach includes not just current assets and liabilities but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

**Statement of Net Assets** – The statement of net assets is designed to display the financial position of the primary government (government and business-type activities). The City now reports all capital assets in the government-wide statement of net assets and reports depreciation expense – the cost of using up capital assets – in the statement of activities. The net assets of the City are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

**Statement of Activities** – The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City's functions. The expense of individual functions is compared to the revenue generated directly by the function.

Accordingly, the City has recorded capital and certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

##### (iii) Governmental Accounting Standards Board Statement No. 36

The City adopted the provisions of GASB Statement No. 36, *Receipt Reporting for Certain Shared Nonexchange Revenues*. This statement amends GASB Statement No. 33 with respect to the manner in which shared nonexchange revenues are accounted for by recipient governments. Accordingly, the City considered the effects of this statement when adopting the provisions of GASB Statement No. 33 as previously described.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(iv) Governmental Accounting Standards Board Statement No. 37

The City adopted the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. This statement amends GASB Statement No. 34 to either 1) clarify certain provisions or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. Accordingly, the City considered the effects of this statement when adopting the provisions of GASB Statement No. 34 as previously described.

(v) Governmental Accounting Standards Board Statement No. 38

The City adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 38.

(vi) Governmental Accounting Standards Board Interpretation No. 6

The City adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or could arise, in interpretation and practice. This interpretation impacts the fund level financial statements (governmental funds only, not proprietary or fiduciary funds) required by GASB Statement No. 34 but has no direct impact on the government-wide financial statements. Accordingly, the City has not recognized the current portion of certain long-term liabilities and related expenditures in the governmental fund financial statements for amounts not considered to be due and payable as of June 30, 2001, and has restated fund balances as of July 1, 2000 to reflect the cumulative effect of the change as of that date (note 2(p)).

(d) Budgetary Data

The City adopts annual budgets for all governmental funds on a cash basis of accounting plus encumbrances with the following exceptions: capital project funds which adopt project length budgets and permanent and debt service funds which are not budgeted.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The following procedures establish the budgetary data reflected in the financial statements:

*Original Budget*

(1) Departments and Commissions conduct hearings to obtain public comment on their proposed annual budgets during December through February.

(2) From March through May, the Mayor and his staff analyze, review and refine the budget submittals.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(3) On June 1, the Mayor submits the proposed budget to the Board of Supervisors. The Board then adopts an interim budget.

(4) The Board of Supervisors conducts hearings to obtain public comment on the budget.

(5) Prior to August 1, the Board of Supervisors finalizes the annual budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

*Final Budget*

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

(1) Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year. In certain circumstances, other programs and regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

(2) Appropriations may be adjusted during the year with the approval of the Mayor and the Board of Supervisors. Additionally, the Controller is authorized to make certain transfers of surplus appropriations within a department. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

Budgetary data, as revised, is presented in the basic financial statements for the General Fund. Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures.

New or one time federal and state grants, other capital projects, and debt issues are budgeted by the Mayor and the Board of Supervisors as a supplemental appropriation.

(e) Deposits and Investments

*Investment in the Treasurer's Pool*

The Treasurer invests on behalf of most funds of the City and external participants in accordance with the City's investment policy and the California State Government Code. The City Treasurer who reports on a monthly basis to the Board of Supervisors manages the Treasurer's pool. In addition, the function of the County Treasury Oversight Committee is to review and monitor the City's investment policy and to monitor compliance with the investment policy and reporting provisions of the law through an annual audit.

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to bond issuance of the Enterprise Funds and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the Employees'

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Retirement System and deposits and investments of the Redevelopment Agency are held by trustees (note 5).

The San Francisco Unified School District, San Francisco Community College District, and the Trial Courts of the State of California are voluntary participants in the City's investment pool. As of June 30, 2001, \$272.96 million was held on behalf of these voluntary participants. The total percentage share of the Treasurer's pool that relates to these three external participants is 9.03%. The deposits held for these entities are included in the Investment Trust Fund. The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2001 to support the value of shares in the pool.

#### Investment Valuation

*Treasurer's Pool* – Substantially all investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, the overdraw is reported as a due to the General Fund. Certain US government securities that have a remaining maturity at time of purchase of one year or less are carried at amortized cost, which approximates market value.

*Employees' Retirement System (Retirement System)* - Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value. Purchases and sales of investments are recorded on a trade date basis. The fair values of real estate holdings are estimated primarily on appraisals prepared by third-party appraisers. The fair values of venture capital investments are estimated based primarily on audited financial statements provided by the individual fund managers. Such market value estimates involve subjective judgments, and the actual market price of these investments can only be determined by negotiation between independent third parties in a sales transaction.

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market value of open contracts are immediately recognized as gains or losses. The market values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2001, the fair value of open purchase contracts was \$804.3 million, offset by the fair value of open sales contracts of (\$796) million for a net fair value of \$8.3 million. The Retirement System utilized contracts netting to \$342.6 million to hedge (or decrease) the currency risk of foreign investments or to settle trades, and contracts netting to \$351 million to increase investment exposure in foreign currencies beyond the amounts reported as international investment securities or to settle trades. Additionally, contracts may be used to effectively cancel previous contracts.

The City Charter and Retirement System Board (Board) policies permit the Retirement System to use investments of the plan to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral, with a simultaneous agreement to return collateral for the same securities in the future. The Retirement System's securities custodians are agents in lending the plan's securities for cash collateral of 102% for domestic securities and 105% for international securities. Securities on loan at year-end are presented as "non-categorized" in the schedule of custodial risk (note 5). As of June 30, 2001, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

lent) or if the borrowers fail to pay the Retirement System for income distributions by the securities issuers while the securities are on loan.

Either the Retirement System or the borrower can terminate all securities loans on demand, although the average term of the loans is thirty-three days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted-average maturity of forty-eight days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which at year-end had a weighted-average maturity of three days. The relationship between the maturities of the investment pools and the Retirement System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Retirement System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan. Cash received as collateral on securities lending transactions is reported as an asset, and liabilities from these transactions are reported in the statement of net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses.

The City Charter and Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received, if the dealers default on their obligations to resell these securities to the Retirement System at the agreed buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buy back price. This credit exposure at June 30, 2001 was approximately \$531 thousand.

Investments in S&P 500 futures contracts are used to replicate the performance of the S&P 500 index while lowering transaction costs. Changes in market value of open contracts are immediately recognized as gains or losses. At of June 30, 2001 the fair value of total open contracts was \$308 thousand.

*Other funds* – Non-pooled investments are also generally carried at fair value. However, money market investments (such as short term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations), and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less are carried at amortized cost which approximates market value. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

*Component Unit - Redevelopment Agency (Agency)* - Investments are stated at fair value except for money market investments with maturities of one year or less which have been stated at amortized cost. The fair value of investments has been obtained by using market quotes as of June 30, 2001 and reflects the values as if the Agency were to liquidate the securities on that date.

#### Investment Income

Income from pooled investments is allocated to the individual funds or external participants based on the fund or participant's average daily cash balance at month end in relation to total pooled investments. City management has determined that the investment income related to certain funds should be allocated to the General Fund. On a budget basis, the investment income is recorded in the General Fund. On a generally accepted accounting principles (GAAP) basis, the income is reported in the fund where the related investments reside. An operating transfer is then recorded to transfer an amount equal to the interest

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

earnings to the General Fund. This is the case for certain Special Revenue Funds excluding the San Francisco County Transportation Authority, the Moscone Convention Facilities Capital Projects Fund, the General Obligation Bond Fund, the Internal Service Funds, and the Trust and Agency Funds.

It is the City's policy to charge interest to those funds that have a negative average daily cash balance at month end. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then an operating transfer in is recorded to transfer an amount equal to the interest expense from the General Fund. This is the case for the certain Special Revenue Funds, Municipal Railway, Laguna Honda Hospital, San Francisco General Hospital Medical Center, and the Internal Service Funds.

Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

### (f) Loans Receivable

For the purposes of the Fund Financial Statements, Special Revenue Fund expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred credit account. The balance of long-term loans receivable includes loans that may be forgiven if certain terms and conditions of the loans are met. For purposes of the Government-wide Financial Statements, long-term loans are not offset by deferred credit accounts.

### (g) Inventory

Inventory recorded in the proprietary funds primarily consists of construction materials and maintenance supplies as well as pharmaceutical supplies maintained by the hospitals. Generally, proprietary funds value inventory at cost or average cost and expense supply inventory as it is consumed. This is referred to as the consumption method of inventory accounting. An exception is the Clean Water Project Fund which accounts for materials and supplies using the purchase method. This method records items as expenses when they are acquired. The governmental types also use the purchase method to account for supply inventories.

### (h) Redevelopment Agency Property Held for Resale

Property held for resale is recorded as an asset at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use.

### (i) Capital Assets

Capital assets, which include land, facilities and improvement, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital lease is included in depreciation and amortization. Facilities and

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Improvements, infrastructure, and machinery and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Facilities and Improvements	15 to 50
Infrastructure	15 to 70
Machinery and Equipment	3 to 40
Easements	20

Works of art, historical treasures and zoological animals held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, kept unencumbered, cared for and preserved by the City. It is the City's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

### (j) Accrued Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to ten weeks depending on an employee's length of service, is payable upon termination.

Sick leave may be accumulated up to six months. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death. Sick leave earned subsequent to that date is non-vesting and, hence, is not a liability.

The City accrues for all salary-related items in the government-wide and proprietary fund financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay.

### (k) Bond Issuance Costs and Discounts

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

### (l) Fund Equity

#### Reservations of Fund Equity

Reservations of fund balances of the governmental funds indicate that portion of fund equity which is not available for appropriation for expenditure or is legally segregated for a specific future use. Following is a brief description of the nature of certain reserves.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

**Reserve for cash requirements** - The City's Charter provides for a cash requirement reserve to meet potential short-term working capital needs. The balance is calculated as 10% of either the current or following year's property tax levy.

**Reserve for emergencies** - The City's Charter provides for an emergency reserve fund for purposes of meeting any emergency as defined in the City's Charter. The amount reserved for emergencies may be appropriated only by a vote of three-fourths of the Board of Supervisors.

**Reserve for assets not available for appropriation** - Certain assets, primarily cash and investments outside City Treasury and deferred charges, do not represent expendable available financial resources. Therefore, a portion of fund equity is reserved to offset the balance of these assets.

**Reserve for debt service** - The fund balance of the debt service funds is reserved for the payment of debt service in the subsequent year.

**Reserves for encumbrances** - Encumbrances are recorded as reservations of fund balances because they do not constitute expenditures or liabilities. In certain special revenue and capital projects funds, this accounting treatment results in a deficit unreserved fund balance. This deficiency is carried forward to the next fiscal year where it is applied against estimated revenues in the year the commitments are expended.

**Reserve for appropriation carry-forward** - At the end of the fiscal year, certain budgeted expenditures are authorized to be carried over and expended in the ensuing year. A reserve of fund equity is established in the amount of these budget authorizations.

**Reserve for subsequent years' budgets** - A portion of fund equity is reserved for subsequent years' budgets. This balance includes the reserve required by the City's Administrative Code for the budget incentive program for the purpose of making additional funds available for items and services that will improve the efficient operations of departments. Appropriations from this reserve will only be made to departments that have demonstrated their ability to reduce the cost of service delivery and other departmental activities during the previous fiscal year.

### Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheets because they are maintained in separate bank accounts or tracked separately in the City Treasury Group of Accounts. Use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to pay debt service, unspent bond proceeds, and amounts restricted for future capital projects.

### Designations of Fund Equity

Designations of fund balances (note 4) indicate that portion of fund equity that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designations as of June 30, 2001.

**Designation for litigation and contingencies** - This designation represents management's estimate of anticipated legal settlements or contingencies to be paid in the subsequent fiscal year.

**Designation for extraordinary one-time expenditures** - This designation represents the extraordinary revenue recognized in a prior year due to the implementation of an accounting pronouncement.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Management has designated this amount to fund extraordinary expenditures that may arise in a subsequent fiscal year.

### Deficit Fund Balances/Net Assets

The Telecommunications and Information Internal Service Fund had a \$3.6 million deficit total net assets as of June 30, 2001. Approximately \$2.6 million of this deficit is due to depreciation that is not funded and will result in continuing deficits. The remaining portion of the deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in operating expenses.

The Central Shops Internal Service Fund had a \$671 thousand deficit total net assets as of June 30, 2001. The deficit is due to depreciation and certain non-current accrued expenses that are not funded and will result in continuing deficits in future years.

### (m) Interfund Transfers

Interfund transfers are generally recorded as operating transfers in (out) except for certain types of transactions that are described below.

(1) Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund at the end of the fiscal year.

(2) Reimbursements for expenditures, initially made by one fund which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

### (n) Refunding of Debt

Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2000.

### (o) Cash Flows

Statements of cash flows are presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the City's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

### (p) Restatements of Fund Balances

The City's beginning fund balances have been restated to reflect the cumulative effect of the implementation of GASB Statement No. 33 and GASB Interpretation No. 6. The impact of GASB Statement No. 33 was to reduce deferred tax revenues and deferred credits, and recognize revenue on certain taxes and other non exchange revenue transactions earned during the fiscal year ended June 30, 2000. The impact of GASB Interpretation No. 6 was to reduce the current portion of certain long-term liabilities, and only recognize expenditures in the governmental fund financial statements for those liabilities considered to be due and payable as of June 30, 2000.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

	(amounts in thousands)	General Fund	Other Governmental Funds
Fund balances:			
Fund balances at June 30, 2000, as previously reported			
governmental fund types:			
General.....	\$ 275,640	\$ -	481,449
Special revenue.....	-	6,570	6,570
Special revenue fund previously reported as expendable trust funds.....	-	488,019	488,019
Debt service.....	-	27,694	27,694
Capital projects.....	-	271,279	271,279
Permanent fund previously reported as expendable trust fund.....	-	5,112	5,112
Total fund balances at June 30, 2000, as previously reported.....	275,640	792,104	792,104
GASB Statement No. 33 adjustments:			
Change in revenue recognition criteria related to nonexchange revenue transactions other than property taxes.....	7,000	6,940	6,940
Reduction of deferred tax revenues.....	4,904	4,904	-
GASB Interpretation No. 6 adjustment:			
Reduction in current portion of long-term liabilities not considered due and payable.....	96,280	522	522
	108,184	7,462	7,462
Fund balances at June 30, 2000, as restated - governmental fund types	\$ 383,824	\$ 799,566	\$ 799,566

The Impact of GASB Statement No. 34 on the City's accounting and financial reporting practices was to (1) classify certain activities as governmental that were previously reported as fiduciary, (2) report the residual balances of certain internal activities within the net assets of governmental activities, (3) report all long-term assets, including capital assets, and liabilities in the statement of net assets, and (4) report all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. These adjustments are summarized in the table below:

CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

	(amounts in thousands)	Governmental Activities
Net assets:		
Fund balances at June 30, 2000, as previously reported		
governmental fund types:		
General.....	\$ 275,640	\$ 275,640
Special revenue.....	481,449	481,449
Debt service.....	27,694	27,694
Capital projects.....	271,279	271,279
Permanent and new special revenue funds previously reported as expendable trust funds.....	11,662	11,662
Total fund balances at June 30, 2000, as previously reported.....	1,067,744	1,067,744
GASB Statement No. 33 adjustments:		
Change in revenue recognition criteria related to nonexchange revenue transactions other than property taxes.....	13,940	13,940
Reduction of deferred tax revenues.....	42,361	42,361
GASB Statement No. 34 adjustments:		
Addition of:		
Beginning residual balances from internal activities accounted for as internal service funds (Central shops, Reproduction services, and Telecommunications and information services).....	(3,413)	(3,413)
Net capital assets.....	1,576,137	1,576,137
Long-term liabilities.....	(1,660,264)	(1,660,264)
Accrued interest.....	(4,996)	(4,996)
Reduction of deferred credits offsetting long-term loans receivable in the fund statements.....	141,248	141,248
	187,011	187,011
Net assets at July 1, 2000.....	\$ 1,254,755	\$ 1,254,755

The Impact of GASB Statement No. 34 on the Agency's accounting and financial reporting practices was to (1) report all long-term assets, including capital assets, and liabilities in the statement of net assets and (2) report all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. These adjustments are summarized in the table below:

	(amounts in thousands)
Net assets:	
Fund balance at June 30, 2000, as previously reported.....	\$ 297,979
GASB Statement No. 33 adjustment:	
Change in revenue recognition criteria related to nonexchange revenue transactions.....	20,738
GASB Statement No. 34 adjustments:	
Addition of:	
Net capital assets.....	151,640
Other long-term assets.....	236,833
Long-term liabilities.....	(730,395)
Accrued interest.....	(10,479)
Net assets (deficit) at July 1, 2000.....	\$ (33,584)



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(q) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(a) Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

Total fund balances of the City's governmental funds, \$1,492,717, differs from net assets of governmental activities, \$1,458,330, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets (in thousands)

	Total Governmental Funds	Long-term Liabilities(1)	Internal Service Funds(2)	Reclassi- fications and Eliminations	Statement of Net Assets Totals
<b>Assets</b>					
Deposits and investments with City Treasury.....	\$ 1,239,022	\$ -	\$ 7,796	\$ -	\$ 1,246,818
Deposits and investments outside City Treasury.....	287,948	-	-	-	287,948
Receivables, net.....	-	-	-	-	-
Property taxes and penalties.....	28,229	-	-	-	28,229
Other local taxes.....	182,726	-	-	-	182,726
Federal and state grants and subventions.....	141,128	-	-	-	141,128
Charges for services.....	22,735	-	-	-	22,735
Interest and other.....	28,832	-	301	-	27,133
Due from other funds.....	48,937	-	-	(48,937)	-
Due from component unit.....	19,397	-	-	-	19,397
Loans receivable, net.....	118,117	-	-	-	118,117
Inventories.....	-	-	-	-	-
Buildings, infrastructure, and equipment, net.....	-	1,818,520	2,595	-	1,821,115
Deferred charges and other assets.....	6,972	7,183	3	-	14,158
Total assets.....	<u>2,133,233</u>	<u>1,825,705</u>	<u>10,695</u>	<u>(48,937)</u>	<u>3,920,696</u>
<b>Liabilities</b>					
Accounts payable.....	103,250	-	5,241	-	108,491
Accrued payroll.....	72,516	-	2,069	-	74,585
Accrued vacation and sick leave pay.....	-	110,963	2,550	-	113,513
Accrued workers' compensation.....	-	150,821	578	-	151,399
Estimated claims payable.....	65,104	84,863	-	-	149,967
Accrued interest payable.....	398	8,758	-	-	9,156
Deferred tax, grant and subvention revenues.....	52,462	(22,186)	-	-	30,274
Due to other funds/internal balances.....	89,046	-	-	(48,937)	40,109
Due to other funds/external balances.....	257,740	(200,897)	-	-	57,043
Deferred credits and other liabilities.....	-	1,724,478	3,551	-	1,728,029
Bonds, loans, capital leases, and other payables.....	-	1,856,795	13,969	(48,937)	2,462,356
Total liabilities.....	<u>640,516</u>	<u>1,856,795</u>	<u>13,969</u>	<u>(48,937)</u>	<u>2,462,356</u>
<b>Fund balances/net assets</b>					
Total fund balances/net assets.....	<u>1,492,717</u>	<u>(31,093)</u>	<u>(3,294)</u>	<u>-</u>	<u>1,458,330</u>
Total liabilities and fund balances/net assets.....	<u>\$ 2,133,233</u>	<u>\$ 1,825,705</u>	<u>\$ 10,695</u>	<u>\$ (48,937)</u>	<u>\$ 3,920,696</u>

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(1) When capital assets (land, infrastructure, buildings, and equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets.....	\$ 2,244,178
Accumulated depreciation.....	<u>(425,659)</u>
	<u>\$ 1,818,520</u>

Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.

	\$ 7,185
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued vacation and sick leave pay.....	\$ (110,963)
Accrued workers' compensation.....	(150,821)
Estimated claims payable.....	(84,863)
Bonds, loans, capital leases, and other payables.....	<u>(1,724,478)</u>
	<u>\$ (2,070,925)</u>

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid.

	\$ (8,739)
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

Deferred tax, grant and subvention revenue.....	\$ 22,188
Deferred credits and other liabilities.....	<u>200,597</u>
	<u>\$ 222,885</u>

(2) Internal service funds are used by management to charge the costs of certain activities, such as equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

	\$ 10,695
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(b) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances for governmental funds, \$309,327, differs from the change in net assets for governmental activities, \$203,575, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities (in thousands)

	Total Governmental Funds	Long-term Revenues Expenses	Capital- related Expenditures	Internal Services Funds	Long-term Debt Transactions	Statement of Activities Transfers
<b>Revenues</b>						
Property taxes.....	\$ 627,654	\$ 1,192	-	-	-	\$ 628,846
Business taxes.....	277,822	-	-	-	-	277,822
Other local taxes.....	581,480	-	-	-	-	581,480
License, permits and franchise.....	23,503	-	-	-	-	23,503
Fines, forfeitures and penalties.....	12,773	-	-	-	-	12,773
Interest and investment income.....	91,429	-	-	-	-	91,429
Rents and concessions.....	75,382	-	-	-	-	75,382
Intergovernmental:						
Federal.....	286,758	-	-	-	-	286,758
State.....	575,361	-	-	-	-	575,361
Other.....	6,245	-	-	-	-	6,245
Charges for services.....	215,412	-	-	-	-	215,412
Other revenues.....	31,119	-	-	-	-	31,119
<b>Total revenues.....</b>	<b>2,814,938</b>	<b>1,192</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,816,130</b>
<b>Expenditures/Expenses</b>						
Current:						
Public protection.....	672,119	16,955	10,398	-	-	698,472
Public works, transportation and commerce.....	295,949	5,075	4,147	-	-	305,171
Human welfare and neighborhood development.....	557,242	(33,907)	492	-	-	523,827
Community health.....	454,975	1,722	803	-	-	457,500
Culture and recreation.....	233,863	1,135	1,813	-	(7,090)	228,721
General administration and finance.....	150,482	(65,503)	12,156	-	183	107,318
General City responsibilities.....	109,753	-	280	(169)	(60)	109,804
Current:						
Principal retirement.....	69,870	-	-	-	(69,870)	-
Interest and fiscal charges.....	66,367	-	-	1,117	4,104	73,588
Bond insurance costs.....	7,368	-	-	-	(7,368)	-
Capital outlay.....	170,472	-	(170,472)	-	-	-
<b>Total expenditures/expenses.....</b>	<b>2,764,400</b>	<b>(64,523)</b>	<b>(140,383)</b>	<b>948</b>	<b>(80,101)</b>	<b>2,510,401</b>
<b>Other financing sources (uses)/changes in</b>						
Net assets (to) from other funds.....	(103,221)	-	-	1,087	-	(102,134)
Proceeds from issuance of bonds and loans.....	392,070	-	-	-	(392,070)	-
<b>Total other financing sources (uses)/changes</b>	<b>288,849</b>	<b>\$ 65,715</b>	<b>\$ 140,383</b>	<b>\$ 119</b>	<b>\$ (311,959)</b>	<b>\$ 205,575</b>
<b>Net change for the year.....</b>	<b>\$ 309,327</b>	<b>\$ 65,715</b>	<b>\$ 140,383</b>	<b>\$ 119</b>	<b>\$ (311,959)</b>	<b>\$ 205,575</b>

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

- (3) Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as available revenues in the governmental funds.
- Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.
- Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenses are not reported in the statement of activities.
- (4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.
- Capital expenditures..... \$ 192,093  
Depreciation expense..... (51,370)  
Loss on disposal of capital assets..... (260)  
Difference..... \$ 140,363
- (5) Internal service funds are used by management to charge the costs of certain activities, such as equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The charges are reported in the statement of fund costs for the year.
- (6) Lease payments on the Meesons Convention Center (note 8) are reported as a culture and recreation expenditure in the governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liability in the statement of net assets and do not result in an expense in the statement of activities. The City's capital lease obligation was reduced because principal payments were made to the lessee. Additions to the lease obligation related to interest accretion are reported as culture and recreation expenditures in the governmental funds when paid. The City's capital lease obligation was increased due to the accrual of accreted interest resulting in additional culture and recreation expenses being reported in the statement of activities.
- Principal payments made..... \$ 18,662  
Increase in capital lease obligation..... (9,572)  
Bond insurance costs..... 7,090  
Difference..... \$ 16,179
- Bond insurance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities.
- Amortization of bond insurance costs..... \$ 7,368  
Other..... (183)  
Difference..... 7,245
- Repayment of bond principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders.
- Principal payments made..... \$ 69,870
- Interest expense in the statement of activities differs from the amount reported in governmental funds because additional accrued interest was calculated for bonds and notes payable, and additional interest expense was recognized on the amortization of bond discounts and premiums which are expended within the fund statements.
- Accrued interest..... \$ (3,762)  
Amortization of bond premiums and discounts..... (342)  
Difference..... \$ (4,104)
- Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. Proceeds were received from:
- General obligation bonds..... \$ 91,876  
Lease revenue bonds..... 165,732  
Certificate of participation..... 134,462  
Difference..... \$ 392,070

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(4) BUDGETARY RESULTS RECONCILED TO RESULTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Budgetary Results Reconciliation

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP basis. The results of operations are presented in the budget-to-actual comparison statement in accordance with the budgetary process (Budget basis) to provide a meaningful comparison with the budget.

The major differences between the Budget basis "actual" and GAAP basis are as follows:

(a) Basis differences

Certain accruals for estimated claims payable are excluded from the Budget basis financial statement because such amounts are budgeted on a cash basis.

(b) Timing differences

Timing differences represent transactions that are accounted for in different periods for Budget basis and GAAP basis reporting. Certain revenues accrued on a Budget basis have been deferred for GAAP reporting. These primarily relate to the accounting for property tax revenues under the Teeler Plan (note 6).

The fund balances as of June 30, 2001 on a Budget basis are reconciled to the fund balances on a GAAP basis as follows (in thousands):

	General Fund
Fund balance - Budget basis.....	\$489,347
Unrealized loss on investments.....	5,590
Accruals excluded from Budget basis:	
Estimated claims payable.....	(2,104)
Cumulative excess property tax revenues recognized on a Budget basis.....	(16,461)
Franchise fees and utility tax full accrual.....	2,500
Other.....	315
Fund balance - GAAP basis.....	<u>\$479,187</u>

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

General Fund Budget basis fund balance at June 30, 2001 is composed of the following (in thousands):

Reserved for cash requirements .....	\$93,293
Reserved for emergencies.....	4,198
Reserved for assets not available for appropriation .....	6,089
Reserved for encumbrances .....	37,743
Reserved for appropriation carryforward .....	77,060
Reserved for subsequent years' budgets:	
Reserved for budget incentive program .....	300
Reserved for investments.....	5,090
Reserved for nurses' childcare .....	1,100
Reserved for on-line City access program .....	500
Reserved for recreation and park .....	349
Reserved for human rights task force .....	1,000
Reserved for salary benefits.....	5,008
Reserved for closeout for FY 2001-02 budget.....	<u>39,990</u>
Total reserve .....	\$271,720
Designated for litigation and contingencies .....	17,294
Designated for extraordinary one-time expenditures.....	1,380
Unreserved - available for appropriation.....	<u>198,953</u>
Total unreserved amounts .....	<u>217,627</u>
Fund balance, June 30, 2001 - Budget basis	<u>\$489,347</u>

Of the \$199 million unreserved-available for appropriation, \$148.7 million has been subsequently appropriated as part of the General Fund budget for fiscal year 2002.

(5) Deposits and Investments

The City's deposits and investments are invested pursuant to investment policy guidelines established by the City Treasurer subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee established under California Government Code Sections 27130 to 27137 is composed of various City officials and representatives of agencies with large cash balances. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses the 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 which may be invested in certain instruments with longer terms to maturity.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Investments permitted by the City's investment policy include the following:

- Public Time Deposits
- Public Demand Accounts
- Negotiable Certificates of Deposit
- Money Market Instruments
- U.S. Treasury Instruments -
  - Treasury Bills
  - Treasury Bonds
  - Treasury Notes
- Federal Agencies -
  - Federal Home Loan Bank
  - Federal Farm Credit Bank
  - Federal National Mortgage Association
  - Federal Mortgage Corporation
  - Student Loan Marketing Association
- Commercial Paper
- Bankers' Acceptances
- Repurchase Agreements
- Reverse Repurchase Agreements

The City's investment policy identifies certain restrictions related to the above investments. Investments held by the City Treasurer during the year did not include repurchase agreements or reverse repurchase agreements.

Other deposits and investments maintained outside the City Treasury are invested pursuant to governing bond covenants or California Government Code provisions. The following provides a brief description of the nature of these investments.

**Employees' Retirement System**

The Retirement System's funds are invested pursuant to policy guidelines established by the Retirement System's Board. The objective of the investment policy is to maximize the expected return of the fund at an agreed upon level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified. As of June 30, 2001, the Retirement System had no investments in any one organization that represented 5% or more of plan net assets. Investments held by the Retirement System during the year did not include reverse repurchase agreements.

**Other Funds**

Other funds consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These funds are invested either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

**Component Units**

The investment policy of the Redevelopment Agency is governed by Article 2 of the California Government Code (Code). Investments are restricted to certain types of instruments and certain of these instruments are only allowed within limits. The Code permits repurchase agreements, but reverse repurchase agreements require the prior approval of the Agency Commission. The Agency does not participate in reverse repurchase agreements or other high-risk investments as defined by the Agency's

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

investment policy. It is the Agency's intention to hold investments until maturity, unless earlier liquidation would result in an investment gain.

The funds of the TIDA are invested solely in the City Treasury.

**Deposits and Investments**

Total City deposits and investments at fair value are as follows (in thousands):

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	
Deposits and Investments with City Treasury.....	\$ 1,246,816 <sup>1</sup>	\$ 701,952	\$ 423,825 <sup>2</sup>	\$ 2,372,605
Deposits and Investments outside City Treasury.....	287,948	2,467	11,855,452	12,155,867
Restricted assets:				
Deposits and Investments with City Treasury.....	-	648,988	-	648,988
Deposits and Investments outside City Treasury.....	-	331,524	-	331,524
Invested securities lending collateral.....	-	-	1,574,089	1,574,089
Total deposits and Investments.....	\$ 1,544,766	\$ 1,684,921	\$ 13,853,366	\$ 17,083,053
Deposits.....	\$ 31,951	\$ 9,423	\$ 3,737	\$ 45,111
Investments.....	1,512,815	1,675,498	13,849,629	17,037,942
Total deposits and Investments.....	\$ 1,544,766	\$ 1,684,921	\$ 13,853,366	\$ 17,083,053
				\$ 337,167
				\$ 3,458
				333,709
				\$ 337,167

<sup>1</sup> Includes deposits and investments with the City Treasury of total governmental funds (\$1,238,022) and Internal service funds (\$7,799).

<sup>2</sup> Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds (\$88,061), investment trust fund (\$272,960) and agency funds (\$84,814).

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### Cash and Deposits

The City had cash and deposits at June 30, 2001 as follows (in thousands):

	Primary Government				Component Units	
	Governmental Activities		Business-type Activities		Fiduciary Funds	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash on hand.....	\$ 181	\$ -	\$ 240	\$ -	\$ -	\$ 1
Federally insured deposits....	400	400	1,515	-	-	523
Collateralized deposits *.....	31,370	138,720	160	117	-	4,044
Uninsured and uncollateralized.....	-	-	7,508	7,508	3,737	-
	<u>\$ 31,951</u>	<u>\$ 139,120</u>	<u>\$ 9,423</u>	<u>\$ 9,411</u>	<u>\$ 3,737</u>	<u>\$ 4,567</u>

\* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2001, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately \$100.0 million. Of this \$100.0 million of outstanding checks, \$86.9 million relates to the San Francisco Unified School District and Community College District which have been reflected in an investment trust fund.

The California Government Code requires California banks and savings and loan associations to secure the City's deposits not covered by Federal depository insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the City's deposits or 150% of mortgage backed collateral. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the City's name.

The \$11.2 million of uncollateralized cash consists of \$3.7 million of cash held on behalf of the Employees' Retirement System by a third party trustee and \$7.5 million of cash held on behalf of the Parking Garages by third party trustees.

### Investments

Investments of the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial risk by three categories. They are as follows:

- Category 1 - Includes investments that are insured or registered or securities held by the City or its agent in the City's name;
- Category 2 - Includes uninsured and unregistered investments, with the securities held by counterparty's trust department or agent in the City's name;
- Category 3 - Includes uninsured and unregistered investments, with the securities held by the counterparty, or by its trust department or agent but not in the City's name.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

At June 30, 2001, investments included the following (in thousands):

Type of Investment	Category			Carrying value
Primary Government Pension and Investment Trust Funds	1	2	3	
<b>Investments in City Treasuries:</b>				
U.S. government securities.....	\$ 1,414,574	\$ -	\$ -	\$ 1,414,574
State of California bonds.....	902,829	-	-	902,829
Federal agencies.....	148,503	-	-	148,503
Commercial paper.....	526,956	-	-	526,956
Negotiable certificates of deposit.....	980	-	-	980
Public time deposit.....	2,993,942	-	-	2,993,942
Total Investments in City Treasuries.....	<u>217,977</u>	<u>-</u>	<u>-</u>	<u>218,078</u>
<b>Employees' Retirement System (ERS):</b>				
U.S. government securities.....	67,122	-	8,116	65,238
State of California bonds.....	1,069,709	-	45,408	1,115,117
Debt securities.....	4,044,357	-	3,617	4,047,974
Equity securities.....	5,389,165	-	57,242	5,446,407
Total categorized investments.....	-	-	-	-
<b>Non-categorized investments:</b>				
Mortgage backed securities.....	-	-	-	606,755
Real interest mutual funds.....	-	-	-	747,402
Equity mutual funds.....	-	-	-	874,040
Real estate.....	-	-	-	875,015
Venture capital.....	-	-	-	1,363,120
Money market mutual funds.....	-	-	-	776,334
Non-categorized investments.....	-	-	-	6,343
Investments in leading capital short-term investment pool.....	-	-	-	1,574,089
Investments lent to broker-dealers.....	-	-	-	1,593,128
Total non-categorized investments.....	<u>7,978,397</u>	<u>-</u>	<u>-</u>	<u>13,425,604</u>
Total Employees' Retirement System.....	<u>61,336</u>	<u>-</u>	<u>396,663</u>	<u>458,000</u>
<b>Other Funds:</b>				
U.S. government securities.....	894	-	-	894
Common stock.....	-	-	14,425	14,425
Commercial paper.....	62,230	-	413,088	475,318
Total categorized investments.....	<u>62,230</u>	<u>-</u>	<u>413,088</u>	<u>475,318</u>
<b>Non-categorized investments:</b>				
Promissory note.....	-	-	-	116,093
Money market mutual funds.....	-	-	-	23,665
Total non-categorized investments.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>142,978</u>
Total Other Funds.....	<u>61,336</u>	<u>-</u>	<u>396,663</u>	<u>618,296</u>
Total Primary Government Pension and Investment Trust Funds.....	<u>\$ 8,445,237</u>	<u>\$ -</u>	<u>\$ 470,330</u>	<u>\$ 17,037,942</u>
<b>Component Units - Redevelopment Agency</b>				
U.S. government securities.....	\$ -	\$ 7,426	\$ 121,751	\$ 129,177
Bankers' acceptances.....	-	9,615	-	9,615
Commercial paper.....	-	15,328	29,768	45,094
Corporate medium term notes.....	7,056	3,566	-	10,623
Repurchase agreements.....	-	-	1,684	1,684
Total categorized investments.....	<u>\$ 7,056</u>	<u>\$ 35,932</u>	<u>\$ 153,193</u>	<u>\$ 195,173</u>
<b>Non-categorized investments:</b>				
Guaranteed investment contracts.....	-	-	-	41,443
Local agency investment fund.....	-	-	-	70,557
Money market mutual funds.....	-	-	-	24,073
Total non-categorized investments.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,073</u>
Total Redevelopment Agency.....	<u>\$ 7,056</u>	<u>\$ 35,932</u>	<u>\$ 153,193</u>	<u>\$ 332,246</u>
<b>Component Units - Treasure Island Development Authority</b>				
U.S. government securities.....	1,463	-	-	1,463
State of California bonds.....	1,463	-	-	1,463
Total Treasure Island Development Authority.....	<u>\$ 2,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,926</u>
Total Component Units.....	<u>\$ 8,451</u>	<u>\$ 35,932</u>	<u>\$ 153,193</u>	<u>\$ 335,172</u>

The types of investments made during the year were substantially the same as those held as of June 30, 2001. Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

below original cost. City management believes the liquidity in the portfolio is sufficient to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose. The interest and net investment loss is comprised of the following at June 30, 2001 (in thousands):

Interest and dividends, net of amounts capitalized	\$ 473,064
Net decrease in the fair value of investments	(1,681,240)
Total investment loss	<u>\$ (1,208,176)</u>

The net decrease in the fair value of investments takes into account all changes in fair value (including purchases and sales) that occurred during the year. The primary component of this figure is the net decrease in the fair value of pension investments.

The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for the fiscal year ended June 30, 2001 was 6.056%.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2001 (in thousands):

<b>Statement of Net Assets</b>	
Net assets held in trust for all pool participants.....	<u>\$ 3,023,036</u>
Equity of internal pool participants.....	<u>\$ 2,747,828</u>
Equity of external pool participants.....	<u>275,208</u>
Total equity.....	<u>\$ 3,023,036</u>
<b>Statement of Changes in Net Assets</b>	
Net assets at July 1, 2000.....	<u>\$ 2,734,617</u>
Net change in investments by pool participants.....	<u>288,419</u>
Net assets at June 30, 2001.....	<u>\$ 3,023,036</u>

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2001 (in thousands):

Type of Investment	Rates	Maturities	Par Value	Carrying Value
US government securities.....	4.25%-5.56%	7/30/01-5/15/04	\$ 1,408,005	\$ 1,416,037
Federal agencies.....	3.65%-6.11%	7/05/01-5/23/03	924,875	902,829
Commercial paper.....	4.00%-4.57%	7/06/01-8/14/01	150,000	148,503
Negotiable certificate of deposits.....	3.80%-5.57%	7/03/01-5/29/02	526,000	526,956
Public time deposits.....	3.00%-3.90%	01/01/02	1,000	980
			<u>\$ 3,009,880</u>	<u>2,995,305</u>
Carrying amount of deposits in Treasurer's Pool.....				<u>27,731</u>
Total cash and investments in Treasurer's Pool.....				<u>\$ 3,023,036</u>

(6) Property Taxes

The City is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law. Property taxes are levied on both real and personal property. Liens for secured property taxes attach on January 1st preceding the fiscal year for which taxes are levied. Secured property taxes are levied on the first business day of September and are payable in two equal installments: the first is due on November 1st and delinquent with penalties after December 10th; the second is due February 1st and delinquent with penalties after April 10th. Secured property taxes that are delinquent and unpaid as of June 30th are subject to redemption penalties, costs, and interest when paid. If not paid at the end of five years, the property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are due on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the dates of the underlying transaction.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year.

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. These taxes for debt service amounted to approximately \$106.1 million for the year ended June 30, 2001.

Taxable valuation for the year ended June 30, 2001 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately \$74.9 billion, an increase of 15.3% from the previous year. The secured tax rate was \$1.136 per \$100 of valuation which is comprised of the following: \$0.90 for general government (which includes \$0.247 for the required state property tax shift), \$0.135 for the City's bond interest and redemption charges, and a total of \$0.101 to the San Francisco Unified School District, the San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District (note 8). Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.74% and 2.98%, respectively, of the current year tax levy, for net delinquencies of 1.56% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve, as of June 30, 2001 was \$8.1 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from internal borrowing, primarily from the Agency Fund.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(7) Capital Assets

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2001 was as follows (in thousands):

Governmental Activities

	Balance July 1, 2000	Increases	Decreases	Balance June 30, 2001
Capital assets, not being depreciated:				
Land.....	\$ 124,772	\$ 6,767	\$ -	\$ 131,539
Construction in progress.....	238,999	147,173	-	386,172
Total capital assets, not being depreciated.....	363,771	153,940	-	517,711
Capital assets, being depreciated:				
Facilities and improvements.....	1,517,656	16,272	-	1,533,928
Machinery and equipment.....	197,719	24,330	4,932	217,117
Property held under lease.....	4,816	-	-	4,816
Total capital assets, being depreciated.....	1,720,191	40,602	4,932	1,755,861
Less accumulated depreciation for:				
Facilities and improvements.....	291,132	28,300	-	319,432
Machinery and equipment.....	107,412	25,985	4,652	126,745
Property held under lease.....	4,280	-	-	4,280
Total accumulated depreciation.....	402,824	54,285	4,652	452,457
Total capital assets, being depreciated, net.....	1,317,367	(13,683)	280	1,303,404
Governmental activities capital assets, net.....	\$ 1,681,138	\$ 140,257	\$ 280	\$ 1,821,115

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Business-type activities

	Balance July 1, 2000	Increases	Decreases	Balance June 30, 2001
Capital assets, not being depreciated:				
Land.....	\$ 182,137	\$ 2,437	\$ (275)	\$ 184,299
Construction in progress.....	1,079,585	846,137	(691,488)	1,234,234
Total capital assets, not being depreciated.....	1,261,722	848,574	(691,763)	1,418,533
Capital assets, being depreciated:				
Facilities and improvements.....	6,624,167	664,931	(4,483)	7,284,615
Machinery and equipment.....	760,615	182,962	(28,025)	915,552
Infrastructure.....	691,898	1,664	-	693,562
Property held under lease.....	824	-	-	824
Easements.....	115,831	9,692	-	125,523
Total capital assets, being depreciated.....	8,095,335	859,249	(32,509)	8,920,076
Less accumulated depreciation for:				
Facilities and improvements.....	1,781,970	191,596	(5,298)	1,968,168
Machinery and equipment.....	409,897	36,703	(24,805)	421,795
Infrastructure.....	118,236	20,427	-	138,663
Property held under lease.....	103	206	-	309
Easements.....	21,366	5,655	-	27,041
Total accumulated depreciation.....	2,331,492	254,587	(30,103)	2,555,976
Total capital assets, being depreciated, net.....	5,763,843	604,662	(2,405)	6,364,100
Business-type activities capital assets, net.....	\$ 7,023,565	\$ 1,453,236	\$ (694,168)	\$ 7,782,633

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental Activities:	
Public protection.....	\$ 11,510
Public works transportation and commerce.....	13,260
Human welfare and neighborhood development.....	492
Community health.....	803
Culture and recreation.....	11,895
General administration and finance.....	13,410
Capital assets held by the City's internal service funds	
charged to the various functions on a prorated basis	
based on their usage of the assets.....	2,915
Total depreciation expense - governmental activities.....	\$ 54,285
Business-type activities:	
Airport.....	\$ 119,195
Transit.....	47,826
Port.....	7,186
Water.....	24,338
Power.....	9,509
Hospitals.....	7,571
Sewer.....	37,938
Garages.....	1,054
Total depreciation expense - business-type activities.....	\$ 254,587

Equipment is generally estimated to have useful lives of 3 to 40 years, except for certain equipment of the Water Department that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 5 to 50 years, except for utility type assets of the Water Department and Hetch Hetchy Project (Water/Hetch Hetchy), the Clean Water Program, the San Francisco Municipal Railway (Muni), Laguna Honda Hospital (LHH), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 100 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Water/Hetch Hetchy, Cable Car Barn facilities and structures of Muni, building and structures of LHH, and pier substructures of the Port and totaled \$1.4 billion as of June 30, 2001. In addition, the Water/Hetch Hetchy had utility type assets with useful lives over 100 years which totaled \$4.5 million at June 30, 2001.

During the fiscal year ended June 30, 2001 the City's Enterprise Funds incurred total interest expense and interest income of approximately \$268.0 million and \$108.9 million, respectively. Of these amounts, interest expense and interest income of approximately \$65.9 million and \$12.4 million respectively, was capitalized as part of the cost of constructing proprietary capital assets. The net amount of approximately \$53.5 million was capitalized into capital assets.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### Component Unit - Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2001 was as follows (in thousands):

	Balance July 1, 2000	Increases	Decreases	Balance June 30, 2001
Capital assets, not being depreciated:				
Property held under lease.....	\$ 32,792	\$ 16,624	\$ -	\$ 49,416
Construction in progress.....	269	46	-	315
Total capital assets not being depreciated.....	33,061	16,670	-	49,731
Capital assets, being depreciated:				
Facilities and improvements.....	135,082	229	-	135,311
Leasehold improvements.....	21,602	-	-	21,602
Machinery and equipment.....	7,000	178	(82)	7,096
Total capital assets being depreciated.....	163,684	407	(82)	164,009
Less accumulated depreciation and amortization for:				
Facilities and improvements.....	(16,725)	(3,381)	-	(22,106)
Leasehold improvements.....	(5,626)	(432)	-	(6,058)
Machinery and equipment.....	(4,723)	(831)	-	(5,554)
Total accumulated depreciation and amortization.....	(29,074)	(4,644)	-	(33,719)
Total capital assets being depreciated, net.....	134,610	(4,237)	(82)	130,291
Redevelopment Agency capital assets, net....	\$ 167,671	\$ 12,433	\$ (82)	\$ 180,022



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(8) Bonds, Loans, Capital Leases and Other Payables

The following is a summary of long-term obligations of the City as of June 30, 2001 (in thousands):

GOVERNMENTAL ACTIVITIES			
Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS (a):			
Affordable housing .....	2021	4.0 to 8.0%	\$ 96,775
City hall improvement project .....	2011	4.625 to 5.6%	30,685
Fire protection .....	2016	4.8 to 7.0%	17,715
Museums .....	2019	4.5 to 7.0%	24,800
Parks and playgrounds .....	2021	3.5 to 7.0%	86,665
Public safety improvements .....	2016	4.8 to 7.0%	78,425
Schools .....	2020	4.0 to 7.0%	141,985
Seismic safety loan program .....	2014	6.95 to 7.85%	28,050
Zoo facilities .....	2020	4.0 to 6.5%	32,750
Refunding .....	2016	4.1 to 5.75%	415,705
General obligation bonds - governmental activities .....			953,535
LEASE REVENUE BONDS:			
San Francisco Finance Corporation (b) .....	2024	3.5 to 5.5%	104,575
San Francisco Parking Authority (c) .....	2022	4 to 6.0%	32,900
San Francisco Social Services Corporation (d) .....	2003	6.25 to 7.75%	1,740
Moscone Convention Center Garage (d) .....	2009	2.9 to 4.0%	5,680
Moscone Convention Center Expansion (e) .....	2030	5.02% *	157,500
Lease revenue bonds - governmental activities .....			302,405
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c) .....	2033	4.0 to 8.5%	225,707
Loans (c) & (f) .....	2008	4.5 to 6.7%	15,916
Capital leases payable (d) & (f) .....	2002	5.52 to 8.05%	232,485
Accrued vacation and sick leave (d) & (f) .....			115,513
Accrued workers' compensation (d) & (f) .....			151,199
Estimated claims payable (d) & (f) .....			149,957
Other long-term obligations - governmental activities .....			888,687
Governmental activities total long-term obligations .....			\$ 2,144,627

Debt service payments are made from the following sources:

- (a) Property tax recorded in the Debt Service Fund.
- (b) Lease rental revenues from "lessee" departments in the General Fund and Enterprise Funds.
- (c) Revenues recorded in Special Revenue Funds.
- (d) Revenues recorded in the General Fund.
- (e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
- (f) User-charge reimbursements from General Fund, Special Revenue Funds and Enterprise Funds.

Internal Service Funds predominantly serve the governmental funds. Accordingly, long term liabilities for them are included in the above amounts.

\* The Bonds are issued with variable rates. Interest rate at the date of issuance through June 30, 2001 is 5.02%.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds .....	2030	3.8 to 8.0%	\$ 3,743,605
Commercial paper .....	2002	2.9 to 3.9%	397,541
Clean Water Program:			
Revenue bonds .....	2026	4.7 to 6.5%	469,883
State of California - Revolving fund loans .....	2021	2.8 to 3.5%	193,597
Water Department/Hetch Hetchy Project:			
Revenue bonds .....	2026	5.3% to 7.4%	232,042
Commercial paper .....	2002	3.21 to 4.65%	75,000
Port of San Francisco:			
General Obligation Bonds -			
City and County of San Francisco .....	2005	4.5 to 6.3%	3,200
Revenue bonds .....	2010	5.0 to 9.0%	37,330
Notes, loans and other payables .....	2028	Variable	11,186
Capital lease .....	2005	6.31%	147
Laguna Honda Hospital:			
Capital lease .....	2003	4.50%	632
Nonprofit Parking Corporations (Garages):			
Downtown Parking - revenue bonds .....	2018	5.85 to 6.65%	13,235
Ellis-O'Farrell - revenue bonds .....	2017	Variable, 4.25 to 7.125%	5,420
Portsmouth Plaza - notes, loans and other payables .....	2003	9.00%	155
San Francisco Market Corporation - notes, loans and other payables .....	2007	Prime plus 0.25%	926
Accrued vacation and sick leave .....			65,346
Accrued workers' compensation .....			105,593
Estimated claims payable .....			41,495
Business-type activities total long-term obligations .....			\$ 5,396,333

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in their respective Enterprise Funds.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Type of Obligation	COMPONENT UNIT		Remaining Interest Rates	Amount
	Final Maturity Date			
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:				
Lease Revenue Bonds:				
Moscone Convention Center (a) .....	2024	5.5 to 6.5%		\$ 194,332
Hotel Tax Revenue Bonds (b) .....	2025	3.5 to 6.75%		76,965
Financing Authority Bonds:				
Tax Allocation Revenue Bonds (c) .....	2025	3.0 to 9.0%		317,868
Sub-total .....				589,165
South Beach Harbor Variable Rate Refunding Bonds (d) .....	2017	Variable (4.15 % at 6/30/01)		14,000
California Department of Boating and Waterways Loan (e) .....	2037	4.50%		8,000
Accrued interest payable .....				145,189
Accrued vacation and sick leave pay .....				1,674
Component unit total long-term obligations .....				\$ 758,028

Debt service payments are made from the following sources:

- Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/escrow trust funds.
- Hotel taxes from hotels located in the Redevelopment Project Areas.
- Property taxes allocated to the Redevelopment Agency based on increased assessed valuations in project areas (note 12) and existing debt service/escrow trust funds.
- South Beach Harbor Project cash reserves, property tax increments and project revenues.
- South Beach Harbor Project revenues (subordinated to Refunding Bonds).

**Debt Compliance**  
There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

**Legal Debt Limit and Legal Debt Margin**  
As of June 30, 2001, the City's debt limit (3% of valuation subject to taxation) was \$2.4 billion. The total amount of debt applicable to the debt limit was \$1.0 billion, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was \$1.4 billion.

**Arbitrage**  
Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, the earnings from the investment of tax exempt bond proceeds that exceed related interest expenditures on the bonds must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond, certificates of participation, and lease revenue bond issue subject to the arbitrage rebate requirements and has deferred recognition of interest income of \$3.5 million as of

CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2001. This arbitrage liability is recorded in deferred credits and other liabilities in the governmental funds. Each Enterprise Fund has performed a similar analysis of the debt the respective Enterprise has issued which is subject to arbitrage rebate requirements. Any material arbitrage liability related to the debt of the Enterprise Funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

**Assessment District**  
During June 1996, the City issued \$1 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds are to be used to finance the construction of a new public right-of-way. The bonds began to mature during the fiscal year ended June 30, 1999 and continue through 2026 bearing interest from 6.0% to 6.85%. These bonds do not represent obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Accordingly, the debt has not been included in the basic financial statements. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within Bayshore Hester Assessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels.

**Mortgage Revenue Bonds**  
In order to facilitate affordable housing, the City has issued mortgage revenue bonds with an outstanding aggregate balance of \$99.9 million as of June 30, 2001. These obligations are secured by the related mortgage indebtedness and, in the opinion of management, are not obligations of the City.

## CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

## Changes In Long-Term Obligations

The changes in long-term obligations for the year ended June 30, 2001, are as follows (in thousands):

	July 1, 2000	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2001	Amounts Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 911,825	\$ 91,120	\$ (49,210)	\$ 953,535	\$ 53,830
Lease revenue bonds	151,765	165,685	(14,445)	302,405	16,495
Certificates of participation	91,928	137,526	(3,745)	225,707	4,150
Less deferred amounts:					
For insurance premiums	-	803	(19)	784	-
For issuance discounts	-	(2,773)	70	(2,703)	-
Total bonds payable	1,154,716	382,361	(67,349)	1,479,728	74,475
Loans	17,313	973	(2,470)	15,816	2,701
Capital leases	239,439	10,903	(17,857)	232,485	19,084
Accrued vacation and sick leave pay	107,580	5,933	-	113,513	54,052
Accrued workers' compensation	135,571	43,352	(27,724)	151,199	32,558
Estimated claims payable	138,793	34,985	(23,811)	149,967	114,892
Governmental activity long-term obligations	\$ 1,793,412	\$ 488,507	\$ (139,211)	\$ 2,142,708	\$ 297,752

Internal service funds predominantly serve the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ending June 30, 2001, \$2.5 million of capital leases, \$1 million of loans, \$2.5 million of accrued vacation and sick leave pay and \$0.6 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general funds.

## CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

	July 1, 2000	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2001	Amounts Due Within One Year
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 4,400	\$ -	\$ (1,200)	\$ 3,200	\$ 1,200
Revenue bonds	4,316,452	239,168	(54,135)	4,501,515	65,420
Less deferred amounts:					
For insurance premiums	389	-	(42)	347	-
For issuance discounts	(32,382)	(1,483)	1,651	(32,214)	-
For refunding loss	(42,762)	-	2,639	(40,123)	-
Total bonds payable	4,246,097	237,715	(51,087)	4,432,725	66,620
Commercial paper	271,650	289,231	(97,340)	472,541	472,541
State of California - Revolving fund loans	180,295	26,300	(12,988)	193,597	14,008
Notes, loans, and other payables	10,627	2,952	(1,312)	12,267	1,415
Capital leases	1,898	-	(1,109)	779	239
Accrued vacation and sick leave pay	61,894	3,462	-	65,346	36,262
Accrued workers' compensation	99,045	34,460	(27,912)	105,593	25,582
Estimated claims payable	50,634	234	(9,373)	41,495	13,470
Business-type activity long term obligations	\$ 4,922,120	\$ 603,354	\$ (201,131)	\$ 5,324,343	\$ 632,135

**Component unit:  
Redevelopment Agency**

Bonds payable:					
Revenue bonds	\$ 584,794	\$ 40,135	\$ (35,764)	\$ 589,165	\$ 19,685
Refunding bonds	14,500	-	(500)	14,000	1,500
Total bonds payable	599,294	40,135	(36,264)	603,165	21,185
Accrued interest payable	134,755	20,285	(9,851)	145,189	10,850
Notes, loans, and other payables	18,000	-	(10,000)	8,000	-
Accrued vacation and sick leave pay	1,627	47	-	1,674	790
Component unit - long term obligations	\$ 753,676	\$ 60,467	\$ (56,115)	\$ 758,028	\$ 32,825

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2001 are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities <sup>(1)</sup>									
	General Obligation Bonds				Lease Revenue Bonds				Other Long-Term Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002.....	\$ 53,830	\$ 50,278	\$ 16,495	\$ 14,421	\$ 6,851	\$ 12,441	\$ 77,176	\$ 73,412		
2003.....	60,245	47,618	15,885	13,721	7,163	12,073	83,273	79,140		
2004.....	63,275	44,648	14,045	13,047	6,564	11,932	83,884	89,627		
2005.....	59,365	41,658	13,420	12,443	9,118	9,068	81,903	83,167		
2006.....	62,335	38,722	13,035	11,842	8,439	8,744	83,909	89,308		
2007-2011.....	347,945	138,876	55,430	51,001	38,056	39,969	441,431	230,846		
2012-2016.....	223,285	55,979	44,455	39,479	44,422	33,212	312,142	128,670		
2017-2021.....	83,275	11,397	47,915	27,914	33,720	26,040	164,910	65,351		
2022-2026.....	-	-	43,345	16,123	28,230	19,279	71,575	35,402		
2027-2031.....	-	-	38,400	4,924	33,905	11,213	72,305	16,137		
2032-2036.....	-	-	-	-	25,055	2,019	25,055	2,019		
Total.....	\$ 953,535	\$ 430,174	\$ 302,405	\$ 204,915	\$ 241,523	\$ 205,980	\$ 1,497,463	\$ 841,079		

Business-type Activities <sup>(1)(2)</sup>

Fiscal Year Ending June 30	Business-type Activities <sup>(1)(2)</sup>									
	General Obligation Bonds				Revenue Bonds				Other Long-Term Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002.....	\$ 1,200	\$ 173	\$ 65,420	\$ 251,418	\$ 15,421	\$ 6,919	\$ 82,041	\$ 258,510		
2003.....	1,200	112	90,190	247,190	16,004	6,362	107,394	253,634		
2004.....	400	50	98,305	242,878	16,396	5,762	115,101	248,690		
2005.....	400	25	118,955	238,111	16,880	5,175	136,235	243,311		
2006.....	-	-	125,675	232,281	17,380	4,571	143,055	236,852		
2007-2011.....	-	-	745,548	1,056,657	75,989	4,392	821,517	1,061,049		
2012-2016.....	-	-	856,285	857,216	37,281	4,607	893,566	861,823		
2017-2021.....	-	-	961,435	580,723	10,510	873	971,945	591,596		
2022-2026.....	-	-	1,045,207	287,371	23	9	1,045,230	287,380		
2027-2031.....	-	-	394,495	44,227	-	-	394,495	44,227		
Total.....	\$ 3,200	\$ 360	\$ 4,501,515	\$ 4,038,042	\$ 205,864	\$ 38,670	\$ 4,710,579	\$ 4,077,072		

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Fiscal Year Ending June 30	Component Unit <sup>(1)</sup>									
	Lease Revenue Bonds				Tax Revenue Bonds				Other Long-Term Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002.....	\$ 5,981	\$ 16,453	\$ 13,704	\$ 17,855	\$ 1,500	\$ 1,059	\$ 21,185	\$ 35,387		
2003.....	5,570	21,167	14,512	18,862	-	1,054	20,082	40,883		
2004.....	10,734	39,777	15,449	19,496	-	1,054	25,183	60,327		
2005.....	33,661	84,458	16,101	20,016	-	1,054	49,782	105,528		
2006.....	5,550	13,670	15,032	19,273	-	1,054	20,582	33,987		
2007-2011.....	24,466	72,720	77,151	83,438	4,632	4,778	106,249	160,936		
2012-2016.....	37,244	61,370	94,986	55,594	7,447	2,845	139,677	119,809		
2017-2021.....	55,555	10,941	100,228	28,349	2,817	1,499	159,600	40,789		
2022-2026.....	14,571	2,047	47,670	36,835	1,548	1,128	63,788	40,010		
2027-2031.....	-	-	-	-	1,929	747	1,929	747		
2032-2036.....	-	-	-	-	2,104	272	2,104	272		
2037-2041.....	-	-	-	-	23	1	23	1		
Total.....	\$ 194,332	\$ 322,603	\$ 394,833	\$ 289,518	\$ 22,000	\$ 16,545	\$ 611,165	\$ 639,686		

<sup>(1)</sup> The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.

<sup>(2)</sup> The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and affordable housing. General obligation bonds have been issued for both

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

governmental and business-type activities. The net authorized and unissued governmental activities - general obligation bonds for the fiscal year ended June 30, 2001 follows (in thousands):

Governmental Activities - General Obligation Bonds (in thousands)	
Authorized and unissued as of June 30, 2000 .....	\$ 867,320
New authorizations:	
Branch Library Improvements Bonds.....	105,865
California Academy of Sciences Improvement Bonds .....	87,445
Bonds issued:	
Series 2000D, Affordable Housing.....	(20,000)
Series 2001A, Golden Gate Park Improvements .....	(17,060)
Series 2001B, Neighborhood Recreation and Park Facilities Improvements .....	(14,060)
Series 2001C, Affordable Housing.....	(17,000)
Series 2001D, Affordable Housing.....	(23,000)
Net authorized and unissued as of June 30, 2001 .....	\$ 969,510

The new authorizations on general obligation bonds total to \$193.3 million as of June 30, 2001. In March 2000, the voters approved \$87.4 million for the improvement of the California Academy of Sciences and the Board of Supervisors authorized issuance of these bonds in September 2000. The electorate approved \$105.9 million for the improvement of various library branches in the November 2000 election.

In July 2000, the City issued \$20 million General Obligation Bonds, Affordable Housing, Series 2000D. Interest rates range from 4.4% to 7.375%. The bonds mature from June 2001 to June 2020. In May 2001, the Affordable Housing Bonds, Series 2001C in the amount of \$17 million and Series 2001D in the amount of \$23 million were issued. Interest rates range from 4% to 7.05%. The bonds mature from June 2002 through June 2021. The bonds were issued to finance the development of affordable housing to low-income households and down payment assistance to low and moderate-income first-time homebuyers in the City. Debt service payments are funded through ad valorem taxes on property.

In February 2001, the City issued General Obligation Bonds, Golden Gate Park Improvements, Series 2001A in the amount of \$17.1 million and Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2001B in the amount of \$14.1 million. Interest rates range from 3.5% to 4.8%. The bonds mature from June 2002 to June 2021. The bonds were issued to finance the acquisition, construction, reconstruction or repair, reforestation and rehabilitation of Golden Gate Park and other park facilities in the City. Debt service payments are funded through ad valorem taxes on property.

The Port of San Francisco is the only business-type activity that has General Obligation Bonds outstanding which amount to \$3.2 million as of June 30, 2001. The purpose for the original issuance of these bonds was for improvement of the San Francisco harbor area. The final maturity is in fiscal year 2004-2005.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2001 were as follows:

Governmental Activities - Lease Revenue Bonds (in thousands)	
Authorized and unissued as of June 30, 2000 .....	\$ 290,297
Increase in authorization in this fiscal year:	
Annual increase in Finance Corporation's equipment program.....	1,551
Current year maturities.....	7,575
Bonds issued:	
Series 2000A, Parking Authority North Beach Parking Garage Project.....	(8,185)
Series 2000-1,2,3, Moscone Center Expansion (Moscone West).....	(157,500)
Net authorized and unissued as of June 30, 2001 .....	\$ 133,738

### Finance Corporation

Prior to June 1990, the City Charter prohibited the City from lease-purchasing equipment or real property through public entities or non-profit corporations using tax-exempt obligations without a vote of the electorate. In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to \$20 million of equipment through a non-profit corporation using tax-exempt obligations without an additional vote of the electorate. Thus, the San Francisco Finance Corporation ("Finance Corporation") was formed in 1991. The purpose of the Finance Corporation is to provide a means to finance, through lease financing, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds every year up to \$20 million, plus 5% new annual authorization. The amount of authorized growth for the fiscal year ended June 30, 2001 was \$1.6 million. The cumulative amount authorized for fiscal year ended June 30, 2001 was \$32.6 million. Of that amount, \$17.5 million is outstanding and \$15.1 million is available for new revenue bonds. As of June 30, 2001, the Finance Corporation had issued a total of \$75.6 million in lease revenue bonds. The Finance Corporation did not issue any additional lease revenue bonds in the current year under this authorization.

In 1993, the Finance Corporation was authorized to issue lease revenue bonds of up to \$50 million for the acquisition and construction of a citywide emergency radio communication system. As of June 30, 2001, the total authorized amount of \$50 million has been issued. Moreover, the Finance Corporation was authorized in 1994 to issue lease revenue bonds of up to \$60 million for the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. As of June 30, 2001, the amount authorized and unissued was \$14.1 million.

### Moscone Center

In 1996 the voters approved the issuance of up to \$157.5 million in lease revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing, and improving a free-standing expansion to the City's George R. Moscone Convention Center. Series 2000-1, 2000-2 and 2000-3 of the bonds were issued on November 2, 2000. Each Series of Bonds may bear interest at a different rate and in a different

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Interest rate made from other Series of Bonds. Funds deposited to the Capitalized Interest Account are calculated to be sufficient to pay interest on the Bonds based on an assumed interest rate of 5.02% through August 1, 2003. The final maturity date is April 2030.

Parking Authority

As approved by the voters in November 1989, the City adopted Proposition F authorizing the City and the Parking Authority to build parking lots or garages in eight of the City's neighborhood, including the North Beach/Broadway area. On July 12, 2000, \$9.2 million lease revenue bonds, Series 2000A, were sold to finance the design and construction of an approximately 200-space, four level new parking facility described as North Beach Parking Garage Project. Interest rates range from 4.3% to 6.0%. The final maturity date is June 15, 2022. The Parking Authority will lease the garage to the City and the City will make lease payments from the City's general fund.

Football Stadium

In June 1997, the voters approved the issuance of up to \$100 million in lease revenue bonds for the construction of a new football stadium at Candlestick Point, the home of the San Francisco 49ers Football Team. The existing stadium, 3Com Park, is considered to be antiquated and in need of substantial repairs. The \$100 million lease revenue bonds will be the City's contribution toward the total cost of the stadium project. The 49ers will be responsible for paying the remaining cost of the stadium construction project. None of these bonds have been issued.

These voter-approved lease revenue bonds will be repaid from lease payments made by the City's General Fund or other governmental funds.

Certificates of Participation

In August 2000, the City issued \$137.2 million in Certificates of Participation. Interest rates for the certificates range from 4.0% to 5.25% and they mature in 2021. The certificates are for the San Bruno Jail No. 3 Replacement Project. They were issued to finance the replacement of an existing medium-security jail with a maximum-security jail in San Bruno, California approximately 20 miles south of San Francisco.

Business-Type Activities Long-Term Liabilities

The following provides a brief description of the current year additions to the long-term debt of the business-type activities.

Airport

On December 7, 2000, the Airport issued Second Series Revenue Bond Issue 26 in the amount of \$238.2 million with interest rates ranging from 4.5% to 6.0% and a final maturity date of May 2030.

The Second Series Revenue Bonds were issued to provide funds to finance capital improvements in accordance with the Airport Master Plan. Certain of the Second Series Revenue Bonds are subject to optional and mandatory redemption under certain conditions. All bonds are secured by a pledge of, lien on, and security interest in net revenues of the Airport.

Upon the terms and conditions set forth in a letter of credit dated as of May 1, 1997, the Airport obtained a \$300 million standby letter of credit that may be increased to \$400 million and commenced issuing commercial paper as a means of interim financing. The rates on this letter of credit vary from 2.9% to

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3.9%. The Airport intends to refinance the commercial paper with Airport Revenue Bonds when the timing is appropriate. The amount of commercial paper outstanding at June 30, 2001 totaled \$397.5 million.

Water Department/Hetchy Hetchy Project

In November 1997, the San Francisco voters approved Propositions A & B, authorizing up to \$304 million in Water Revenue Bonds to fund capital improvements for the Water Enterprise. In May and June 1999, the Public Utilities Commission and the Board of Supervisors respectively approved a commercial paper program to provide short-term financing for capital improvement projects funded under the \$304 million Water Revenue Bond Program. Under the enabling ordinance approved by the Board of Supervisors, the maximum amount of commercial paper that may be outstanding at any given time is \$150 million. As of June 30, 2001, the amount of outstanding commercial paper was \$75 million.

Clean Water Program

For the year ended June 30, 2001, the Clean Water Program received \$26 million in State Revolving fund loans from the California Water Resources Board, bringing the total amount outstanding to \$193.6 million. These loans are used to finance the construction of certain Clean Water Program facilities such as the Rankin Street Pump Station and Islals Creek Station.

Component Unit Debt - Redevelopment Agency

The current year debt activities of the Redevelopment Agency are discussed in note 12.

(9) Employee Benefit Programs

(a) Retirement Plans

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District. The Plan is administered by the San Francisco City and County Employees Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, the Airport and the Redevelopment Agency.

Employees' Retirement System

Plan Description - Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2001 was \$1,727 million; the City's total payroll was \$1,803 million. 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, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### Memberships

Membership of the Retirement System at July 1, 2000, as used in the latest actuarial valuation, consisted of the following:

	Police	Fire	Others	Total
Retirees and beneficiaries				
• currently receiving benefits	1,937	1,731	14,396	18,064
Active members:				
• Vested	1,574	1,239	15,748	18,561
• Nonvested	614	502	10,250	11,366
Subtotal	2,188	1,741	25,998	29,927
Total	4,125	3,472	40,394	47,991

Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**Funding Policy** - Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2000-01 varied from 7.00% to 8.00% as a percentage of gross salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. Based on the actuarial report, there were no required employer contributions for fiscal year 2000-01 because the City is funded at 138.8% of liability.

Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

**Annual Pension Cost** - The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2000. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.25%; (2) inflation element in wage increase of 4.5%; and (3) salary merit increases of 1.25%. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over a closed 15 year period. Plan amendments are amortized over 20 years.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/1999	\$0	N/A	\$0
6/30/2000	\$0	N/A	\$0
6/30/2001	\$0	N/A	\$0

### California Public Employees' Retirement System

Various City public safety, Port, and all Redevelopment Agency employees are eligible to participate in PERS. Disclosures for the Redevelopment Agency are included in the separately issued financial statements.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

**Plan Description** - The City and County of San Francisco contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

**Funding Policy** - Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. The fiscal year 2000-01 fiscal year contribution rates were 0% for miscellaneous employees and 0% for safety employees. of annual covered payroll because the City is funded at 132%. The contribution requirements of plan members and the City are established and may be amended by PERS.

**Annual Pension Cost** - The City's annual pension cost for PERS for fiscal year 2000-01 was equal to the City's required and actual contributions which was determined as part of the June 30, 1999, actuarial valuation using the entry age normal actuarial cost method. The most recent actuarial valuation was performed as of June 30, 1999. The assumptions included in the June 30, 1999 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by duration of service; and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/1999	\$ 0	N/A	\$0
6/30/2000	\$ 0	N/A	\$0
6/30/2001	\$ 0	N/A	\$0

### (b) Deferred Compensation Plan

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

### (c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Service System. The employers' contribution, which includes the San Francisco Community College District and Unified School District, amounted to approximately \$192.9 million in fiscal year 2001. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California. Included in this amount is \$31.9 million to provide postretirement health care benefits for 17,477 retired employees. The City's liability for both current employee and postretirement health care benefits is limited to its annual contribution. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the Health can benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, 2<sup>nd</sup> Floor, San Francisco, CA 94103 or by calling (415) 554-1700.

### (10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (Authority) was established in 1989 by the voters of the City and County of San Francisco. The purpose of the Authority is to impose the voter-approved transactions and use tax of one-half of one percent to fund essential traffic and transportation projects as set forth in the San Francisco County Transportation Expenditure Plan, for a period not to exceed 20 years. The principal focus of the Authority's Expenditure Plan is to define a program of prioritized projects to ensure that funding is allocated across major transportation categories. The City accounts for these activities in a Special Revenue Fund.

In June 1992, the Authority was designated by the Board of Supervisors as the overall program manager for the Local Guarantee share of transportation funds available through the "Transportation Fund for Clean Air" Program (AB 434) which is administered by the Bay Area Air Quality Management District. The source of funds is a \$4.00 surcharge on the vehicle registration fee.

The Authority also receives funding from the Metropolitan Transportation Commission in accordance with the Federal Surface Transportation Program for congestion management activities.

In April 1998, the Authority signed a memorandum of understanding with the State of California Department of Transportation (Caltrans) to serve as the lead agency for the environmental impact research and study and the preliminary design for the Doyle Drive Replacement Project for which Caltrans was awarded \$6 million in federal grant funds.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Following is a summary of the Authority's financial position and results of operations as of and for the year ended June 30, 2001 (in thousands).

		OPERATIONS	
ASSETS			
Deposits and Investments	\$ 189,007	Revenues:	
Receivables	23,311	Sales tax	\$ 75,487
Total assets	\$ 212,318	Interest and Investment Income	13,414
		Intergovernmental	3,841
		Other	26
			92,768
LIABILITIES AND FUND BALANCE			
Due to other funds	\$ 49,288	Expenditures and other financing uses:	
Other liabilities	1,013	Public works, transportation, and commerce	90,433
Total liabilities	50,301	Transfer to Muni Railway, Department of	
Fund balance:		Public Works and City Planning	37,220
Reserved for assets not available for			127,653
appropriation	3,166	Deficiency of revenues under expenditures	
Reserved for encumbrances	124,565	and other financing uses	(34,885)
Reserved for appropriation carryforward	10,234	Fund balance at beginning of year, as previously	
Unreserved	24,052	reported	198,896
Total fund balance	162,037	Commutative effect of a change in accounting	
Total liabilities and fund balance	\$ 212,318	principle	26
		Fund balance at beginning of year, as restated	198,922
		Fund balance at end of year	\$ 162,037

### (11) DETAIL INFORMATION FOR ENTERPRISE FUNDS

#### (a) San Francisco International Airport

The Airport commenced operation on June 7, 1927. The Airport is the principal commercial service airport for the San Francisco Bay Area. A five-member Airport Commission is responsible for the operation, development, and maintenance activities of the Airport.

On November 3, 1992, the Airport Commission approved the Master Plan that is designed to improve the efficiency and increase the capacity of various facilities, including terminals, gates, ground transportation and various support facilities. In connection with the Master Plan, the Commission approved the issuance of up to \$2.8 billion in bonds to provide funds for refunding of existing bonds and to finance near-term master plan projects. In addition, the Airport Commission authorized bonds for certain infrastructure projects. In fiscal year 2001, the Airport completed its Near Term Master Plan Program and opened the new International Terminal Building for full operations on December 10, 2000. Other improvements completed were the inbound/outbound ramps and elevated circulation roadways to connect the International Terminal Complex to US Highway 101, and individual projects consisting of other terminal, parking, cargo, general aviation, emergency response, security and facilities improvements and the



## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

construction of the Air Train System. Total capital acquisition and construction of property, plant, and equipment for fiscal year 2001 was \$533 million.

In 1997, the Airport sued tenants who failed to clean up their sites seeking approximately \$18.0 million for costs directly incurred by the Airport through May 1998 for which the tenants were responsible. Environmental cleanup costs, net of reimbursements received from tenants, increased by \$12.3 million. Recoveries received from tenants were \$1.8 million in fiscal year 2001 while costs incurred during the same period were \$3.1 million. The net environmental cleanup costs are included in other operating expenses in the proprietary statement of revenues, expenses and changes in fund net assets.

Pursuant to an agreement with certain airlines, the Airport makes an annual payment to the City's General Fund equal to 15% of concession revenue, but not less than \$5 million per fiscal year. The amount transferred to the General Fund during fiscal year 2000-2001 was \$25.1 million.

The Airport has entered into an agreement with the City of South San Francisco to provide \$10 million for noise mitigation. To date, the Airport has spent approximately \$10 million. In addition, the Airport has agreed to expend up to \$120 million for aircraft noise insulation in the cities that are located near the Airport. On June 1, 1996, the Airport issued Second Series Revenue Bond Issue 11 in the amount of \$92.3 million to provide financing for the noise insulation. The Airport expects to meet its commitment for the noise insulation program from the proceeds of Bond Issue 11, anticipated federal grant reimbursements to the local communities, and operating and other internally generated funds. If these funds are not sufficient, the Airport may issue additional bonds to satisfy the commitment. As of June 30, 2001, approximately \$104.1 million has been disbursed to the communities under this project.

Purchase commitments for construction, materials and services at June 30, 2001 were approximately \$131.8 million.

During fiscal year 1998, the Airport issued \$125 million in Special Facilities Lease Revenue Bonds on behalf of the SFO Fuel Company LLC (SFO Fuel). SFO Fuel is a consortium of airlines created for the purpose of acquiring, constructing, modifying, expanding, and installing certain jet fuel system at the Airport. SFO Fuel is required to pay facilities rent to the Airport in an amount equal to the debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport has assigned its right to receive the facilities rent to the bond trustees to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of these obligations and, as such, they are not reported in the accompanying basic financial statements.

Based on an application submitted to the Federal Aviation Administration (FAA) in fiscal year 2001, the Airport was granted approval on July 27, 2001 for the imposition and use of a \$4.50 Passenger Facility Charge (PFC) per enplaning passenger beginning October 1, 2001. This charge is for eligible project development activities related to runway reconfiguration studies currently being conducted. The FAA authorized the Airport to collect approximately \$112.7 million in PFC revenue under the first PFC request which is expected to extend through June 2003. The PFC funds received by the Airport are subject to audit and final acceptance by the FAA. Costs recovered through PFC funding are subject to adjustment upon audit. Following approval of PFC Application Number 1, the Airport filed a notice of intent to apply for PFC Application Number 2. This will be a funding source to pay for (1) principal and interest on bonds issued for eligible costs associated with the development of the new International Terminal and (2) eligible costs to develop a Precision Runway Monitoring System (PRM). The estimated cost of projects associated with Application Number 2 is approximately \$244.4 million and it is expected that PFC collections would extend through August 2007.

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

#### (b) Port of San Francisco

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). Prior to 1969, the Port was owned by the State of California. At that time the Port was transferred in trust to the City under the terms and conditions of legislation as ratified by the electorate of the City. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

In 1996, the Department of Parking and Traffic (DPT) entered into an Annual Payment Agreement with the Port to resolve a dispute concerning the City's collection of parking fine revenues from Port property. DPT agreed to pay the Port a guaranteed annual payment of \$1.2 million for twenty years commencing on July 1, 1997, for past parking fine revenues collected from Port property. Thereafter, amounts remitted to the Port are based on actual ticket collections, net of administrative costs.

On November 26, 1996, a fire at the east end of Pier 48 destroyed the interconnecting wood frame structure and caused substantial structural damage to the steel frames, walls, and roof at the easterly end of Sheds A and B on the pier. On July 14, 1998, a fire damaged the historic ferry slip arch structure at Pier 43 and the one-story auxiliary building connected to the arch's west tower. Insurance was in force to cover fire damage to the Port's property at both piers. Through June 30, 2001, the Port received interim insurance payments of \$6.2 million for Pier 48 and \$0.5 million for Pier 43. The Port is involved in discussions with its insurers as to additional insurance proceeds which the Port believes it is entitled.

In July 1997, the Port entered into a ten year subordinate commercial loan agreement with a bank for \$12 million to finance certain capital projects. The loan is subordinate to all bonds payable by the Port. The loan interest rate, which was 5.68% at June 30, 2001, adjusts with the LIBOR rate. The Port purchased an interest rate cap which mitigates the interest rate risk associated with a variable rate loan. The maximum the Port will pay is 8.5%. The loan is secured by a lien on, and security interest in, Net Revenue as defined in the loan agreement. Covenants of the loan agreement include that the Port will maintain its business operations and establish and maintain rentals, rates, fees, and charges for the use of the Port area and for services rendered by the Port so that Net Revenue, as defined in the loan agreement, less the annual debt service on the Revenue and City bonds in each fiscal year will be at least equal to 115% of aggregate annual debt service for such fiscal year. For the year ended June 30, 2001, the Port was in compliance with such covenants. The entire balance outstanding of \$6.7 million at June 30, 2001 was paid off on July 2, 2001.

The Port is presently planning various development projects which involve a commitment to expend significant funds. Purchase commitments at June 30, 2001 were \$8.0 million for capital projects and \$1.3 million for general operating costs. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to \$30 million over a 20 year period for pier removal, parks and plazas and other public access improvements.

In 2001, the Port entered into a Memorandum of Understanding (MOU) with the San Francisco Municipal Railway (MUNI) for their permanent right to use an approximate 17 acre site of the Western Pacific Railroad Yard for its Metro East Maintenance and Operations Facility. The Port received a payment of \$25.7 million for the property rights in perpetuity from MUNI which was reported as a special item in the proprietary funds statement of revenues, expenditures and changes in fund net assets.

#### (c) Water Department/Hetch Hetchy Project

The segment data presented reflects the activities of the San Francisco Water Department and the Hetch Hetchy Project (Water/Hetch Hetchy). Water/Hetch Hetchy was established in 1930 and is engaged in the

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

collection, transmission and distribution of water and electricity to the City and certain suburban areas. The Hetch Hetchy Project is a system of reservoirs and hydroelectric generating stations and the related distribution systems. It provides the Water Department with its water for San Francisco and other municipalities and sells electric power to City departments and other public agencies. The Public Utilities Commission was established in 1932 and consists of a five-member commission responsible for providing operational oversight of the public utility enterprises of the City which include Water/Hetch Hetchy and the Clean Water Program (CWP) (note 10(g)).

Effective April 1, 1998, the California electric market changed into a competitive market which permitted customers of investor-owned utilities to be eligible for direct access. The deregulation of the California electric industry resulted from the passage of Assembly Bill 1890 (AB-1890), which strongly encourages public agency-owned utilities to elect to participate in the competitive framework of the California electric market. AB-1890 provided electric utilities with a basis for recovery of certain costs. In anticipation of this restructured market, Hetch Hetchy Project has developed a strategic plan that will guide its electric utility's transition efforts into the new environment.

In June 1998, the San Francisco voters passed Proposition H. This proposition froze the water rates at the level in effect as of January 1, 1998 until July 1, 2006 subject to certain limited exceptions, such as to cover the debt service for the 1997 Revenue Bonds that were approved by voters but unissued.

Water sales to suburban resale customers in fiscal year 2000-2001 were \$71.3 million. As of June 30, 2001, the Water/Hetch Hetchy under the Suburban Water Rate Agreement owed suburban resale customers approximately \$2.2 million.

Charges for services in fiscal year 2000-2001 include \$49.3 million in sales of power by Hetch Hetchy to other City departments. Income from Water/Hetch Hetchy is available for certain operations of the City. During the year ended June 30, 2001, \$29.9 million was transferred from the Hetch Hetchy Project to the General Fund.

Hetch Hetchy serves as an intermediary agency between Pacific Gas & Electric (PG&E) and all City departments for the design and construction of various electrical components and other related systems needed to deliver electricity. As of June 30, 2001, various City departments were indebted to Hetch Hetchy for construction costs of approximately \$1.6 million incurred by Hetch Hetchy on their behalf. This is accounted for in due from other funds and internal balances within the basic financial statements. Hetch Hetchy receives title to the underlying assets of certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

The Public Utilities Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2001, Hetch Hetchy purchased \$13.5 million of transmission services, backup power, and other support services from PG&E under the terms of the agreement.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turlock Irrigation Districts (the Districts) in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of \$3.5 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of \$1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

As of June 30, 2001, Water/Hetch Hetchy had outstanding commitments for various capital projects and for materials and supplies in the amount of \$98.1 million.

In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Department to develop a remedial action plan that addresses environmental contamination located at certain real property owned by the Water Department. In response to the directive, the Commission developed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute a remedial plan by mid-2004. The Commission has appropriated funding for pre-work and the award of Phase 1 of the remedial action plan during fiscal year 2002. The total cost of cleanup associated with this plan is estimated at \$22.8 million and has been accrued in fiscal year 2001.

#### (d) Municipal Railway

The San Francisco Municipal Railway (MUNI) is the City's public transit agency. Muni was established in 1912. During the fiscal year 1999-2000, the San Francisco Municipal Transit Agency (MTA) was created by Proposition E, a Charter amendment approved by the voters, to run MUNI. MTA replaced the San Francisco Public Transportation Commission. The segment data reflects the combined operations of Muni and the San Francisco Municipal Railway Improvement Corporation (SFMRIC). SFMRIC is a nonprofit corporation established to provide capital financial assistance for the modernization of Muni by acquiring, constructing, and financing improvements to the City's public transportation system.

The City's Annual Appropriation Ordinance provides funds to subsidize Muni's operating deficits as determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of the fiscal year 2000-2001 General Fund Subsidy to Muni was \$98 million.

Muni receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2001, the Municipal Railway had approved capital grants with unused balances amounting to \$252.3 million. Capital grants receivable as of June 30, 2001 totaled \$80.9 million.

Muni also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2001, the Municipal Railway had various operating grants receivable of \$13.5 million.

These capital grants and operating assistance include funds from the San Francisco County Transportation Authority (SFCTA). During the year ended June 30, 2001, The Authority approved \$33.2 million in new capital grants and \$15.2 million in new operating grants for MUNI. During the same period, MUNI received total payments of \$58.1 million for capital grants and \$15.5 million in operating grants from the Authority. As of June 30, 2001, Muni had \$39.3 million due from the Authority for capital grants and \$1.6 million due from the Authority for operating grants.

The State Public Utilities Code requires that fare revenues must equal or exceed 33% of operating costs in order to qualify for an allocation of certain sales tax revenues available for public transit. Transit operators may add local support to fare revenues in order to calculate the fare recovery ratio. The City provides significant local support to Muni from parking revenues and the General Fund.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Muni has outstanding contract commitments of approximately \$108.8 million with third parties for various capital projects. Grant funding is available for a majority of this amount. Muni also has outstanding commitments of approximately \$8.9 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. Muni is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SMFRC's Board of Directors has authorized SMFRC to extend financial guarantees to Muni for certain projects totaling \$3.3 million.

In March 2001, Muni and the Port entered in to a MOU under which Muni may use the Metro East in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of \$25.7 million. This amount is reported as a Special Item in the proprietary funds statement of revenues, expenses and changes in fund net assets. Muni received a capital contribution from SFGTA for this. As part of this MOU, Muni will pay the Port an additional \$4 million in Fiscal Year 2002 to construct the Illinois Street Bridge over Islais Creek. Muni has accounted for this as a non current deferred charge with funding from SFGTA as a long-term deferred credit.

### (e) Laguna Honda Hospital

The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the year ended June 30, 2001, the subsidy for LHH was \$26.8 million.

Net income of Laguna Honda on a GAAP basis	\$18,208
Tobacco claims settlement*	(18,900)
Net loss on specific/donor restricted funds	57
Operating subsidy from City General Fund	(26,020)
Operating subsidy from General Hospital	(734)
Net loss of Laguna Honda	(27,389)
on a GAAP basis before operating subsidy	
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(1,758)
Change in encumbrances and appropriation carryforwards	171
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation and other expenses	2,222
Net loss of Laguna Honda requiring General Fund subsidy on a budget basis	<u>\$26,754</u>

\*During the year ended June 30, 2001, LHH received approximately \$17 million of the tobacco settlement funds and \$1.9 million in income from investments. As a result, LHH's net assets on a GAAP basis do not show a deficit.

LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

established. During the year ended June 30, 2001, Medicare and Medi-Cal charges for services amounted to approximately \$3.2 million and \$96 million, respectively. As of June 30, 2001, LHH had net patient receivables from Medicare of \$1.5 million and net patient receivables from Medi-Cal of \$12.1 million.

During fiscal year 2001, LHH received approximately \$9.1 million in a one-time, lump sum payment for a retroactive Medi-Cal rate adjustment for fiscal year 2001. This was the result of state legislation which matched federal and state funds. Also, LHH recognized approximately \$106,000 for a retroactive rate adjustment from Medi-Cal for the period August 1, 1995 through July 31, 1996. This adjustment is the result of successful litigation brought against the State of California Department of Health Services.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital. Proposition A stipulates that approximately \$100 million of tobacco settlement funds received by the City, excluding \$1 million set aside each year for smoking education and prevention programs, may be used to pay for construction of a replacement facility for LHH.

### (f) General Hospital Medical Center

The San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the year ended June 30, 2001, the subsidy for SFGH was \$79.1 million.

Loss before operating transfers of SFGH on a GAAP basis	\$(10,821)
Reimbursement to City General Fund for SB 855 matching program	(67,996)
Net gain on specific/donor restricted funds	0
Operating transfers from City General Fund to support SFGH on:	
Short Doyle program	0
Operation of Mental Health Rehabilitation Facility	0
Other Program Support	(366)
Interest expense on the overdraft funds with the City Treasury	3,526
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(3,258)
Change in encumbrances and appropriation carryforwards	(7,498)
Expenses which do not require budgetary funding but are GAAP basis expenses	
Depreciation expense	6,331
Other expenses	946
Net loss of SFGH requiring General Fund subsidy on a budget basis	<u>\$79,136</u>

SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, the State of California through Senate Bills 855 and 1255 and the Short-Doyle mental health program,

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

the federal Medi-Cal Medical Education Program and Administrative Claiming System, and a managed care agreement signed with a health maintenance organization (HMO).

During the year ended June 30, 2001, Medicare and Medi-Cal revenue accounted for \$45 million and \$47 million of net patient service revenue respectively. As of June 30, 2001, SFGH had net patient receivables from Medicare of \$12 million and net patient receivables from Medi-Cal of \$26 million.

State of California Senate Bill 855 (SB-855) was passed by the state legislature in July 1991 to provide additional funding to hospitals which provide a significant portion of their services to Medi-Cal recipients. In order to receive additional funds, the City must transfer funds to the State Medi-Cal program so that the funds may be matched by federal funds. Gross patient revenue recorded by SFGH for SB-855 totaled \$104.1 million for the fiscal year ended June 30, 2001. This revenue was offset by a reduction in the General Fund operating subsidy of \$68 million for net SB 855 revenues of \$36.1 million for the year ended June 30, 2001.

In addition, SFGH receives funding from the State of California under Senate Bill 1255 (SB-1255) which establishes a funding pool through public and private sector contributions with matching federal participation. For the year ended June 30, 2001, SFGH recognized gross patient revenue in the amount of \$48 million offset by a reduction in the contribution provided by the City of \$26 million for net SB 1255 revenues of \$22 million.

Under the Medi-Cal Medical Education program, SFGH is reimbursed for medical education costs incurred for services rendered to Medi-Cal beneficiaries. For the year ended June 30, 2001, SFGH recognized net patient service revenue in the amount of \$1.3 million.

As of June 30, 2001, SFGH had Medi-Cal supplemental reimbursement receivables for SB-855, SB-1255, and other federal and state settlement payments of approximately \$6.7 million.

The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized \$61.1 million as non-operating state revenue for the year ended June 30, 2001 from realignment funding.

In addition, SFGH was reimbursed by the State of California, under the Short-Doyle program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2001, reimbursement under the Short-Doyle program amounted to approximately \$4.7 million and is included in operating transfer in.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons and others who are unable to pay for health care services. Proposition 99 funds allocated to SFGH for the year ended June 30, 2001 amounted to \$3.1 million and are included in non-operating state revenue.

SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were \$160 million and estimated costs and expenses to provide charity care were \$125 million in fiscal year 2000-2001.

The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and Interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

amount for services rendered under the contract for the year ended June 30, 2001 was approximately \$42.0 million.

#### (9) Clean Water Program

The CWP was established in 1977 pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system. The CWP is part of the Public Utilities Commission (note 10 (c)).

In June 1998, the San Francisco voters passed Proposition H, which froze the sewer rates at the level in effect as of January 1, 1998 until July 1, 2006 subject to certain limited exceptions, such as to cover new revenue bonds approved by the voters to finance sewer system improvements.

CWP's revenue, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on the various Sewer Revenue Bonds.

CWP has entered into several loan contracts with the California State Water Resources Control Board under which CWP borrowed monies to finance the construction of certain facilities. As of June 30, 2001, the Clean Water Program had \$193.6 million principal outstanding.

In 1995, CWP entered into a forward purchase and sale agreement with a financial institution. Under the agreement, CWP received an up front fee of \$3.9 million from the financial institution. In exchange, CWP will use its debt service payments not yet due to bondholders to purchase short-term U.S. Treasury bills at face value. Revenue is being recognized over the life of the agreement based on the present value of the future earnings. The fee was recorded as deferred revenue and the unamortized balance as of June 30, 2001 was \$2.4 million.

Purchase commitments for construction and for materials and services totaled \$13.7 million at June 30, 2001.

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### (h) Parking Garages/Other

The segment data reflects the operations of five parking garages operated by separate nonprofit corporations organized by the City. This segment data also includes the San Francisco Market Corporation, a nonprofit corporation organized to acquire, construct, finance and operate a produce market. Segment information of these nonprofit corporation for the year ended June 30, 2001 follows (in thousands):

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis- O'Farrell Parking	Portsmouth Plaza Parking	San Francisco Market	Total
Operating revenues.....	\$ 12,117	\$ 15,635	\$ 2,003	\$ 3,835	\$ 2,931	\$ 1,068	\$ 37,589
Depreciation.....	687	—	—	—	115	252	1,054
Operating income (loss).....	1,050	1,947	(4)	1,419	112	308	4,832
Interest and other non-operating revenues (expenses).....	(517)	348	63	(273)	(9)	(35)	(426)
Change in net assets.....	533	2,295	59	1,146	103	270	4,406
Fixed assets additions.....	706	2,699	263	1,155	54	4,446	8,323
Fixed assets deletions.....	—	—	—	—	—	(3,855)	(3,855)
Net working capital (deficit).....	(5,911)	(10,879)	265	(474)	384	611	(15,804)
Total assets.....	28,881	36,850	7,286	18,185	2,703	6,655	100,766
Total liabilities.....	19,183	10,943	281	5,800	469	1,194	37,870
Net assets.....	9,698	25,907	7,005	12,385	2,234	5,559	82,888
Total debt outstanding.....	\$ 13,097	\$ —	\$ —	\$ 5,420	\$ 155	\$ 926	\$ 19,598

### (12) SAN FRANCISCO REDEVELOPMENT AGENCY

The Agency is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and eleven redevelopment project areas are now underway. In addition, the Agency is undertaking feasibility studies for three new redevelopment survey areas designated by the Board of Supervisors of the City and County of San Francisco.

The Agency acts as the lead Agency in administering the Housing Opportunities for Persons with AIDS program which is funded by a grant from the U.S. Department of Housing and Urban Development. Under a grant with the Office of Economic Adjustment on behalf of the U.S. Department of Defense, the Agency has also undertaken community economic adjustment activities for planning the reuse of Hunters Point Naval Shipyard. In October and November 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, and Tax Allocation Agreements. The two project areas total 303 acres. Mission Bay North consists of approximately 85 acres adjacent to the Pacific Bell Park. Mission Bay South includes approximately 238 acres of land. The Agency has entered into an Owner Participation Agreement with the owner/developer to provide for development of the project areas. The proposed development in the north includes 3,000 housing units, 20% of which will be affordable units, 350,000 square feet of urban entertainment retail space, 100,000 square feet of City-serving retail space, 55,000 square feet of neighborhood-serving retail space and six acres of public open space. The proposed development in the south will include 3,090 housing units, 20% of which will be affordable units, a 43-acre University of California San Francisco (UCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving

# CITY AND COUNTY OF SAN FRANCISCO

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

and neighborhood-serving retail space, five million square feet of commercial industrial space, and a 500-student public school on land to be donated by UCSF. Mission Bay is expected to create over 31,000 new permanent jobs. The Mission Bay development will take place over 20 to 30 years and will require investment of over \$145 million in new public infrastructure. Total development costs for the two project areas are expected to exceed \$4 billion.

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. During the year, the Agency's revenue from property tax increment was \$34.4 million.

Outstanding bond issues had interest accretion of approximately \$145.2 million during the current year. Interest accretion is included in the outstanding principal balance of the related bonds in the basic financial statements.

In order to facilitate construction and rehabilitation within the project areas, various construction loan notes, promissory notes and mortgage revenue bonds with an aggregate outstanding balance of approximately \$684 million at June 30, 2001, have been issued. When these obligations are issued, they are secured by the related mortgage indebtedness and, in the opinion of management, are not considered obligations of the Agency or the City and therefore not included in the basic financial statements. Debt service payments will be made by developers or property owners.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned must also be set aside for such purposes. The Agency established the Low and Moderate Income Housing Fund to account for this commitment and has reserved \$173 million for such expenditures. The Agency has expended \$123 million for low and moderate income housing since its inception.

The Agency had commitments under contracts for capital improvements of approximately \$18.7 million at June 30, 2001.

### (13) TREASURE ISLAND DEVELOPMENT AUTHORITY

The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. The TIDA is governed by seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City.

The mission of TIDA is to redevelop the former Naval Station, Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California Tidelands Trust) to maximize revenues to the City's General Fund; to create new job opportunities for San Francisco residents, including assuring job opportunities for homeless and economically disadvantaged residents; to increase recreational and bay access venues for San Francisco and Bay Area residents; and to promote the welfare and well being of the citizens of San Francisco.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The services provided by TIDA include negotiating the acquisition of former Naval Station Treasure Island with the U.S. Navy and establishing the Treasure Island Redevelopment Project; renting Treasure Island facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy which are not leased to the TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing 1,000 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

During fiscal year 2001, TIDA's primary sources of revenues included facility rents and federal grant funding from the U.S. Navy under a cooperative agreement. Under the cooperative agreement, TIDA provides caretaker services for areas of Treasure and Yerba Buena Islands which are owned by the U.S. Navy and not leased to TIDA.

During fiscal year 2001, TIDA submitted an application to the U.S. Navy for the economic conveyance of the former naval station. In fiscal year 2002, TIDA will negotiate the conveyance with the Navy; establish the Treasure Island Redevelopment Project; issue a Request for Qualifications for a Primary Developer and complete the developer selection process.

In fiscal year 1999, an agreement was signed for the rehabilitation of 766 housing units. TIDA also has a contract with the Treasure Island Homeless Development Initiative to assist with the implementation of the homeless component of the Treasure Island Reuse Plan, focusing on the rehabilitation of 222 units for economically disadvantaged persons. In fiscal year 2002, the TIDA will complete the rehabilitation of all remaining housing units and offer these units for rent through its lessee, The John Stewart Company.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash. The composition of interfund balances as of June 30, 2001 is as follows (in thousands):

Due to / from other funds:		
	Receivable Fund	Payable Fund
General		
		Nonmajor governmental fund
		Laguna Honda Hospital
		Amount
		\$ 47,761
		1,176
		48,937
Water Department/Hetchy Hetchy Project		
		Nonmajor governmental fund
		San Francisco International Airport
		Amount
		1,260
		1,613
		40,932
Municipal Railway		
		Nonmajor governmental fund
		Amount
		\$ 91,482
Total		

Due to / from primary government and component units:

Receivable Entity	Payable Entity
Primary government - governmental	Component unit - SF Redevelopment Agency
	Amount
	\$ 19,587

Interfund transfers:

Transfers Out:		Transfers In:				
		General Fund	Nonmajor Governmental Fund	Internal Service Fund	Municipal Railway	San Francisco General Hospital
General fund						
Nonmajor governmental fund						
Internal Service funds						
San Francisco International Airport						
San Francisco General Hospital						
Water Department/Hetchy Hetchy						
Total transfers out						
		\$ 134,983	\$ 126,974	\$ 1,117	\$ 114,792	\$ 83,029
						\$ 27,977
						\$ 468,872

The \$257.3 million General Fund transfer out includes a total of \$203.9 million in operating subsidies to Muni, General Hospital, and Laguna Honda Hospital (note 11). The transfers of \$47.9 million from the General Fund to the non major governmental funds is to provide support to various City programs such as the public library and community health services. The transfers between the non major governmental funds are to provide support for various City programs and to provide resources for the payment of debt services.

The General Fund received transfers in of \$68 million from San Francisco General Hospital to reimbursement for the SB 855 matching program (note 11(f)). \$25.1 million from the San Francisco International Airport, representing a portion of concession revenue (note 11(a)), and \$29.9 million from Water Department/Hetchy Hetchy income (note 11(c)).

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(15) COMMITMENTS AND CONTINGENT LIABILITIES

(a) Grants and Subventions

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

(b) Operating Leases

The City has operating leases for certain buildings and data processing equipment which, require the following minimum annual payments (in thousands):

Fiscal Years	Total Primary Government	Component Unit		Total Reporting Entity
		Redevelopment Agency		
2002	\$ 41,752	\$ 1,951	\$	43,703
2003	33,631	2,116		35,747
2004	25,509	2,168		27,677
2005	22,143	2,207		24,350
2006	18,174	1,117		19,291
2007-2011	35,307	3,747		39,054
2012-2016	451	3,747		4,198
2017-2021	177	3,747		3,924
2022-2026	177	3,747		3,924
2027-2031	153	3,747		3,900
2032-2036	-	3,747		3,747
2037-2041	-	3,747		3,747
2042-2046	-	3,747		3,747
2047-2050	-	2,998		2,998
Total	\$ 177,474	\$ 42,533		\$ 220,007

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(15) COMMITMENTS AND CONTINGENT LIABILITIES

(a) Grants and Subventions

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

(b) Operating Leases

The City has operating leases for certain buildings and data processing equipment which, require the following minimum annual payments (in thousands):

Fiscal Years	Total Primary Government	Component Unit		Total Reporting Entity
		Redevelopment Agency		
2002	\$ 105,157	\$ 2,614	\$	107,771
2003	107,336	2,597		109,933
2004	84,827	2,562		87,389
2005	63,038	2,640		65,678
2006	51,490	2,642		54,132
2007-2011	156,364	12,597		168,961
2012-2016	72,322	13,123		85,445
2017-2021	61,237	13,552		74,789
2022-2026	51,839	14,066		65,905
2027-2031	45,613	14,998		60,611
2032-2036	41,465	16,071		57,536
2037-2041	28,121	17,260		45,381
2042-2046	18,923	18,557		37,480
2047-2051	14,485	1,321		15,806
2052-2056	7,000	-		7,000
2057-2061	7,000	-		7,000
2062-2066	7,000	-		7,000
2067-2071	1,326	-		1,326
Total	\$ 924,543	\$ 134,600		\$ 1,059,143

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately \$20 million per year through the year 2024. The lease payments are intended to approximate the debt service on Series 1988 Lease Revenue Bonds which are recorded as a long term obligation of the Agency.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Amounts to be provided from capital leases are as follows:

Fiscal Years	
2002.....	\$ 20,696
2003.....	24,129
2004.....	19,953
2005.....	17,524
2006.....	20,090
2007-2011.....	101,536
2012-2016.....	102,964
2017-2021.....	69,236
2022-2024.....	16,617
Total minimum lease payments.....	\$ 392,745
Less amounts representing interest	(162,902)
Present value of maximum lease payments	\$ 229,843

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and venture capital investments in the aggregate amount of approximately \$1.4 billion at June 30, 2001.

The City is a participant in the Peninsula Corridor Joint Powers Board ("PCJPB"), which was formed in 1991 to plan, administer and operate the Peninsula Caltrain rail service. The City, on behalf of Muni, is responsible for 11.6% of the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2001, the City contributed approximately \$8.1 million to the PCJPB.

(16) RISK MANAGEMENT

Risk Retention Program Description

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for Muni Railway); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The City maintains limited excess coverage for certain facilities. The Airport carries liability insurance coverage of \$500 million and commercial property insurance coverage for full replacement value on all facilities owned by the Airport. The Airport does not carry insurance for losses due to seismic activity. The Airport is self-insured for general liability up to the first \$10,000 and the Airport carries liability insurance for any amounts in excess of \$10,000. The Port carries commercial insurance for all general liability, property and casualty risks of loss. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials' errors and omissions risks with combined single limits of \$15,000,000 per occurrence and a deductible of \$50,000 self-insurance retention per occurrence.

Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

Estimated Claims Payable

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City's liability as of June 30, 2001 has been actuarially determined and includes an estimate of incurred but not reported losses. In addition, various businesses in the City had filed suit in California Superior Court challenging the constitutionality of the City Gross Receipts and Payroll Expense Tax Ordinances. The majority of these suits have been settled for approximately \$63 million. The City has issued debt to pay off this liability over 10 years. A few remaining unsettled claims may be settled over the next 12 months and funds are included in the City's estimated claims payable to cover these expected expenses.

Changes in the reported estimated claims payable since June 30, 2000, resulted from the following activity (In thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
1999-2000	\$ 120,848	\$ 102,026	\$ (33,447)	\$ 189,427
2000-2001	\$ 189,427	\$ 35,219	\$ (33,184)	\$ 191,462



CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Breakdown of the estimated claims payable at June 30, 2001 is as follows (in thousands):

<b>Governmental activities:</b>	
Current portion of estimated claims payables.....	\$ 114,882
Long-term portion of estimated claims payable.....	35,085
<b>Business-type activities:</b>	
Current portion of estimated claims payables.....	15,470
Long-term portion of estimated claims payable.....	26,025
Total	<u>\$ 191,462</u>

The Retirement System is involved in five class action type lawsuits which are collectively referred to as "Final Compensation" cases. These lawsuits allege that the Retirement System should include additional "pay types" in pension calculations. The most significant pay types common to all members of the Retirement System are lump sum payments after termination of employment for sick leave and vacation. The police, fire, and transit employees have additional claims for special pay types specific to those employee groups. These cases are being vigorously contested. The City Attorney has sought outside counsel to help defend the claims. The possible loss to the Retirement System should these cases be successful, while difficult to estimate, could range between \$630 million and \$725 million. The actual loss could exceed this range. No liability has been accrued by the City relating to these lawsuits as of June 30, 2001.

**Workers' Compensation**

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2001 has been actuarially determined and includes an estimate of incurred but not reported losses. The total amount estimated to be payable for claims incurred as of June 30, 2001 was \$ 256.8 million which is reported in the appropriate individual funds in accordance with the City's accounting policies (note 2).

Changes in the reported accrued workers' compensation since June 30, 2001, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
1999-2000	\$ 215,065	\$ 75,143	\$ (55,592)	\$ 234,616
2000-2001	234,616	77,812	(55,636)	<u>256,792</u>

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Breakdown of the accrued workers' compensation liability at June 30, 2001 is as follows (in thousands):

<b>Governmental activities:</b>	
Current portion of accrued workers' compensation liability.....	\$ 32,558
Long-term portion of accrued workers' compensation liability.....	118,641
<b>Business-type activities:</b>	
Current portion of accrued workers' compensation liability.....	25,582
Long-term portion of accrued workers' compensation liability.....	<u>80,011</u>
Total	<u>\$ 256,792</u>

(17) SUBSEQUENT EVENTS

**Long-term Debt**

In July 2001, the City issued \$15.5 million in Refunding Certificates of Participation, Series 2001-1. The certificates have interest rates of 4.0% to 5.0% and mature in 2017. They were issued to refinance in whole the Certificates of Participation for the 25 Van Ness Avenue Project, Series 1991 A-B; and to pay issuance costs for the certificates. The City advance refunded the certificates to reduce its total debt service payments over the next 16 years by \$1.4 million and to obtain an economic gain (the difference between the present values of the debt service payments of the old debt and the new debt) of approximately \$1.0 million.

In July 2001, the City issued \$17.7 million in General Obligation Bonds. The bonds have interest rates of 4.0% to 7.0% and mature in 2021. They were issued to finance the acquisition, construction and renovation or various improvements to City branch libraries.

In July 2001, the Airport issued Second Series Revenue Bonds Issue No. 27 in the amount of \$488.5 million. Interest rates range from 4% to 5%, and the bonds mature in 2026 and 2031. The bonds were issued to refinance all or a portion of certain outstanding second series revenue bonds and commercial paper notes. The Airport advanced refunded the second series revenue bonds to reduce its total debt service payments over the next 24 years by approximately \$13 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old debt and new debt) of approximately \$6.1 million. The Airport refunded the commercial paper notes to take advantage of lower long-term interest rates, and to increase its commercial paper capacity by approximately \$332.4 million.

In July 2001, the Water Department issued \$10 million in commercial paper to fund capital improvements.

In August 2001, the City issued \$60.8 million in Settlement Obligation Bonds. The bonds have interest rates of 3% to 4% and mature in 2011. The bonds were issued to refund certain obligations resulting from the settlement of business tax litigation against the City.

In August 2001, the Water Department issued \$140 million of 2001 Series A Water Revenue Bonds (2001 Series A). The bonds were insured by a municipal bond insurance company and carried Aaa and AAA ratings from Moody's and Standard & Poor's, respectively. The Revenue Bonds include current interest serial and term bonds with interest varying from 4% to 5%. The current interest serial bonds mature through November 1, 2001 and the current interest term bonds mature on November 1, 2022 through 2031.

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

In September 2001, the City issued \$37.2 million in Certificates of Participation. These certificates consist of Series 2001A for \$35.3 million and Taxable Series 2001B for \$1.9 million. The Series 2001A Certificates have interest rates of 3.6% to 5.0% and mature in 2031. The Taxable Series 2001B Certificates have interest rates of 3.25% to 4.625% and mature in 2006. The certificates were issued to finance the acquisition and improvement of a five story office building at 30 Van Ness.

Subsequent to June 30, 2001, the Airport issued a total of \$40.8 million in subordinated commercial paper notes with interest rates ranging from 1.05% to 1.95%.

#### **Bond Ratings**

In October 2001, following on the events of September 11, and the expansion of the state budget deficit, a negative outlook was placed on the debt ratings of most California counties. All counties in the state except San Francisco were affected by this action. The City's higher proportion of discretionary revenues, its demonstrated willingness to control spending in response to current economic conditions, and its relatively conservative 2002 budget were credited with San Francisco's retaining a stable outlook on its debt.

On July 9, 2001, Standard and Poor's downgraded the Water Department's underlying rating on outstanding debt from AA- negative outlook to A+ stable outlook. The downgrade applied to approximately \$233 million of uninsured debt of the Water Department.

On September 20, 2001, Standard & Poor's Corporation placed the San Francisco International Airport, along with all its North American airport and airport-related special facilities, on CreditWatch with negative implications in the wake of the terrorist attacks on September 11, 2001.

On October 4, 2001, Moody's Investors Service, Inc. affirmed their "A1" rating for the San Francisco International Airport but revised the outlook from developing to negative. On October 15, 2001, Fitch IBCA, Inc. affirmed their "AA-" rating for the Airport but revised the outlook from evolving to negative.

#### **Elections**

On November 6, 2001, the San Francisco voters approved the following propositions that will have fiscal impact to the City:

**Proposition A** – authorizes the issuance of General Obligation Bonds up to \$195 million to finance construction of new Chinatown and North Beach campuses, and to improve disabled access and make other improvement to facilities of the San Francisco Community College District.

**Proposition B** – authorizes the issuance of Revenue Bonds up to \$100 million to finance the acquisition, installation, improvement or rehabilitation of solar or other renewable energy facilities or equipment for City departments.

#### **Hetch Hetchy Energy Contract**

Hetch Hetchy is party to a fixed price, forward contract (the Contract) to purchase electricity from a third party provider with a scheduled future delivery over a five-year period. Hetch Hetchy entered into the Contract on May 9, 2001 to purchase 2.2 million MWHrs of electric energy at a price ranging from \$75.25 to \$115.00 per MWHrs with a total undiscounted cost of approximately \$173.6 million over a five year period starting on July 1, 2001. As of January 11, 2001, the undiscounted fair value of this contract,

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

based on the published Dow Jones Palo Verde Electricity Price Index, is approximately \$59.9 million as of result of precipitous decline of power rates.

#### **Airport Passenger Facility Charges**

On July 27, 2001, the Federal Aviation Administration (FAA) granted approval to the San Francisco International Airport for the imposition and use of a \$4.50 Passenger Facility Charge (PFC) per enplaning passengers beginning October 1, 2001. These funds are for eligible project development activities related to runway reconfiguration studies currently being conducted. The FAA authorized the Airport to collect approximately \$112.7 million in PFC revenue under the first PFC request, which is expected to extend through June 2003.

On November 16, 2001, the Airport filed PFC Application No. 2 with the FAA for the amount of \$224 million. Proceeds are to be used to fund (1) principal and interest on bonds issued for eligible costs associated with the development of the new International Terminal; and (2) eligible costs to develop a Precision Runway Monitoring System (PRM). It is expected that the PFC collections would extend through August 2007.

#### **Decline in Economic Conditions**

As a result of the terrorist attacks on September 11, 2001, the San Francisco International Airport, along with all other U.S. airports, experienced three days with no commercial air travel and several days thereafter with very limited air travel. Flight operations resumed at the Airport on September 14, 2001.

On October 16, 2001, the Airport Commission approved a resolution to (1) temporarily suspend the minimum annual guaranteed (MAG) lease payment provision for certain tenants, thereby basing their rental payments solely on the percentage rent formulas contained in their lease agreements, (2) temporarily reduce the percentage rent for certain restaurants beyond the security checkpoints, now only available to ticketed passengers and (3) delegate to the Airport Director the right to establish a percentage rent structure for those tenants whose MAG payments are temporarily suspended, but for whom no percentage rent formula is provided within their lease agreement.

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City and County of San Francisco (the “City”) in connection with the issuance of its \$29,345,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds, consisting of \$6,210,000 General Obligation Bonds (Zoo Facilities Bonds, 1997), Series 2002A (the “2002A Bonds”) and its \$23,135,000 General Obligation Bonds (Branch Library Facilities Improvement Bonds, 2000) Series 2002B (the “2002B Bonds,” and together with the 2002A Bonds, the “Bonds”). The 2002A Bonds are issued pursuant to Resolution No. 677-98 adopted by the Board of Supervisors of the City (the “Board”) on August 17, 1998 and signed by the Mayor on August 28, 1998, and Resolution No. 381-02 adopted by the Board on June 3, 2002 and signed by the Mayor on June 14, 2002. (collectively, the “Zoo Resolutions”). The 2002B Bonds are issued pursuant to Resolution No. 389-01, adopted by the Board on May 14, 2001 and approved by the Mayor on May 25, 2001 and Resolution No. 589-02 adopted by the Board on August 26, 2002 and approved by the Mayor on August 29, 2002 (collectively, the “Library Resolutions”). The Bonds are issued pursuant to the Government Code of the State of California and the Charter of the City. The Library Resolutions and the Zoo Resolutions are collectively referred to herein as the “Resolution.” The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the “S.E.C.”) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the City, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“Holder” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. A list of the current National Repositories approved by the S.E.C. may be found at the S.E.C. website: <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the S.E.C. As of the date of this Disclosure Certificate, there is no State Repository.

### SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which is June 30), commencing with the report for the 2001-02 Fiscal Year (which is due not later than March 27, 2003), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

1. determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

2. (if the Dissemination Agent is other than the City), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following information, as required by the S.E.C.:

(a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities;

(b) a summary of budgeted general fund revenues and appropriations;

- (c) a summary of the assessed valuation of taxable property in the City;
- (d) a summary of the *ad valorem* property tax levy and delinquency rate;
- (e) a schedule of aggregate annual debt service on tax-supported indebtedness of the City; and
- (f) a summary of outstanding and authorized but unissued tax-supported indebtedness of the City.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the S.E.C. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of Bondholders.
4. Optional, contingent or unscheduled bond calls.
5. Defeasances.
6. Rating changes.
7. Adverse tax opinions or events affecting the tax status of the Bonds.
8. Unscheduled draws on debt service reserves reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Bonds.

The Bonds are not secured by a debt service reserve or by property of the City.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with each National Repository or with the Municipal Securities Rulemaking Board and the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in Sections 3(a)(4) and 3(a)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as that for giving notice of the occurrence of a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate, provided that the amendment or waiver, in the opinion of the City Attorney, is permitted by the Rule.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: October 1, 2002

**CITY AND COUNTY OF SAN FRANCISCO**

By \_\_\_\_\_  
Edward M. Harrington  
Controller of the City and  
County of San Francisco

Approved as to Form:

DENNIS J. HERRERA  
CITY ATTORNEY

By: \_\_\_\_\_  
Deputy City Attorney

**CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of City: CITY AND COUNTY OF SAN FRANCISCO

Name of Bond Issue: CITY AND COUNTY OF SAN FRANCISCO, GENERAL OBLIGATION BONDS, CONSISTING OF GENERAL OBLIGATION BONDS (ZOO FACILITIES BONDS, 1997), SERIES 2002A AND GENERAL OBLIGATION BONDS (BRANCH LIBRARY FACILITIES IMPROVEMENT BONDS, 2000) SERIES 2002B

Date of Issuance: October 1, 2002

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco dated October 1, 2002. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY AND COUNTY OF SAN FRANCISCO

By: \_\_\_\_\_  
Title: \_\_\_\_\_



## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix E concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds, registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for each principal payment date of the Bonds, each in the aggregate principal amount represented by such Bonds, and will be deposited with DTC.

DTC, the world’s largest 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 two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments for over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. 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 Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system, in denominations of \$5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“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 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by 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 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.

When notices are given, they shall be sent by the Treasurer, acting as paying agent, to DTC only. 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 Cede & Co. If less than all of the Bonds 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 procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Treasurer, acting as paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Treasurer, acting as paying agent, or the City, 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 any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Treasurer, acting as paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Treasurer, acting as paying agent. Under such circumstances, in the event that a successor securities depository is not obtained, physical certificates are required to be printed and delivered.

#### **Discontinuation of Book-Entry Only System; Payment to Beneficial Owners**

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, registration, transfer, exchange and replacement of the Bonds.

The Treasurer shall keep or cause to be kept, at the office of the Treasurer, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection, and upon presentation for such purpose, the Treasurer shall, under such reasonable regulations as he or she may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as herein provided. Any Bond may, in accordance with its terms, be transferred upon the books of the Treasurer, by the person in whose name it is registered, in person or by the duly authorized attorney of such person in writing, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Treasurer.

Any Bonds may be exchanged at the office of the Treasurer for a like aggregate principal amount of other authorized denominations of the same interest rate and maturity.

Whenever any Bond shall be surrendered for transfer or exchange, the designated City officials shall execute and the Treasurer shall authenticate and deliver a new Bond or Bonds of the same interest rate and maturity in a like aggregate principal amount. The Treasurer shall require the payment by any bond owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfer or exchange of Bonds shall be required to be made by the Treasurer during the period from the Record Date (as defined herein) next preceding each interest payment date to such interest payment date or after a notice of redemption shall have been mailed with respect to such Bond.

The Bonds shall be substantially in the form set forth in the authorizing resolutions of the City. The Bonds shall be in fully registered form without coupons.

The principal of the Bonds shall be payable in lawful money of the United States of America to the owner thereof, upon the surrender thereof at maturity or earlier redemption at the office of the Treasurer. The interest on the Bonds shall be payable in like lawful money to the person whose name appears on the bond registration books of the Treasurer as the owner thereof as of the close of business on the last day of the month immediately preceding an interest payment date (the "Record Date"), whether or not such day is a Business Day (as herein defined).

Payment of the interest on any Bond shall be paid by check mailed to such owner at such owner's address as it appears on the registration books as of the Record Date; provided, however, if any interest payment occurs on a day that banks in California and New York are closed for business or the New York Stock Exchange is closed for business, then such payment shall be made on the next succeeding day that banks in both California and New York are open for business and the New York Stock Exchange is open for business (a "Business Day"); and provided, further, that the registered owner of an aggregate principal amount of at least \$1,000,000 of the Bonds may submit a written request to the Treasurer on or before a Record Date preceding an interest payment date for payment of interest by wire transfer to a commercial bank located within the United States.

The date on which Bonds which are called for redemption are to be presented for redemption is herein sometimes called the "redemption date." The Treasurer shall mail, or cause to be mailed, notice of any redemption of Bonds postage prepaid, to the respective registered owners thereof at the addresses appearing on the bond registration books not less than thirty (30) nor more than sixty (60) days prior to the redemption date. The notice of redemption shall (a) state the redemption date; (b) state the redemption price; (c) state the dates of maturity of the Bonds and, if less than all of any such maturity is called for redemption, the distinctive numbers of the Bonds of such maturity to be redeemed, and in the case of Bonds redeemed in part only, the respective portions of the principal amount thereof to be redeemed; (d) state the CUSIP number, if any, of each Bond to be redeemed; (e) require that such Bonds be surrendered by the owners at the office of the Treasurer or his or her agent; and (f) give notice that interest on such Bonds will cease to accrue after the designated redemption date.

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

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## **APPENDIX F**

### **PROPOSED FORMS OF OPINION OF CO-BOND COUNSEL**

#### **APPENDIX F-1**

#### **Proposed Form Of Opinion Of Co-Bond Counsel (2002A Bonds )**

#### **SIDLEY AUSTIN BROWN & WOOD LLP**

555 CALIFORNIA STREET  
SAN FRANCISCO, CALIFORNIA 94104  
www.sidley.com

#### **LAW OFFICES OF LESLIE M. LAVA**

580 CALIFORNIA STREET, SUITE 1600  
SAN FRANCISCO, CALIFORNIA 94104

October \_\_, 2002

Board of Supervisors  
City and County of San Francisco  
San Francisco, California

We have acted as co-bond counsel in connection with the issuance and sale of \$6,210,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds (Zoo Facilities Bonds, 1997) Series 2002A (the "Bonds"), dated their date of delivery. In such capacity, we have examined a certified copy of the record of the proceedings relative to the issuance of the Bonds.

In our capacity as co-bond counsel, we have reviewed such documents, certificates, opinions and other matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation, and we have assumed, but have not independently verified, that the signatures on all documents, certificates and opinions that we reviewed are genuine.

Further, with respect to paragraph 1 below, we have relied in part on an opinion from the City Attorney and, with respect to paragraphs 3 and 4 below, we have relied upon the accuracy of the opinions of Sidley Austin Brown & Wood LLP and Elizabeth C. Green Esq., to the effect that the interest on the City's \$23,135,000 General Obligation Bonds (Branch Library Facilities Improvement Bonds, 2000) Series 2002B is not included in gross income for federal income tax purposes and is not treated as an item of tax preference in calculating the alternative minimum taxable income of individuals and corporations.

Based on the foregoing, and subject to the limitations and qualifications herein specified, as of the date hereof, and under existing law, we are of the opinion that:

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to the Government Code of the State of California and the Charter of the City; a two-thirds vote of the qualified electors of the City voting at a special election held on June 3, 1997; and resolutions of the Board of Supervisors of the City (the "Resolutions").

2. The Bonds constitute valid and binding general obligations of the City, payable solely from the proceeds of the levy of *ad valorem* taxes on all property subject to such taxes in the City, which taxes are unlimited as to rate or amount.

3. Based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the City with certain covenants in the Resolutions and other documents pertaining to the Bonds and the requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of the Bond proceeds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure by the City to comply with such covenants and requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issuance.

4. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations. Interest on the Bonds will, however, be included as an adjustment in calculating federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

5. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed and we are not opining on the tax consequences to any person of the investment in, or receipt of interest on, the Bonds. Specifically, we are rendering no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes in the event any action is taken or omitted to be taken relating to certain requirements and procedures contained in the Resolutions and other relevant documents upon the approval of counsel other than ourselves.

With respect to the opinions expressed herein, the rights of the owners of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against governmental entities in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application of official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

Respectfully submitted,

## APPENDIX F-2

### Proposed Form Of Opinion Of Co-Bond Counsel (2002B Bonds )

SIDLEY AUSTIN BROWN & WOOD LLP

555 CALIFORNIA STREET  
SAN FRANCISCO, CALIFORNIA 94104  
www.sidley.com

LAW OFFICES OF ELIZABETH C. GREEN

1342 S. REDONDO BOULEVARD  
LOS ANGELES, CALIFORNIA 90019

October \_\_, 2002

Board of Supervisors  
City and County of San Francisco  
San Francisco, California

We have acted as co-bond counsel in connection with the issuance and sale of \$23,135,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds (Branch Library Facilities Improvement Bonds, 2000) Series 2002B (the "Bonds"), dated their date of delivery. In such capacity, we have examined a certified copy of the record of the proceedings relative to the issuance of the Bonds.

In our capacity as co-bond counsel, we have reviewed such documents, certificates, opinions and other matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation, and we have assumed, but have not independently verified, that the signatures on all documents, certificates and opinions that we reviewed are genuine.

Further, with respect to paragraph 1 below, we have relied in part on an opinion from the City Attorney and, with respect to paragraphs 3 and 4 below, we have relied upon the accuracy of the opinions of Sidley Austin Brown & Wood LLP and Leslie M. Lava Esq., to the effect that the interest on the City's \$6,210,000 General Obligation Bonds (Zoo Facilities Bonds, 1997) Series 2002A is not included in gross income for federal income tax purposes and is not treated as an item of tax preference in calculating the alternative minimum taxable income of individuals and corporations.

Based on the foregoing, and subject to the limitations and qualifications herein specified, as of the date hereof, and under existing law, we are of the opinion that:

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to the Government Code of the State of California and the Charter of the City; a two-thirds vote of the qualified electors of the City voting at a special election held on November 7, 2000; and resolutions of the Board of Supervisors of the City (the "Resolutions").

2. The Bonds constitute valid and binding general obligations of the City, payable solely from the proceeds of the levy of *ad valorem* taxes on all property subject to such taxes in the City, which taxes are unlimited as to rate or amount.

3. Based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the City with certain covenants in the Resolutions and other documents pertaining to the Bonds and the requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of the Bond proceeds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure by the City to comply with such covenants and requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issuance.

4. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals or corporations. Interest on the Bonds will, however, be included as an adjustment in calculating federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

5. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed and we are not opining on the tax consequences to any person of the investment in, or receipt of interest on, the Bonds. Specifically, we are rendering no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes in the event any action is taken or omitted to be taken relating to certain requirements and procedures contained in the Resolutions and other relevant documents upon the approval of counsel other than ourselves.

With respect to the opinions expressed herein, the rights of the owners of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against governmental entities in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application of official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

Respectfully submitted,



**APPENDIX G**

**SPECIMEN OF MUNICIPAL BOND NEW ISSUE INSURANCE POLICY**

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Financial Guaranty Insurance  
Company, doing business in California  
as FGIC Insurance Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001

A GE Capital Company



## Municipal Bond New Issue Insurance Policy

**Issuer:**

**Policy Number:**

**Control Number:** 0010001

**Bonds:**

**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance  
Company, doing business in California  
as FGIC Insurance Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
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A GE Capital Company



## Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in cursive script, reading "Deborah M. Reif".

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in cursive script, appearing to be "JTB".

Authorized Officer



Financial Guaranty Insurance  
Company, doing business in California  
as FGIC Insurance Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001

A GE Capital Company



## Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in cursive script, reading "Deborah M. Reif".

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

A handwritten signature in cursive script, likely belonging to the Authorized Officer.

Authorized Officer

State Street Bank and Trust Company, N.A., as Fiscal Agent

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