#### **PRELIMINARY OFFICIAL STATEMENT DATED JUNE 13, 2003**

NEW ISSUE, BOOK-ENTRY ONLY

RATINGS: Moody's: Aa3 Standard & Poor's: AA Fitch: AA (See "RATINGS" herein.)

Due: June 15, as shown below

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and Minami, Lew & Tamaki LLP, San Francisco, California, Co-Bond Counsel, based upon an analysis of existing statutes, laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Co-Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

## \$50,440,000\* CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS

Consisting of

\$20,960,000\* GENERAL OBLIGATION BONDS (NEIGHBORHOOD RECREATION AND PARK FACILITIES IMPROVEMENT BONDS, 2000) SERIES 2003A



\$29,480,000\* GENERAL OBLIGATION BONDS (EDUCATIONAL FACILITIES BONDS, 1997 — SAN FRANCISCO UNIFIED SCHOOL DISTRICT) SERIES 2003B

#### Dated: Date of Delivery

The \$50,440,000<sup>\*</sup> aggregate principal amount of City and County of San Francisco General Obligation Bonds, consisting of \$20,960,000<sup>\*</sup> aggregate principal amount of City and County of San Francisco General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000), Series 2003A (the "Series 2003A Bonds") and \$29,480,000<sup>\*</sup> aggregate principal amount of City and County of San Francisco General Obligation Bonds (Educational Facilities Bonds, 1997 — San Francisco Unified School District), Series 2003B (the "Series 2003B Bonds" and, together with the Series 2003A 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 of the Series 2003A Bonds are contained in Resolution No. 378-00 and Resolution No. 360-03, adopted by the Board of Supervisors of the City (the "Board") on May 1, 2000, and June 10, 2003, respectively. The specific terms and conditions for issuance and sale of the Series 2003B Bonds are contained in Resolution No. 13-02, adopted by the Board on November 10, 1997, and January 7, 2002, respectively. Such Resolutions were all duly approved by the Mayor of the City. See "THE BONDS—Authority for Issuance; Purpose." The proceeds of the Bonds will be used for the acquisition, construction and/or reconstruction of various 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. 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, 2003. The Bonds will be subject to optional redemption prior to their respective stated maturities as described herein. See "THE BONDS—Redemption Provisions."

The Bonds represent the general obligation of the City. The Board has the power and is obligated to levy *ad valorem* taxes 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\* (See inside cover for maturity schedule by series)

Maturity Date (June 15)	Principal Amount*	Interest Rate	Price or Yield	Maturity Date (June 15)	Principal Amount*	Interest Rate	Price or Yield
2004	\$1,965,000	%	%	2014	\$2,455,000	%	%
2005	1,885,000			2015	2,555,000		
2006	1,925,000			2016	2,660,000		
2007	1,975,000			2017	2,765,000		
2008	2,035,000			2018	2,875,000		
2009	2,100,000			2019	2,985,000		
2010	2,165,000			2020	3,105,000		
2011	2,225,000			2021	3,235,000		
2012	2,295,000			2022	3,370,000		
2013	2,360,000			2023	3,505,000		

The Bonds are offered when, as, and if issued by the City and accepted by the purchasers, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and Minami, Lew & Tamaki, LLP, San Francisco, California, Co-Bond Counsel with respect to the Bonds. Certain legal matters will be passed upon for the City by its 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 July 9, 2003.

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.

#### BIDS TO BE RECEIVED NO LATER THAN 8:30 A.M., CALIFORNIA TIME, JUNE 25, 2003 SEE "OFFICIAL NOTICE OF SALE" HEREIN

Dated: June \_\_\_\_, 2003

\* Preliminary, subject to change.

#### **MATURITY SCHEDULE BY SERIES\***

#### \$20,960,000\* CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS (NEIGHBORHOOD RECREATION AND PARK FACILITIES IMPROVEMENT BONDS, 2000) SERIES 2003A

#### (Base CUSIP Number: 797645)

Maturity Date (June 15)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix	Maturity Date (June 15)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix
2004	\$815,000	%	%		2014	\$1,020,000	%	%	
2005	785,000				2015	1,060,000			
2006	800,000				2016	1,105,000			
2007	820,000				2017	1,150,000			
2008	845,000				2018	1,195,000			
2009	875,000				2019	1,240,000			
2010	900,000				2020	1,290,000			
2011	925,000				2021	1,345,000			
2012	955,000				2022	1,400,000			
2013	980,000				2023	1,455,000			

#### \$29,480,000\* CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS (EDUCATIONAL FACILITIES BONDS, 1997— SAN FRANCISCO UNIFIED SCHOOL DISTRICT) SERIES 2003B

#### (Base CUSIP Number: 797645)

Maturity Date	Principal	Interest	Price or	CUSIP	Maturity Date	Principal	Interest	Price or	CUSIP
(June 15)	Amount	Rate	Yield	Suffix	(June 15)	Amount	Rate	Yield	Suffix
2004	\$1,150,000	%	%		2014	\$1,435,000	%	%	
2005	1,100,000				2015	1,495,000			
2006	1,125,000				2016	1,555,000			
2007	1,155,000				2017	1,615,000			
2008	1,190,000				2018	1,680,000			
2009	1,225,000				2019	1,745,000			
2010	1,265,000				2020	1,815,000			
2011	1,300,000				2021	1,890,000			
2012	1,340,000				2022	1,970,000			
2013	1,380,000				2023	2,050,000			

\* Preliminary, subject to change.

#### OFFICIAL NOTICE OF SALE \$50,440,000\* CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS consisting of

#### \$20,960,000<sup>\*</sup> GENERAL OBLIGATION BONDS (NEIGHBORHOOD RECREATION AND PARK FACILITIES IMPROVEMENT BONDS, 2000) SERIES 2003A

## \$29,480,000<sup>\*</sup> GENERAL OBLIGATION BONDS (EDUCATIONAL FACILITIES BONDS, 1997— SAN FRANCISCO UNIFIED SCHOOL DISTRICT) SERIES 2003B

NOTICE IS HEREBY GIVEN that sealed, facsimile and PARITY® ("Parity") electronic proposals will be received and opened in the manner described below, by the City and County of San Francisco (the "City") at 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102 on

#### Wednesday, June 25, 2003 at 8:30 a.m.

California time, for the purchase of \$50,440,000\* aggregate principal amount of City and County of San Francisco General Obligation Bonds, consisting of \$20,960,000\* General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000), Series 2003A (the "Series 2003A Bonds") and \$29,480,000\* General Obligation Bonds (Educational Facilities Bonds, 1997—San Francisco Unified School District), Series 2003B (the "Series 2003B Bonds" and together with the Series 2003A Bonds, the "Bonds"), more particularly described hereinafter. See "TERMS OF SALE—Form of Bid; Delivery of Bid" hereinafter for information regarding the terms and conditions under which bids will be received through facsimile or electronic transmission.

The City reserves the right to postpone or cancel the sale at any time provided that notice of such change is given through The Bond Buyer Wire and Bloomberg Business News (the "News Services"), as described herein, prior to the time then scheduled for the receipt of such proposals. If the sale is postponed, bids will be received at the place set forth above on or before July 25, 2003, and at such time as the City shall determine. Notice of the new date and time for receipt of bids shall be given through the News Services as soon as practicable following a postponement and no later than 1:00 p.m. California time on the date preceding the new bid receipt and opening time. As an accommodation to bidders, telephone, electronic or facsimile notice of such postponement and of the new sale date and time will be given to any bidder requesting such notice from Montague DeRose and Associates, LLC, and The Knight Group, Inc. (collectively, "Co-Financial Advisors"), provided however that failure of any bidder to receive such supplemental notice shall not affect the sufficiency of any required notice or the legality of the sale. Co-Financial Advisors' contact information is: Montague DeRose and Associates, LLC, 3093 Citrus Circle, Suite 165, Walnut Creek, California 94598, telephone (925) 256-9797, facsimile (925) 256-9795, Attention: Darlene Cimino-DeRose (e-mail: derose@montaguederose.com); The Knight Group, Inc., 582 Market Street, Suite 408, San Francisco, California 94104, telephone (415) 772-9001, facsimile (415) 772-9004, Attention: Charlotte Knight-Marshall, (email: theknightgroup@ameritech.net).

The City reserves the right to modify or amend this Official Notice of Sale in any respect; provided, however, that any such modification or amendment shall be made not later than 1:00 p.m.

<sup>\*</sup> Subject to adjustment in accordance with this Official Notice of Sale

California time on the business day preceding the date bids are to be received, and shall be communicated to potential bidders through the News Services (with supplemental notice as described above).

This Official Notice of Sale will be submitted to i-Deal LLC for posting at its website address (www.i-dealprospectus.com) and in the Parity bid delivery system. In the event i-Deal LLC's summary of the terms of sale of the Bonds conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment is given as described herein.

#### TERMS RELATING TO THE BONDS

## THE TERMS OF ISSUANCE, PRINCIPAL AND INTEREST REPAYMENT, SECURITY, TAX OPINION, AND ALL OTHER INFORMATION REGARDING THE BONDS ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT WHICH EACH BIDDER MUST HAVE OBTAINED AND REVIEWED PRIOR TO BIDDING FOR THE BONDS. THIS NOTICE GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES.

*Interest Rates*. Interest is payable commencing on December 15, 2003, and thereafter on June 15 and December 15 of each year. Interest is calculated on the basis of a 30-day month, 360-day year from the delivery date of the Bonds. Each bond maturity shall bear interest from the delivery date to its stated maturity date at the single rate of interest specified in the bid, and all Bonds maturing at any one time shall bear the same rate of interest.

Bidders must specify the rate or rates of interest which each bond maturity hereby offered for sale shall bear. Bidders will be permitted to bid according to the following specifications:

- (i) The maximum interest rate (coupon) bid for any maturity shall not exceed twelve percent (12%) per annum;
- (ii) Each interest rate specified in any bid must be a multiple of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%) per annum;
- (iii) A zero rate of interest cannot be named for any maturity; and
- (iv) The interest rate specified for any maturity shall not be more than three percent (3%) higher than the interest rate specified for any other maturity.

In addition, the true interest cost ("TIC") of the Bonds to the City may not exceed twelve percent (12%), calculated as provided in "TERMS OF SALE—Basis of Award" herein.

**Principal Payments.** The Bonds shall be serial and/or term Bonds, as specified by each bidder, and principal shall be payable on June 15 of each year, commencing on June 15, 2004, as shown below. No serial Bond shall mature after the first mandatory sinking fund payment specified in the bid, if any. The principal amount of Bonds maturing or subject to mandatory sinking fund redemption in any year shall be an integral multiple of \$5,000. Subject to adjustment as hereinafter provided, the aggregate amount of the principal payment for the Bonds in each year is initially estimated as follows:

Principal Payment Date (June 15)	Series 2003A Principal Amount <sup>*</sup>	Series 2003B Principal Amount <sup>*</sup>	Total Principal Amount*
2004	\$ 815,000	\$1,150,000	\$1,965,000
2005	785,000	1,100,000	1,885,000
2006	800,000	1,125,000	1,925,000
2007	820,000	1,155,000	1,975,000
2008	845,000	1,190,000	2,035,000
2009	875,000	1,225,000	2,100,000
2010	900,000	1,265,000	2,165,000
2011	925,000	1,300,000	2,225,000
2012	955,000	1,340,000	2,295,000
2013	980,000	1,380,000	2,360,000
2014	1,020,000	1,435,000	2,455,000
2015	1,060,000	1,495,000	2,555,000
2016	1,105,000	1,555,000	2,660,000
2017	1,150,000	1,615,000	2,765,000
2018	1,195,000	1,680,000	2,875,000
2019	1,240,000	1,745,000	2,985,000
2020	1,290,000	1,815,000	3,105,000
2021	1,345,000	1,890,000	3,235,000
2022	1,400,000	1,970,000	3,370,000
2023	1,455,000	2,050,000	3,505,000

Serial Bonds and/or Term Bonds. The Bonds shall be issued as serial maturities as shown in the table above, unless the bidder requests the creation of one or more term Bonds by combining any two or more consecutive serial maturities. For any term Bond, the amount of principal paid in each year as the mandatory sinking fund payment shall be the amount shown above as maturing in such year. No mandatory sinking fund redemption may occur prior to June 15, 2010, and no serial bond shall mature after the first specified sinking fund payment.

Adjustment of Principal Payments. The principal amounts set forth in this Official Notice of Sale reflect certain estimates of the City with respect to the likely interest rates of the winning bid. Solely in order to achieve substantially level debt service in each fiscal year ending June 30<sup>th</sup>, the City reserves the right to change the principal payment schedule set forth above after the determination of the winning bidder, by increasing or decreasing the principal amount of any maturity by not more than 10% in increments of \$5,000; provided, however, that the aggregate principal amount of the Bonds shall not exceed \$50,440,000.\* The bidder awarded the Bonds by the City (the "Purchaser") may not withdraw its bid or change the interest rates bid as a result of any changes made to the principal payments of the Bonds in accordance with this Official Notice of Sale. The dollar amount of the price bid will be changed so that the percentage of net compensation to the Purchaser does not

<sup>\*</sup> Subject to adjustment in accordance with this Official Notice of Sale.

increase or decrease from what it would have been if no adjustment had been made to the principal amounts shown in the maturity schedule; *provided*, *however*, that the purchase price of the Bonds shall not be less than par.

**Optional Redemption.** The Bonds maturing on or before June 15, 2010, shall not be subject to optional redemption prior to their fixed maturity dates. The Bonds maturing on and after June 15, 2011, are subject to optional redemption prior to their fixed maturity dates, at the option of the City and as the City shall determine, 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 following redemption prices (each expressed as a percentage of the principal amount of Bonds to be redeemed), together with accrued interest to the date fixed for redemption:

Redemption Dates	<b>Redemption Price</b>
June 15, 2010 through June 14, 2011	102%
June 15, 2011 through June 14, 2012	101
June 15, 2012 and thereafter	100

#### **TERMS OF SALE**

*Form of Bid; Delivery of Bids*. No bid will be accepted for less than all of the Bonds or for a purchase price less than the par amount of the Bonds. All bids must be unconditional. All bids must be received by the City no later than 8:30 a.m. California time on Wednesday, June 25, 2003, or such other date and time as may be determined in accordance with this Official Notice of Sale. All bids shall be deemed to incorporate all of the terms of this Official Notice of Sale.

Bids may be delivered by hand, by facsimile transmission, or by electronic transmission via Parity, as follows:

*Hand Delivery*. Bids delivered by hand must be on the official bid form attached hereto as Exhibit B, signed by the bidder, and enclosed in a sealed envelope addressed to the Controller of the City, c/o Director of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102 (telephone (415) 554-6902), and clearly marked "Proposal for \$50,440,000 City and County of San Francisco General Obligation Bonds," (or words of similar import). If the sale of the Bonds is canceled or postponed, all sealed bids shall be returned unopened.

*Facsimile Transmission.* Solely as an accommodation to bidders, the City will accept bids submitted by facsimile transmission. Bids delivered by facsimile transmission must be on the official bid form attached hereto as Exhibit B, signed by the bidder, and sent to **FAX NO. (415) 554-4864**, Attention: Karen Ribble.

*WARNINGS*: A bid submitted by facsimile transmission will not be considered timely unless, at the deadline for submission of bids, the entire bid form has been received by the receiving fax machine. The receiving fax machine will be disconnected from the telephone line at the deadline for receipt of bids. The official time for receipt of bids will be determined by the City at the place of bid opening, and the City shall not be required to accept any bidder's fax machine time-stamp as evidence of a timely bid. Neither the City, the Co-Financial Advisors, nor the law firms of Orrick, Herrington & Sutcliffe LLP and Minami, Lew & Tamaki LLP ("Co-Bond Counsel") shall be responsible for, and the bidder expressly

assumes the risk of, any incomplete, illegible or untimely bid submitted by facsimile transmission by such bidder, including, without limitation, by reason of garbled transmission, mechanical failure, engaged telephone or telecommunications lines, or any other cause arising from delivery by facsimile transmission rather than by hand. Bidders may call (415) 554-6643 to confirm receipt of their bids; however the City takes no responsibility for informing any bidder prior to the time for receiving bids that its bid is incomplete, illegible or not received.

*Electronic Transmission.* Solely as an accommodation to bidders, the City will accept bids in electronic form exclusively through Parity. Each bidder submitting an electronic bid understands and agrees by doing so that it is solely responsible for all arrangements with Parity, that the City neither endorses nor encourages the use of Parity, and that Parity is not acting as an agent of the City. Instructions and forms for submitting electronic bids must be obtained from Parity. Bidders may contact Parity directly at (212) 806-8304 or at the Parity website: *www.tm3.com/Parity*.

*WARNINGS:* The City assumes no responsibility for ensuring or verifying bidder compliance with Parity's procedures. The City shall be entitled to assume that any bid received via Parity has been made by a duly authorized agent of the bidder. The City, the Co-Financial Advisors and Co-Bond Counsel assume no responsibility for any malfunction of the Parity system, any failure of a bid to be received at the official time, or any error contained in any bid submitted electronically. The official time for receipt of bids will be determined by the City at the place of bid opening, and the City shall not be required to accept the time kept by Parity as the official time. In the event of a malfunction of the Parity system, bidders should submit their bids by facsimile or hand delivery on the official bid form attached hereto as Exhibit B.

## THE CITY RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID, WHETHER DELIVERED BY HAND, FACSIMILE OR ELECTRONIC TRANSMISSION, IS TIMELY, LEGIBLE AND COMPLETE.

*Multiple Bids*. In the event multiple bids are received from a single bidder by any means or combination thereof, the City shall accept the bid representing the lowest true interest cost to the City, and each bidder agrees by submitting any bid to be bound by such best bid.

*Good Faith Deposit.* Each bid must be accompanied by a cashier's check in immediately available funds drawn on a bank or trust company transacting business in the State of California, or by a financial surety bond, in each case in the amount of \$300,000 (the "Good Faith Deposit") payable to the order of the Treasurer of the City and County of San Francisco to secure the City from any loss resulting from the failure of the bidder to comply with the terms of its bid.

If a financial surety bond is used, it must be from an insurance company licensed to issue such a bond in the State of California, whose claims-paying ability is rated in the highest rating category by Moody's Investors Service and Standard & Poor's. Such financial surety bond must be received no later than the time bids are to be received, by the Mayor's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102, telephone (415) 554-6902, facsimile (415) 554-4864, Attention: Karen Ribble. The financial surety bond must identify each bidder whose Good Faith Deposit is guaranteed by such financial surety bond, and the City has no responsibility for any failure of a financial surety bond to list any bidder or to be received on a timely basis as described in the preceding sentence. If the Bonds are awarded to a bidder utilizing a financial surety bond, then the Purchaser shall deliver its Good Faith Deposit to the Treasurer in the form of a cashier's check (meeting

the requirements set forth hereinbefore) or by wire transfer no later than 12:00 noon (California time) on the business day immediately following the award. The wire transfer is to be made to Bank of America, N.A., ABA 121000358, 555 Capitol Mall, Suite 1555, Northern California Government Banking, Unit 1436, Sacramento, California 95814, to the credit of City and County of San Francisco, Account No. 00661-80050, with notice thereof to Karen Ribble, telephone (415) 554-6902, facsimile (415) 554-4864. If the Good Faith Deposit is not received by that time, the financial surety bond shall be drawn by the City to satisfy the Good Faith Deposit requirement.

The City will accept a financial surety bond in lieu of a cashier's check under the terms described herein solely as an accommodation to bidders, and it is understood and agreed by each bidder using such a bond that the bidder must make its own arrangements with the provider of the bond. The City does not encourage or discourage the use of a financial surety bond or any particular surety bond provider.

No interest will be paid upon the Good Faith Deposit made by any bidder. Good Faith Deposit checks of all bidders (except the Purchaser) will be returned by the City promptly following the award of the Bonds to the Purchaser. The Good Faith Deposit of the Purchaser will, immediately upon acceptance of its bid, become the property of the City to be held and invested for the exclusive benefit of the City. The principal amount of such Good Faith Deposit shall be applied to the purchase price of the Bonds at the time of delivery thereof.

If the purchase price is not paid in full upon tender of the Bonds, the Purchaser shall have no right in or to the Bonds or to the recovery of its Good Faith Deposit, or to any allowance or credit by reason of such Good Faith Deposit, unless it shall appear that the Bonds would not be validly issued if delivered to the Purchaser in the form and manner proposed. In the event of non-payment for the Bonds upon the valid tender thereof to the Purchaser, the amount of Good Faith Deposit shall be retained by the City as and for liquidated damages for such failure by the Purchaser, and such retention shall constitute a full release and discharge of all claims by the City against the Purchaser arising from such failure. The City's actual damages in such event may be greater or may be less than the amount of the Good Faith Deposit. Each bidder waives any right to claim that the City's actual damages are less than such amount.

Municipal Bond Insurance. The City has provided information to the principal municipal bond insurance companies in order to pre-qualify the Bonds for municipal bond insurance. The City will accept bids which are based upon the issuance of a municipal bond insurance policy for some or all of the Bonds by an insurer whose claims-paying ability is rated in the highest ratings category by Moody's Investors Service and Standard & Poor's. However, bids shall not be conditioned upon the issuance of any such policy. The City makes no representation as to whether the Bonds will qualify for municipal bond insurance. Payment of any insurance premium and satisfaction of any conditions to the issuance of a municipal bond insurance policy shall be the sole responsibility of the Purchaser. In particular, the City will neither amend nor supplement the resolutions authorizing the issuance of the Bonds in any way, nor will it agree in advance of the sale of the Bonds to enter into any additional agreements with respect to the provision of any such policy. The Purchaser must provide the City with a copy of the municipal bond insurance commitment, signed by the Purchaser, including the amount of the policy premium as well as information with respect to the municipal bond insurance policy and the insurance provider for inclusion in the final Official Statement within two business days following the award of the Bonds by the Controller. The Purchaser shall pay all costs associated with any City decision to amend, supplement, reprint and/or "sticker" the Official Statement as a result of a failure by the Purchaser to timely provide information for the final Official Statement or any subsequent course of events which results in the municipal bond insurance disclosure printed in the Official Statement being inaccurate or otherwise inadequate. The City will require an opinion of counsel to the insurance provider regarding the enforceability of the municipal bond insurance policy and a tax certificate in a form reasonably satisfactory to the City and Co-Bond Counsel. Failure of the insurance provider to issue its policy shall not constitute cause for the Purchaser to fail or refuse to accept delivery of or to pay for the Bonds.

**Basis of Award.** Unless all bids are rejected, the Bonds will be awarded to the bidder whose bid represents the lowest true interest cost ("TIC") to the City. The TIC will be that nominal annual interest rate which, when compounded semiannually and used to discount to the date of the Bonds all payments of principal and interest payable on the Bonds, results in an amount equal to the principal amount of such Bonds plus the amount of premium, if any. In the event that two or more bidders offer bids for the Bonds at the same lowest TIC, the City shall determine by lot which bidder shall be awarded such Bonds. Bid evaluations or rankings by Parity are not binding on the City.

*Estimate of True Interest Cost.* Each bidder is requested, but not required, to state in its bid the amount of interest payable on the Bonds during the life of the issue and the percentage TIC to the City (determined as described above), which shall be considered as informative only and not binding on either the bidder or the City.

**Right of Rejection and Waiver of Irregularity.** The City reserves the right, in its discretion, to reject any and all bids and to waive any irregularity or informality in any bid which does not materially affect such bid or change the ranking of the bids.

**Prompt Award.** The Controller of the City (the "Controller") will take action awarding the Bonds or rejecting all bids not later than twenty-six (26) hours after the time for the receipt of proposals, unless such period for award is waived by the Purchaser. Prompt notice of the award will be given to the Purchaser.

## **CLOSING PROCEDURES AND DOCUMENTS**

Qualification for Sale; Blue Sky. The City will furnish such information and take such action not inconsistent with law as the Purchaser may request and the City shall deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Purchaser; provided, however, that the City shall not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction. The Purchaser will not offer to sell, or solicit any offer to buy, the Bonds in any jurisdiction where it is unlawful for such Purchaser to make such offer, solicitation or sale, and the successful bidder shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which the Purchaser sells the Bonds. Payment of any fees for the qualification of the Bonds is the sole responsibility of the Purchaser.

**Delivery and Payment.** Delivery of the Bonds in the form of one certificate for each maturity shall be made to the Purchaser through the facilities of DTC in New York, New York, or at any other location mutually agreeable to both the City and the Purchaser, as soon as practicable which is estimated to be July 9, 2003 (the "Date of Closing"). Payment for the purchase price of the Bonds must be made by wire transfer in funds immediately available in San Francisco. Any expense for making payment in

immediately available funds shall be borne by the Purchaser. The costs of preparing the Bonds will be borne by the City.

**Reoffering Price Certificate.** Within one hour of receipt of notice that the bidder is the apparent winner, such bidder shall certify to the City in writing in substantially the form of certificate attached hereto as Exhibit A that as of the date of the sale, all of the Bonds have been reoffered in a bona fide public offering, and the initial prices at which each maturity of the Bonds was reoffered. As of the Date of the Closing, the Purchaser will be required to further certify: (i) that all of the Bonds purchased had actually been offered to the general public; and (ii) the maximum initial bona fide offering prices at which a substantial amount (at least 10%) of each maturity of the Bonds purchased was sold to the general public, in such form as the City and Co-Bond Counsel shall reasonably require.

*Right of Cancellation*. The Purchaser shall have the right, at its option, to cancel its obligation to purchase the Bonds if the City shall fail to tender the Bonds for delivery within 60 days from the date of sale thereof, and in such event the Purchaser shall only be entitled to the return of the principal amount of the Good Faith Deposit which accompanied its bid.

*No Litigation.* The City will deliver a certificate of the City stating that no litigation is pending with service of process having been accomplished, or, to the City's knowledge, threatened, concerning the validity of the Bonds, the corporate existence of the City, or the title to their respective offices of the officers of the City who will execute the Bonds.

**CUSIP Numbers**. It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale. The Purchaser, at its sole cost, will obtain separate CUSIP numbers for each maturity of Series 2003A, and for each maturity of Series 2003B. The costs of the printing of CUSIP numbers on the Bonds shall be paid by the City.

*California Debt and Investment Advisory Commission Fee.* Attention of bidders is directed to California Government Code Section 8856, which provides that the Purchaser of the Bonds will be charged the California Debt and Investment Advisory Commission fee. The Purchaser shall pay such fee promptly upon receipt of the invoice.

*Certificate Regarding Official Statement*. At the time of delivery of the Bonds, the Purchaser will receive a certificate, signed by an officer of the City, confirming to the Purchaser that, to the best knowledge of said officer, the Official Statement relating to the Bonds (excluding information regarding the policy of municipal bond insurance and the provider thereof, if any, and excluding the description of the book-entry only system provided by The Depository Trust Company, and excluding information regarding the reoffering of the Bonds provided by the Purchaser, as to which no view shall be expressed) as of the date of sale of the Bonds and as of the date of delivery thereof, did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

**Preliminary Official Statement Deemed Final.** In accordance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), the City deems the Preliminary Official Statement is final as of its date, except for the omission of certain information as permitted by Rule 15c2-12.

*Official Statement*. Copies of the Preliminary Official Statement prepared by the City will be furnished to any interested bidder upon request to any of the Co-Financial Advisors (contact information appearing on the first page of this Official Notice of Sale). Within seven (7) business days after the date of award of the Bonds, the Purchaser will be furnished with a reasonable number of copies (not to exceed 200) of the final Official Statement, without charge. Upon the request of the Purchaser within two days of the award of the Bonds, the City will supply additional copies of the Official Statement at the expense of the Purchaser.

By making a bid for the Bonds, the bidder agrees, if awarded the Bonds, (i) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any supplements prepared by the City, (ii) to promptly file a copy of the final Official Statement, including any supplements prepared by the City, with a nationally recognized municipal securities information repository, as defined in Rule 15c2-12, and (iii) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to the ultimate purchasers, including without limitation the delivery of a final Official Statement to each investor who purchases Bonds.

The form and content of the final Official Statement is within the sole discretion of the City. The Purchaser's name will not appear on the cover of the Official Statement.

*Continuing Disclosure*. In order to assist bidders in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the City will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events, if material. A form of the Continuing Disclosure Certificate is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

*Equal Opportunity*. Pursuant to the spirit and intent of the City's MBE/WBE/LBE Ordinance, Chapter 12D of the Administrative Code of the City, the City strongly encourages the inclusion of Minority and/or Women Business Enterprises certified by the San Francisco Human Rights Commission on prospective proposing syndicate/teams. A list of certified MBEs/WBEs can be obtained by contacting the San Francisco Human Rights Commission at 25 Van Ness Avenue, 8th Floor, San Francisco, California 94102, telephone: (415) 252-2500.

Dated: June 13, 2003.

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## INSTRUCTIONS TO BIDDER: FAX TO KAREN RIBBLE WITHIN ONE (1) HOUR OF NOTICE FROM CITY THAT BIDDER IS APPARENT WINNER FACSIMILE: (415) 554-4864

#### **REOFFERING PRICE CERTIFICATE**

\_\_\_\_\_\_\_ is the purchaser of \$\_\_\_\_\_\_\_ aggregate principal amount of City and County of San Francisco General Obligation Bonds, consisting of \$\_\_\_\_\_\_\_ General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000), Series 2003A (the "Series 2003A Bonds") and \$\_\_\_\_\_\_ General Obligation Bonds (Educational Facilities Bonds, 1997—San Francisco Unified School District), Series 2003B (the "Series 2003B Bonds" and together with the Series 2003A Bonds, the "Bonds"). The Purchaser hereby certifies and represents the following:

#### A. **Issue Price**.

1. As of \_\_\_\_\_\_, 2003 (the "Sale Date"), the Purchaser had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices or yields shown on the attached Schedule A.

2. The prices or yields shown on the attached Schedule A represent fair market prices of the Bonds as of the Sale Date.

3. As of the date of this certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices or yields shown on the attached Schedule A, and at least 10% of each maturity of the Bonds has been sold to the general public at such prices or yields.

#### B. **Qualified Guarantee**.

The present value of the interest saved as a consequence of the municipal bond insurance policy (the "Insurance") to be issued by \_\_\_\_\_\_ with respect to the Bonds exceeds the present value of the premium for the Insurance, and the premium for the Insurance is not unreasonable.

Dated: \_\_\_\_\_, 2003

[PURCHASER]

Ву \_\_\_\_\_

Authorized Representative

## **SCHEDULE A**

Maturity (June 15)	Principal Amount	Reoffering <u>Price (expressed as</u> percentage of par)
2004	\$1,965,000	
2005	1,885,000	
2006	1,925,000	
2007	1,975,000	
2008	2,035,000	
2009	2,100,000	
2010	2,165,000	
2011	2,225,000	
2012	2,295,000	
2013	2,360,000	
2014	2,455,000	
2015	2,555,000	
2016	2,660,000	
2017	2,765,000	
2018	2,875,000	
2019	2,985,000	
2020	3,105,000	
2021	3,235,000	
2022	3,370,000	
2023	3,505,000	

(Underwriter's term sheet, Bloomberg's printout or other source may be substituted, provided that the Reoffering Prices expressed as a percentage of par are clearly shown)

#### OFFICIAL BID FORM AND PROPOSAL FOR THE PURCHASE OF

\$50,440,000\* CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS consisting of

\$20,960,000\* GENERAL OBLIGATION BONDS (NEIGHBORHOOD RECREATION AND PARK FACILITIES IMPROVEMENT BONDS, 2000) SERIES 2003A \$29,480,000\* GENERAL OBLIGATION BONDS (EDUCATION FACILITIES BONDS, 1997—SAN FRANCISCO UNIFIED SCHOOL DISTRICT) SERIES 2003B

BIDDING FIRM'S NAME:

Controller City and County of San Francisco c/o Mayor's Office of Public Finance 1 Dr. Carlton B. Goodlett Place, Room 336 San Francisco, California 94102 Fax Number: (415) 554-4864 Confirm Number: (415) 554-6643

Subject to the provisions and in accordance with the terms of the Official Notice of Sale dated June 13, 2003, which is incorporated herein and made a part of this proposal, we have reviewed a Preliminary Official Statement relating to the above-referenced Bonds and hereby offer to purchase all of the \$50,440,000\* aggregate principal amount of the above-referenced Bonds dated the date of the delivery thereof to the initial purchasers thereof on the following terms, including the submission of the required Good Faith Deposit in the amount of \$300,000 in the form of (check one): \_\_\_\_\_\_ cashiers check or \_\_\_\_\_\_ surety bond; and to pay therefor the price of \$\_\_\_\_\_\_, which is equal to the aggregate principal amount of the Bonds plus a premium of \$\_\_\_\_\_\_ (such amount being the "Purchase Price"). The Bonds shall mature in the years, will be subject to mandatory sinking fund redemption commencing no earlier than June 15, 2010 (if term bonds are specified), in the amounts and years, and bear interest rate specified), as set forth in the schedule below.

Principal Payment Date (June 15) <sup>(1)</sup>	Annual Principal Payment*	Serial Maturity <sup>(2)</sup>	Mandatory Sinking Fund Redemption	Interest Rate	Principal Payment Date (June 15) <sup>(1)</sup>	Annual Principal Payment*	Serial Maturity <sup>(2)</sup>	Mandatory Sinking Fund Redemption	Interest Rate
		(check one)						(check one)	
2004				%	2014	\$2,455,00			%
	\$1,965,000								
2005	1,885,000			%	2015	2,555,000			%
2006	1,925,000			%	2016	2,660,000			%
2007	1,975,000			%	2017	2,765,000			%
2008	2,035,000			%	2018	2,875,000			%
2009	2,100,000			%	2019	2,985,000			%
2010	2,165,000			%	2020	3,105,000			%
2011	2,225,000			%	2021	3,235,000			%
2012	2,295,000			%	2022	3,370,000			%
2013	2,360,000			%	2023	3,505,000			%

<sup>(1)</sup> Circle the final maturity of each term bond specified.

<sup>(2)</sup> There shall be no serial maturities for dates after the first mandatory sinking fund redemption payment.

	Bond Insurer, if any:
Authorized Signatory	Maturities Insured:
Title:	Bond Insurance Premium:
Phone Number:	TIC (optional and not binding):
Facsimile Number:	

THE BIDDER EXPRESSLY ASSUMES THE RISK OF ANY INCOMPLETE, ILLEGIBLE, UNTIMELY OR OTHERWISE NONCONFORMING BID SUBMITTED BY FACSIMILE TRANSMISSION, INCLUDING, WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSION, MECHANICAL FAILURE, ENGAGED TELEPHONE OR TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM DELIVERY BY FACSIMILE TRANSMISSION RATHER THAN BY HAND. THE CITY RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY, LEGIBLE, COMPLETE AND CONFORMING.

\* Subject to adjustment in accordance with the Official Notice of Sale.

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## CITY AND COUNTY OF SAN FRANCISCO

Willie L. Brown, Jr., Mayor

#### **BOARD OF SUPERVISORS**

Matt Gonzales, President, District 5

Tom Ammiano, *District 9* Chris Daly, *District 6* Bevan Dufty, *District 8* Tony Hall, *District 7* Fiona Ma, *District 4*  Sophie Maxwell, District 10 Jake McGoldrick, District 1 Gavin Newsom, District 2 Aaron Peskin, District 3 Gerardo Sandoval, District 11

## 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

> ORRICK, HERRINGTON & SUTCLIFFE LLP San Francisco, California

> > -and-

MINAMI, LEW & TAMAKI, LLP San Francisco, California

Co-Bond Counsel

MONTAGUE DE ROSE AND ASSOCIATES, LLC Walnut Creek, California

-and-

THE KNIGHT GROUP, INC. San Francisco, California

Co-Financial Advisors

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

This Preliminary Official Statement and the information contained herein are in a form deemed final by the City for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (except for omission of certain information permitted to be omitted under Rule 15c2-12(b)(1)). However, the information herein is subject to revision, completion or amendment in a final Official Statement.

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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#### **OFFICIAL STATEMENT**

## **\$50,440,000**\*

# City and County of San Francisco General Obligation Bonds consisting of

\$20,960,000<sup>\*</sup> General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000) Series 2003A \$29,480,000<sup>\*</sup> General Obligation Bonds (Educational Facilities Bonds, 1997 — San Francisco Unified School District) Series 2003B

#### INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City and County of San Francisco (the "City") of its \$50,440,000<sup>\*</sup> aggregate principal amount of City and County of San Francisco General Obligation Bonds, consisting of \$20,960,000<sup>\*</sup> aggregate principal amount of City and County of San Francisco General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000), Series 2003A (the "Series 2003A Bonds"), and \$29,480,000<sup>\*</sup> aggregate principal amount of City and County of San Francisco General Obligation Bonds (Educational Facilities Bonds, 1997 - San Francisco Unified School District), Series 2003B (the "Series 2003B Bonds" and, together with the Series 2003A Bonds, the "Bonds"). The Bonds represent the general obligation of the City. The Board of Supervisors of the City (the "Board") 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

#### **Authority for Issuance; Purpose**

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

The Series 2003A Bonds constitute the third series of bonds to be issued from an aggregate authorized amount of \$110,000,000 of City and County of San Francisco General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000), duly approved by at least two-thirds of the voters voting on the proposition at a special election held on March 7, 2000, to provide funds to finance the acquisition, construction, and reconstruction of certain improvements to recreation and park facilities

<sup>\*</sup> Preliminary, subject to change.

in the City, and all other works, property and structures necessary or convenient for the foregoing purposes. The City authorized the issuance of the Series 2003A Bonds in Resolution No. 378-00, adopted by the Board on May 6, 2000, and approved by the Mayor of the City (the "Mayor") on May 12, 2000, and Resolution No. 360-03, adopted by the Board on June 10, 2003, and approved by the Mayor on June 12, 2003 (collectively, the "Park Resolution"). The City has previously issued its City and County of San Francisco General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000), Series 2000C, in the aggregate principal amount of \$6,180,000, on June 14, 2000, and Series 2001B, in the aggregate principal amount of \$14,060,000, on February 21, 2001.

The Series 2003B Bonds constitute the remaining portion of the total authorized amount of \$140,000,000 of City and County of San Francisco General Obligation Bonds (Educational 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, installation, equipping and/or reconstruction or completion of educational facilities and other related improvements used or to be used by the San Francisco Community College District or the San Francisco Unified School District ("the District"). Acquisition and construction of projects funded from bonds issued by the City on behalf of the District shall be managed and administered by the District; however, the City requires that (i) detailed expenditure plans be provided to the City in advance of any appropriation of bond funds and (ii) the District submit quarterly reports on the use of bond funds over the course of the bond projects. The City authorized the issuance of the Series 2003B Bonds in Resolution No. 1018-97, adopted by the Board on November 10, 1997, and approved by the Mayor on November 18, 1997, and in Resolution No. 13-02, adopted by the Board on January 7, 2002, and approved by the Mayor on January 18, 2002 (collectively, the "School Resolution"). The Series 2003B Bonds are the second issuance from this voter authorization with proceeds designated for use by the District; in 1999 the City issued its General Obligation Bonds (Educational Facilities Bonds, 1997 - San Francisco Unified School District) Series 1999B in the aggregate principal amount of \$60,520,000. The City also previously issued its City and County of San Francisco General Obligation Bonds (Educational Facilities Bonds, 1997 - Community College District) in two series: Series 1999A in the aggregate principal amount of \$20,395,000 and Series 2000A in the aggregate principal amount of \$29,605,000.

The Park Resolution and the School 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, 2003. The City Treasurer (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."

## **Redemption Provisions**

#### **Optional Redemption**

The Bonds maturing on or before June 15, 2010 shall not be 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>Redemption Period</b> (both dates inclusive)	Optional <u>Redemption Price</u>
June 15, 2010 through June 14, 2011	102%
June 15, 2011 through June 14, 2012	101%
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.

#### Mandatory Sinking Fund Redemption

The 2003A Bonds maturing on June 15, \_\_\_\_\_ (the "Term 2003A Bonds") are also subject to redemption prior to their stated maturity dates, in part, by lot, from mandatory sinking fund payments, at the principal amount thereof, but without premium, on June 15 in each of the years and in the amounts set forth below:

Mandatory Sinking Fund Payment	Date	Sinking Fund
(June 15)		<b>Payment Amount</b>

The 2003B Bonds maturing on June 15, \_\_\_\_\_ (the "Term 2003B Bonds") are also subject to redemption prior to their stated maturity dates, in part, by lot, from mandatory sinking fund payments, at the principal amount thereof, but without premium, on June 15 in each of the years and in the amounts set forth below:

# Mandatory Sinking Fund Payment Date (June 15)

Sinking Fund Payment Amount

The Term 2003A Bonds and the Term 2003B Bonds are sometimes referred to herein collectively as the "Term Bonds."

In lieu of any such mandatory redemption of Term Bonds, at any time prior to the selection of Term Bonds for redemption, the City may apply such amounts on deposit in the bond accounts for the purpose of mandatory redemption of Bonds to the purchase of Bonds subject to such redemption at public or private sale, as and when and at such prices not in excess of the principal amount thereof (including sales commission and other charges but excluding accrued interest) as the City may determine.

#### 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 and may 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) Prerefunded 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 such securities 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.

## **Municipal Bond Insurance**

The City has submitted information to nationally recognized municipal bond insurers to pre-qualify the Bonds for issuance of a municipal bond insurance policy guaranteeing payment when due of the principal of and interest on all or a portion of the Bonds. Purchase of a municipal bond insurance policy for all or a portion of the bonds is at the sole discretion of the winning bidder of the bonds in connection with the competitive sale of the bonds, presently scheduled for June 25, 2003. The final Official Statement for the Bonds will describe the terms of such policy if purchased for all or a portion of the Bonds.

## SOURCES AND USES OF FUNDS

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

**Sources** Principal Amount of Bonds Original Issue Premium

TOTAL SOURCES OF FUNDS

\$\_\_\_\_\_

Uses

Deposit to the Series 2003A Bond Account<sup>(1)</sup> Deposit to Series 2003A Project Account Deposit to the Series 2003B Bond Account<sup>(1)</sup> Deposit to Series 2003B Project Account Underwriter's Discount Cost of Issuance<sup>(2)</sup> TOTAL USES OF FUNDS

\$\_\_\_\_\_

(1) Consists of net original issue premium, if any.

<sup>(2)</sup> 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

General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000), Series 2003A (Educational Facilities Bonds, 1997— San Francisco Unified School District), Series 2003B

#### FISCAL YEAR DEBT SERVICE

	Series 2003A		Series	<u>2003B</u>	
	Principal	Interest	Principal	Interest	Aggregate Series 2003A and 2003B Fiscal Year Debt Service
2004					
2004					
2005					
2006					
2007					
2008					
2009					
2010					
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
TOTAL					

## SECURITY FOR THE BONDS

#### General

The Bonds represent the general obligation of the City. The Board 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, 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 and the scheduled debt service on the Bonds in each year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the City may cause the annual tax rate for the Bonds 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. 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, 2003", 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, non-utility 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 0.91% of the total assessed valuation of taxable property for fiscal year 2002-03. For a discussion of the impact of the bankruptcy of PG&E 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, 2003," 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 June 1, 2003, the City had outstanding \$920,700,000 aggregate principal amount of general obligation bonds, which equals 0.98% of the net assessed valuation for fiscal year 2002-03. Of that amount, \$800,000 is to be repaid from enterprise revenues and is not carried on the City's property tax roll. As of June 1, 2003, the City had voter approval to issue up to \$922,500,000 in aggregate principal amount of new general obligation bonds (including the Bonds offered hereunder). 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 entered into a number of long term lease obligations secured by revenues of the General Fund represented by lease revenue bonds and certificates of participation. As of June 1, 2003, the aggregate amount of principal payments and the total amount of payments due on outstanding lease obligations through fiscal year 2033-34 was \$870,728,250 and \$1,333,258,884, respectively. 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 limits the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. While not affecting the City's general obligation bonds, 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, known as Proposition 13, was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred 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 (1) indebtedness approved by the voters prior to July 1, 1978, (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or (3) bonded indebtedness incurred by a school district or

community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

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 "recapture" such value (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 was challenged in a lawsuit brought 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 similar lawsuits brought in other counties, 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 2% in a single year violate Article XIII A. In 2001, the Orange County Superior Court issued an order declaring the recapture practice to be unconstitutional as applied to the plaintiff taxpayer. In December 2002, the Superior Court certified the case as a class action, affecting all Orange County taxpayers subject to assessment recapture. The court's final judgment in favor of plaintiff was released April 18, 2003. Orange County has filed an appeal to the California Court of Appeal. The City is neither a party to the Oragne County case nor is it subject to the jurisdiction of the Orange County Superior Court. However, a ruling by the Court of Appeal upholding the Orange County Superior Court's final judgment would likely extend that decision to the City. 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. However, even if these cases were finally decided in a manner to cause a reduction in the aggregate assessed values of taxable property in the City, the City has the power and obligation to raise the rate of *ad valorem* taxes to generate revenues sufficient for the payment of principal of and interest on the Bonds.

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

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

## Article XIII B of the California Constitution

Article XIII B 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. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

See "APPENDIX C-EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2002" 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 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. 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 City's 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. 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.

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

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City 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 and Proposition 62 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.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP and Minami, Lew & Tamaki LLP ("Co-Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Co-Bond Counsel are of the further opinion that such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observe that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in Appendix F hereto.

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

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be

treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original delivery of the Bonds. The opinion of Co-Bond Counsel assumes compliance with these covenants. Co-Bond Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of delivery of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Resolution, the Tax Certificate of the City dated the date of delivery of the Bonds (the "Tax Certificate"), and other relevant documents may be changed, and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Bond Counsel express no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP and Minami, Lew & Tamaki LLP.

Although Co-Bond Counsel are of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect an Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Owner or the Owner's other items of income or deduction. Co-Bond Counsel express no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service, including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations which present similar tax issues, will not affect the market price for the Bonds.

## LEGAL OPINIONS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and Minami, Lew & Tamaki, LLP, San Francisco, California, Co-Bond Counsel. A complete copy of the proposed form of Co-Bond Counsel opinion is contained in APPENDIX F hereto, and will be made available to the original purchasers of the Bonds at the time of the original delivery of the 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

Montague DeRose and Associates, LLC, Walnut Creek, California, and The Knight Group, Inc., San Francisco, 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, and sale 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, or the entitlement to their respective offices of the officers of the City who shall execute and deliver the Bonds and other documents and certificates in connection therewith. 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 2002-03, which is due not later than March 26, 2004, 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 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 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 Report and other financial information on the Controller's web site at www.sfgov.org/controller.

#### RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services, ("S&P"), and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "Aa3," "AA," and "AA," respectively, to the Bonds. Certain information (some of which is not included in this Official Statement) was supplied by the City to the rating agencies to be considered in evaluating the Bonds. The ratings reflect only the views of each rating agency, and any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody's, at 99 Church Street, New York, NY 10007, telephone: (212) 553-0882; S&P, at 55 Water Street, New York, NY 10041, telephone: (212) 208-1022; and Fitch, at One State Street Plaza, New York, NY 10004, telephone (212) 908-0500. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

#### SALE OF THE BONDS

The Bonds were sold at competitive bid on June 25, 2003. The Bonds were awarded to \_\_\_\_\_\_, at a purchase price of \$\_\_\_\_\_\_. 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. The underwriters of the Bonds have 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. Based on such representation, Underwriter's compensation with respect to the Bonds is \$\_\_\_\_\_.

#### **EXAMINATION RELATING TO SERIES 1999B BONDS**

The IRS is currently examining the City's \$60,520,000 General Obligation Bonds (Educational Facilities Bonds, 1997 — San Francisco Unified School District), Series 1999B (the "Series 1999B Bonds"), including an examination of certain allocations of the proceeds of the Series 1999B Bonds to the projects financed for the benefit of the District. The City and the District continue to work with the IRS with respect to the examination. While the City believes that neither the City nor the District did or failed to do anything that would adversely affect the tax-exempt status of the Series 1999B Bonds, no assurance can be given that the IRS will ultimately concur with the City's view. In any event, because the IRS examination does not relate to the Bonds, the City does not believe that the outcome of the examination will have any adverse effect on the Bonds or the exclusion of interest thereon from gross income for federal tax purposes. Furthermore, for similar reasons the City does not believe that the examination will have any adverse effect on the City's ability to make debt service payments with respect to the Bonds.

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

# CITY AND COUNTY OF SAN FRANCISCO

By:\_\_\_\_\_

Controller

# **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 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 in San Mateo County, is owned and operated by the City. In 1969, the City acquired the Port of San Francisco (the "Port") in trust from the State. Substantial expansions and improvements have been made to these enterprises since their respective 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 previous 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 approval by a two-thirds vote of the Board. The Mayor appoints department heads 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, each serving a four-year term. The City Attorney, Assessor-Recorder, District Attorney, Treasurer, Sheriff and Public Defender are also 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 separately 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 town of Mineola, Texas where he attended segregated schools before moving to San Francisco in 1951. Mayor Brown attended San Francisco State University and earned a law degree at Hastings College of the Law in San Francisco. In 1964, he successfully ran for the California State Assembly and was re-elected to fifteen consecutive terms. In 1980, he 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.

Matt Gonzalez, a former trial attorney in the Public Defender's Office, was elected to the Board in 2000 and was elected President of the Board by a majority of the Supervisors in January 2003. Tom Ammiano was elected to the Board in 1994 and re-elected in 1998 and 2000. Gavin Newsom, a local small business

owner, was appointed to the Board by Mayor Brown in February 1997, elected later in that year, and was re-elected in 2000 and 2002. The following Supervisors were elected in November 2000: Jake McGoldrick, a college English teacher; Aaron Peskin, president of an environmental non-profit organization; Chris Daly, an affordable housing organizer; Tony Hall, a City employee; Sophenia ("Sophie") Maxwell, an electrician; and Gerardo Sandoval, a deputy public defender. Chris Daly and Sophie Maxwell were re-elected in November 2002. Bevan Dufty, a former Congressional aide and Neighborhood Services Director of the City, and Fiona Ma, a licensed Certified Public Accountant, were elected to the Board to four-year terms in a runoff election on December 10, 2002.

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 aggregate total \$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. From 1980 to 1984, Mr. Harrington was an auditor with KPMG Peat Marwick, specializing in government, non-profit and financial institution clients, and 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 reelected to a second four-year 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 had 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 Commission, a position she has held since September 1999 upon her appointment by State Treasurer Philip Angelides.

Mabel Teng was elected as San Francisco's first Asian-American Assessor-Recorder, assuming office on January 8, 2003. Prior to becoming Assessor-Recorder, Ms. Teng was the first Asian-American woman elected to the Board, serving from 1994 to 2000. During her tenure on the Board, she chaired the Finance Committee, Rules Committee and Neighborhood Services and Housing Committee. In 1990, Ms. Teng was elected to the San Francisco City College Board of Member Trustees and was installed as the

President of the Board. Until 1990, Ms. Teng was a tenured faculty of City College of San Francisco and served as Director of Development and Planning at San Francisco State 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, 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 processing 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 a 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, and 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 officially 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. In December 2002, the Board of Supervisors adopted an ordinance amending the City's Administrative Code to streamline the existing budget process, which had previously required the Mayor to submit a balanced budget to the Board of Supervisors by June 1 of each year. Pursuant to the amendment, the Mayor is required to submit a proposed budget for each of the Enterprise departments (excluding the General Fund) to the Board each May 1, thereby providing the Board with additional time to review the City's budget. The Charter requirement for the Mayor to submit a balanced budget by June 1 of each year remains unchanged by this amendment to the Administrative Code. Following submission of the Mayor's proposed budget, the Controller provides an opinion to the Board regarding the reliability of the revenue estimates in the proposed budget. During its budget approval process, the Board has the power to reduce or augment any expenditure in the proposed budget, provided the total budgeted expenditure amount is not higher than the budgeted expenditure amount submitted by the Mayor on June 1. The Board must adopt the annual budget by July 31<sup>st</sup> of each year. The Board adopted the fiscal year 2002-03 budget on July 29, 2002 and the Mayor approved it on August 8, 2002.

On March 21, 2003, the City Controller, Mayor's Budget Director and Budget Analyst to the Board of Supervisors issued the three-year Budget Projection as required by the Charter. As of March 21, 2003,

they collectively projected a \$347.2 million budget shortfall for fiscal year 2003-04. Since that time, the City has revised its estimates on the State budgetary impact, as well as its revenue outlook and final expenditure projections. On June 2, as outlined by the Charter, the Mayor proposed to the Board a fiscal year 2003-2004 budget which addressed an estimated shortfall of \$300.8 million. The Mayor's balanced budget includes the following solutions: development of new revenues (32%), employees' resuming payment of the employee contribution to their retirement plans (26%), use of current year savings and reserves (13%) and targeted operating budget reductions (29%). The Mayor's Proposed Budget assumes a \$30 million reduction in intergovernmental revenues from the State which the City estimates to be the full impact to the City of the Governor's revision to State budget released in May (the "May Revise"). The Board of Supervisors is currently in the process of reviewing and holding public hearings on the City's budget and is expected to complete its process and adopt a budget by the July 31<sup>st</sup> deadline set forth in the Charter.

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 is currently available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other 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.

In the past, the City has 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 fiscal year 2002-03 budget, which was adopted by the Board of Supervisors on July 29, 2002, and signed by the Mayor on August 8, 2002, maintained services 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 under "Impact of September 11, 2001".) The fiscal year 2002-03 budget totals \$5.0 billion, with \$2.4 billion allocated to the General Fund. The remaining \$2.6 billion is appropriated for expenses of special fund and enterprise fund departments including, but not limited to, the Airport, Municipal Railway, Hetch Hetchy Water and Power System, and the San Francisco Port, as well as for repayment of bonded indebtedness and other long term obligations. Furthermore, the fiscal year 2002-03 budget contained no new taxes and only some adjustments in assessments, user fees and service charges. As a result of the delayed economic recovery in Northern California and a review of the City's collections during the first three months of fiscal year 2002-03, revenues were projected to be \$20 million lower by year-end than originally budgeted. In response to this projection, the Mayor's Office directed departments to prepare new spending plans for the second half of the fiscal year to accommodate the estimated reduction. The Controller's Nine-Month Budget Status Report, issued on May 1, 2003, projects a \$45.94 million General Fund balance at the end of the fiscal year 2002-03. The \$45.94 million projected General Fund balance also reflects the estimated year-end savings related to the Mayor's implementation of additional spending reductions, departmental savings targets and delayed hiring implemented during the second half of fiscal year 2002-03.

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 budget.

# TABLE A-1

CITY AN	D COUNTY O	F SAN FRAN	NCISCO						
Budgeted Gener	al Fund Reven	ues and App	ropriations fo	r					
	Years 1998-99		-						
(000s)									
	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03				
	Revised	Revised	Revised	Revised	Original				
	Budget	Budget	Budget	Budget	<u>Budget</u>				
Prior Year Surplus	\$101,956	\$106,820	\$127,333	\$193,720	\$173,289				
Budgeted Revenues									
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	6,180	4,497				
Interest and Investment Earnings	21,687	25,154	25,103	25,063	17,132				
Rents and Concessions	22,188	19,059	18,922	19,993	17,833				
Grants and Subventions	614,081	654,745	639,907	656,744	684,516				
Charges for Services	90,868	86,344	95,831	102,942	100,387				
Other	456	598	978	1,312	37,578				
Total Budgeted Revenues	\$1,688,366	\$1,800,361	\$1,895,011	\$2,028,207	\$2,062,225				
Proceeds from Issuance of Bonds and Loans				\$63,662					
Expenditure Appropriations									
Public Protection	\$542,924	\$567,128	\$617,714	\$660,860	\$676,746				
Public Works, Transportation & Commerce	84,469	103,428	99,395	103,295	57,206				
Human Welfare & Neighborhood Development	382,580	422,534	465,113	483,523	510,715				
Community Health	385,813	395,365	416,705	426,683	456,539				
Culture and Recreation	81,950	91,133	94,663	113,453	90,183				
General Administration & Finance	116,333	133,242	155,511	140,879	153,971				
General City Responsibilities	88,236	73,619	89,469	116,861	61,814				
Total Expenditure Appropriations	\$1,682,305	\$1,786,449	\$1,938,570	\$2,045,554	\$2,007,174				
Reserves	-	-	-	\$25,286	\$30,017				
Transfers In	-	-	\$156,996	\$136,028	\$130,421				
Transfers Out	-	-	(240,770)	(293,517)	(301,643)				
Net Transfers In/Out	(\$108,017)	(\$120,732)	(\$83,774)	(\$157,489)	(\$171,222)				
Excess (Deficiency) of Sources									
Over (Under) Uses	\$ - 5	ş -	\$ -	\$57,260	\$27,100				
Source: Office of the Controller, City and County of	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, 2002, the General Fund balance was \$380.4 million prepared on a GAAP basis. Such General Fund balance was derived from audited revenues of \$2.0 billion for the same period. General Fund balances as of June 30, 2002 are shown in Table A-2 on both a budget basis and a GAAP basis, respectively.

General Fund Balances As of June 30, 2002	
(000s)	
(0005)	
Reserved for cash requirements	\$93,293
Reserved for emergencies	4,198
Reserved for encumbrances	52,735
Reserved for appropriation carryforward	61,716
Reserved for subsequent years' budgets	25,379
Total Reserved Fund Balance	\$237,321
Unreserved - designated for litigation & contingency	\$17,506
Unreserved - available for appropriation	130,200
Total Unreserved Fund Balance	\$147,706
Total Fund Balance, June 30, 2002 - Budget Basis	\$385,027
Total Fund Balance - Budget Basis	\$385,027
Unrealized gain on investment	8,214
Reserved for assets not available for appropriation	6,406
Cumulative excess property tax revenues	
recognized on Budget basis	(19,256)
Total Fund Balance, June 30, 2002 - GAAP Basis	\$380,391
Source: Comprehensive Annual Financial Report	
Office of the Controller, City and County of San Francisco	

TABLE A-2

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 FISCAL YEAR ENDED JUNE 30, 2002—Enterprise Funds."

# TABLE A-3

Statement of Revenues, Exp	ND COUNTY OF SAN enditures and Change		d Balances (000s	)	
, <b>,</b>	8		Year Ended June		
	2002	2001	2000	<u>1999</u>	<u>1998</u>
Revenues:					
Property Taxes	\$507,308	\$462,171	\$405,560	\$388,222	\$342,051
Business Taxes	274,125	277,094	267,197	229,171	222,904
Other Local Taxes	334,357	448,132	411,082	359,973	333,271
Licenses, Permits and Franchises	19,548	17,714	16,106	15,673	14,505
Fines, Forfeitures and Penalties	8,591	9,097	9,113	14,204	1,432
Interest and Investment Income	20,737	27,693	18,792	17,617	21,323
Rents and Concessions	17,636	19,298	20,395	19,373	21,242
Intergovernmental	661,396	636,430	615,318	520,580	529,999
Charges for Services	102,782	100,325	86,591	78,025	88,375
Other	10,338	17,395	9,706	11,034	9,219
Total Revenues	\$1,956,818	\$2,015,349	\$1,859,860	\$1,653,872	\$1,584,321
Expenditures:					
Public Protection	\$650,019	\$626,136	\$597,949	\$557,632	\$571,166
Public Works, Transportation & Commerce	103,579	95,486	85,655	60,720	49,295
Human Welfare and Neighborhood Development	467,688	431,266	383,305	338,372	308,936
Community Health	395,465	365,290	355,720	372,792	343,517
Culture and Recreation	108,810	106,728	87,373	81,536	98,727
General Administration & Finance	136,143	127,366	140,211	112,895	135,014
General City Responsibilities [1]	50,105	45,380	45,194	48,093	
Total Expenditures	\$1,911,809	\$1,797,652	\$1,695,407	\$1,572,040	\$1,506,65
Excess of Revenues over Expenditures	\$45,009	\$217,697	\$164,453	\$81,832	\$77,666
Other Financing Sources (uses):					
Operating Transfers In	\$109,941	\$134,983	\$156,984	\$169,405	\$179,254
Operating Transfers Out	(316,691)	(257,317)	(286,660)	(230,742)	(185,020
Other Financing Sources	63,121	-	-	-	
Other Financing Uses	(176)				
Total Other Financing Sources (Uses)	(\$143,805)	(\$122,334)	(\$129,676)	(\$61,337)	(\$5,766
Excess (Deficiency) of Revenues and Other Sources					
Over Expenditures and Other Uses	(\$98,796)	\$95,363	\$34,777	\$20,495	\$71,900
Fund Balance at Beginning of Year, as restated	(\$90,790)	\$75,505	φ31,777	\$20,195	φ/1,900
before valuation of investments	\$479,187	\$275,640	\$240,863	\$220,550	\$148,650
Net Change in Reserve for Assets	+,	+,	+,	+	+ 0,000
Not Available for Appropriation	-	-	-	-	
Cumulative Effect of Change in Accounting					
Principles		108,184	<u> </u>		
Fund Balance at Beginning of Year, as restated	\$479,187	\$383,824	\$240,863	\$220,550	\$148,650
Fund Balance at End of Year GAAP Basis <sup>[2]</sup>	\$380,391	\$479,187	\$275,640	\$240,863	\$220,550
Unreserved and Undesignated Balance					
at End of Year GAAP Basis	\$136,664	\$207,467	\$45,090	\$35,725	\$44,26
Unreserved & Undesignated Balance, Year End					
Budget Basis	\$130,200	\$198,953	\$148,581	\$126,357	\$145,332
•					ų <i>,</i>
Prior to fiscal year 1998-99, General City Responsibilities w				da	
Fund Balances include amounts reserved for cash requireme and other purposes (as required by the Charter or appropriate	-				
fund balances (which amounts constitute unrestricted genera	• •	as well as unreser	veu anu undesigna	acu	
Source: Comprehensive Annual Financial Reports for the Ye		2 2001 2000 10	2001 bac 000		
Source. Comprehensive Annual Emancial Reports for the Tt	and Ended Julie 30, 200	2, 2001, 2000, 15	///, and 1770		

# Impact of September 11, 2001

Following the events of September 11, 2001, both business and tourist travel in San Francisco declined significantly, affecting passenger loads and revenues at San Francisco International Airport ("SFO") and hotel and sales tax revenues to the City. In fiscal year 2001-02, the most significant loss occurred in hotel tax revenues, which fell 35.7% from fiscal year 2000-01 levels, representing a loss of approximately \$69.7 million. Sales tax revenues declined 22.6%, or over \$32.5 million over the same period. These declines were mitigated somewhat by a 10% (\$45.1 million) increase in property tax revenue occasioned by strong growth in assessed valuation. Total reduced revenue in the City's General Fund in fiscal year 2001-02 was \$58.5 million.

Like many other airports, SFO has been impacted by the events of September 11, 2001, the economic downturn and the subsequent loss of business travel and decline in air traffic. Fiscal year 2001-02 total enplaned passenger traffic declined by 20% from the prior fiscal year. Federal Aviation Administration mandated safety and security requirements have restricted access to post-security shops and restaurants; however, SFO has reinstated some concession rents which had been temporarily reduced. As of the Nine-month Budget Status Report, the SFO transfer of concession revenues to the City's General Fund was estimated to be approximately \$18.50 million for fiscal year 2002-03.

# **Impact of State Budget**

On January 10, 2003, California Governor Gray Davis released a plan for addressing the State's projected \$34.6 billion General Fund budget shortfall, an amount that would represent roughly 30 percent of the State's fiscal year 2002-03 total aggregate budget, or approximately 45 percent of the fiscal year 2002-03 General Fund State Budget. The Governor's May Revise of the State's budget, released on May 14, 2003, updates key economic, funding source and use assumptions in the January budget proposal. The May Revise projected a \$38.2 billion general fund budget shortfall, compared to the \$34.6 billion previously reported in January. The May Revise outlined a comprehensive plan to bridge the shortfall, including tax increases, deficit financing, a scaled-down program realignment (as compared to the January proposal), deep spending cuts and reductions in government subventions.

While the Governor has presented his mid-year fiscal year 2002-03 budget revisions, the fiscal year 2003-04 Proposed Budget and May Revise plans to the legislature, it is unclear at this time how quickly the legislature will act on these budgetary proposals. It is also uncertain what the final outcome of the budget negotiations will be and what impact it will have on the City. If the recovery assumptions included in the May Revise are not realized, the State will continue to experience larger budget shortfalls in the future. State funding represents approximately one quarter of all City General Fund revenues. To mitigate the revenue risk related to this budgetary uncertainty, the City's fiscal year 2003-04 proposed budget includes a \$30.0 million state revenue loss offset based upon the projected impact of the Governor's May Revise and legislative reductions enacted through June 1, 2003.

# 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. Beginning in January 2003, some of the City's CalWORKs recipients reached their 60-month limit on receipt of aid. 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 2002-03.

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 ended September 30, 2002. Congress has continued the TANF program and has adopted temporary legislation to continue the program in its prior form and is considering new legislation that would continue it for one to three years. 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 portion permitted by Proposition 13, and (2) all voter-approved overrides which fund 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 1.55% over the five years ending in fiscal year 2001-02.

# TABLE A-4

For comparison purposes, all years show full cash value as assessed value. Exclusions include non-reimbursable exemptions and homeowner exemptions.				CITY AND CO	UNTY OF SAN	FRANCISC	0				
G           (\$000s)           %         Total         Current           Assessed Valuation         %         Total Change         Tax Rate         Total Tax         Levy         Delinquent           Year         Land         on Land         Property         Valuation         Year         Exclusions <sup>[2]</sup> \$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         1.79%           2002-03         37,851,208         55,002,726         4,681,815         97,535,748				Assessed Valua	ation of Taxable	Property <sup>[1]</sup>	l				
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $				Fiscal Years	1998-99 throug	h 2002-03					
Assessed ValuationTotalChangeTax RateTotal TaxLevyFiscalImprovementsPersonalAssessedfrom PriorperLevyDelinquentYearLandon LandPropertyValuationYearExclusions <sup>[2]</sup> $$100^{[3]}$ $(000s)^{[4]}$ June 30,1998-9924,291,88539,173,8813,716,23967,182,0059.1%3,174,0361.165747,1451.49%1999-0026,990,48543,148,8943,501,92773,641,3069.6%3,159,7431.129798,1421.49%2000-0130,294,99146,572,6584,198,15481,065,80310.1%3,416,2641.136881,6081.48%2001-0234,849,57451,294,1784,744,36790,888,11912.1%3,625,7831.124981,7751.79%2002-0337,851,20855,002,7264,681,81597,535,7487.3%3,797,4221.1171,047,597n/aFor comparison purposes, all years show full cash value as assessed value.Exclusions include non-reimbursable exemptions and homeowner exemptions.Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community					(\$000s)						
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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       1.79%         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       1         For comparison purposes, all years show full cash value as assessed value.         Exclusions include non-reimbursable exemptions and homeowner exemptions.       Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community       San Francisco Community		Tand	1				Evaluations <sup>[2]</sup>	1	5	1	t
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       1.79%         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       1         For comparison purposes, all years show full cash value as assessed value.         Exclusions include non-reimbursable exemptions and homeowner exemptions.         Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community											
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       1.79%         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         For comparison purposes, all years show full cash value as assessed value.         Exclusions include non-reimbursable exemptions and homeowner exemptions.         Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community									, .		
2001-02       34,849,574       51,294,178       4,744,367       90,888,119       12.1%       3,625,783       1.124       981,775       1.79%         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         For comparison purposes, all years show full cash value as assessed value.         Exclusions include non-reimbursable exemptions and homeowner exemptions.         Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community											
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 For comparison purposes, all years show full cash value as assessed value. Exclusions include non-reimbursable exemptions and homeowner exemptions. Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community									,		
For comparison purposes, all years show full cash value as assessed value. Exclusions include non-reimbursable exemptions and homeowner exemptions. Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community									,		[5]
Exclusions include non-reimbursable exemptions and homeowner exemptions. Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community		- , ,	,,	,,.	, ,		- ,,		,,		
Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community	<sup>1]</sup> For comparis	son purposes, all ye	ars show full cash v	alue as assessed v	value.						
Total sected tax fate includes bolided dot service for the erty, sail trainised onlined service District, sail trainised continuinty	<sup>2]</sup> Exclusions in	nclude non-reimbur	sable exemptions a	nd homeowner ex	emptions.						
Collage District, Ray Area Air Quality Management District, Ray Area Danid Transit District, and San Francisco Pedavelopment	<sup>3]</sup> Total secure	d tax rate includes b	onded debt service	for the City, San	Francisco Unified	d School Dis	trict, San Francis	co Commun	ity		
Conege District, Day Area Air Quarty Management District, Day Area Kapiti Halish District, and San Halicisco Redevelophicit	College Dist	trict, Bay Area Air (	Juality Managemen	t District, Bay Ar	ea Rapid Transit	District, and	San Francisco R	edevelopmer	nt		
Agency. Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.	Agency. An	nual tax rate for uns	secured property is t	the same rate as th	ne previous vear's	secured tax	rate.	I			
	0		······································		1						
	-	5	es not vet available								
Source: Office of the Controller, City and County of San Francisco	~	1	1								

The fiscal year 2002-03 total assessed valuation of property within the City 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 budgeted property tax revenues of \$1,047,597,370, including levies for debt service, before correcting for delinquencies. The City's General Fund will receive approximately \$516.6 million of the property tax revenues, representing 51% of the total received (aside from delinquencies). Debt service 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 (also known as "ERAF") will receive approximately \$305 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. As a result of the downturn in the economy, property owners in the City have filed 2,243 applications for assessment reductions between July 1, 2002 and May 31, 2003, including some multiple year or retroactive appeals. With respect to fiscal year 2002-03, property owners representing approximately 21% of the total assessed valuation of the City have filed appeals for partial reduction of their assessed value. Most of the appeals involve large commercial properties, including offices and hotels. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with the counties' property assessments. Similar increases in appeals activity have been experienced in other economic downturns; historically, on average, partial reductions totaling 23 percent of the total assessment valuations appealed were granted. To mitigate the financial risk of pending assessment appeals, the City establishes a reserve for each fiscal year. In addition, appeals

activity to date and projected for the subsequent year are factored into the current year's revenue projection and the subsequent year's budget. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS" in the forepart of this Official Statement.

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

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 recording 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 taxpayer. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes. Proceeds of the sale are used to pay the costs of sale and the amount of delinquent taxes.

A 10% penalty is added to delinquent taxes that have been levied on property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is declared "tax defaulted" and subject to eventual sale by the Treasurer-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 ("the Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the Controller to allocate to the City's taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies, together with the required reserve, from internal borrowing. The Tax Loss Reserve for the Teeter Plan was \$8.1 million as of June 30, 2001, \$9.1 million as of June 30, 2002, and will be approximately \$9.6 million as of June 30, 2003.

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 0.91% of the total fiscal year 2002-03 assessed property values.

PG&E took the position that it was not able to make full payment of its 2000-01 property taxes without Bankruptcy Court permission and therefore only paid a portion of its second installment, due on April 10, 2001. On May 16, 2001, the Bankruptcy Court ruled that PG&E could pay the remaining portion of its outstanding property taxes and PG&E has made full and timely payments of its property taxes and franchise fees since that time.

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.

TABLE A-5

Р	D COUNTY OF SAN FRANCISCO rincipal Property Taxpayers		
	cal Year Ending June 30, 2003		
Fiscal Year 2002-03 Net Assessed Valuation	(net of non-reimbursables exemptions):	\$94.	,401,169,815
Taxpayer	Type of Business	<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		<u>\$88,816,831</u>	<u>94.08%</u>
Total Taxable Assessed Valua	tion - All Taxpayers	\$94,401,170	100.00%
Source: Office of the Assessor, City and Cou	nty of San Francisco		

# **Other City Tax Revenues**

In addition to property tax, the City has several other major tax revenue sources, as described below. For a discussion of State constitutional and statutory limitations on taxes that may be imposed by the City, including a discussion of Proposition 62 and Proposition 218, see "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS" 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 that 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 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. Between 1999 and 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. The City also repealed the alternative-measure tax 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. As a result of the economic slowdown and the drop in tourism and business travel, sales tax revenue in fiscal year 2001-02 declined 22.6% from fiscal year 2000-01, for a reduction of \$32.5 million. A history of sales and use tax revenues is presented in Table A-6.

Budgeted revenue from the local sales and use tax for fiscal year 2002-03 is \$130.6 million; however, as of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting sales and use taxes to be approximately \$12.73 million under budget.

CITY AND COUNTY OF SAN FRANCISCO Sales and Use Tax Receipts (000's) Fiscal Years 1997-98 through 2001-02								
Fiscal Year	Tax Rate	City Share	Revenue	<u>% Change</u>				
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%				
2001-02	8.50%	1.00%	111,293	-22.61%				
		x months of FY 199 e City Share remaine						

#### **Transient Occupancy Tax**

Pursuant to the City's Administrative Code and tax collector regulation, a 14% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators. Monthly. A quarterly tax filing requirement is also imposed. Budgeted revenue from transient occupancy tax for fiscal year 2002-03 is \$160.2 million, including \$6.4 million allocated to the Redevelopment Agency. In fiscal year 2001-02, revenue from the transient occupancy tax declined 35.7% (or approximately \$69.7 million) from receipts in fiscal year 2000-01. Table A-7 sets forth a history of transient occupancy tax receipts.

As of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting transient and occupancy taxes to be about \$16.46 million under budget.

CITY AND COUNTY OF SAN FRANCISCO Transient Occupancy Tax Receipts (000's) Fiscal Years 1997-98 through 2001-02							
Fiscal Year	Tax Rate	Revenue	<u>% Change</u>				
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%				
2001-02	14.00%	125,463	-35.71%				

# **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 at \$1 million or more. Budgeted revenue from real property transfer tax for fiscal year 2002-03 is \$45.2 million and as

of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting real property transfer taxes to be approximately \$6.85 million over budget.

# 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 billing addresses in the City. Budgeted revenue from utility user taxes for fiscal year 2002-03 is \$78.2 million; however, as of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting utility user taxes to be approximately \$13.36 million under budget.

# Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the City's Administrative Code and paid by the occupants of the spaces and generally remitted by the operators of the parking facilities monthly. A quarterly tax filing requirement is also imposed. General Fund parking tax receipts in fiscal year 2001-02 totaled \$30.5 million, a decline of \$3.3 million from 2000-01 levels. Budgeted General Fund revenue from the parking tax for fiscal year 2002-03 is \$34.4 million; however, as of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting parking taxes to be about \$3.25 million under budget.

# **Parking Fines**

Budgeted revenue from parking fines is \$65.2 million for fiscal year 2002-03. The City recently increased several of its parking fines and anticipates a positive impact to the general fund of approximately \$10.3 million.

# Intergovernmental Revenues, Grants and Subventions

Intergovernmental revenues, grants and subventions for fiscal year 2002-03 are budgeted at \$605.6 million from the Federal government and \$867.6 million from the State government across all City funds.

# Health and Welfare Realignment

In fiscal year 1991-92, the State transferred to counties responsibility for determining service levels and administering most mental health, public health and some social service programs, thereby 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

The City's total allocation of vehicle license fees as a city and county is budgeted to be \$105.6 million for fiscal year 2002-03. In 1998, the state reduced the vehicle license fee and agreed to make counties whole by providing them with the difference out of the State's general fund. The Governor's fiscal year 2003-04 Proposed Budget assumes that the State will discontinue this vehicle license fee offset by July 1, 2003. The fee will then increase and the money will again flow to the City and other local governments. However, there will be a transition period of 60-90 days starting on July 1, 2003 before the increase occurs

and the revenue flows back to local government. Therefore, it is possible that the City will not receive the motor vehicle license fees, which could result in a reduction of approximately \$18 million for fiscal year 2003-04.

# 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.

# Other Intergovernmental Grants and Subventions

The City receives approximately \$433.1 million in social service subventions from the State and \$605.6 from the Federal government 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. In order of priority, the objectives of this Investment Policy 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 May 31, 2003 the City's surplus investment fund consisted of the investments classified in Table A-8, and had the investment maturity distribution presented in Table A-9.

Investment Portfolio As of May 31, 2003							
Type of Investment	Book Value	Par Value					
Treasury Bills	\$789,492,147	\$794,000,000					
Treasury Notes	684,779,002	693,005,000					
FNMA Discount Notes	114,748,153	115,000,000					
Federal Home Loan Disc Notes	49,954,029	50,000,000					
FMC Discount Notes	171,806,476	172,500,000					
Negotiable C. D.'s	736,135,440	736,000,000					
Public Time Deposit	100,000	100,000					
Total	\$2,547,015,247	\$2,560,605,000					

TABLE A-8

				OUNTY OF SAN FRANCIS	
			Investm	ent Maturity Distribution	
			1	As of May 31, 2003	
	l	Matu	<u>rity</u>	Cost	Percentage
1	to	2	Months	\$1,645,561,889	64.61%
2	to	3	Months	281,241,678	11.04%
3	to	4	Months	-	0.00%
4	to	5	Months	-	0.00%
5	to	6	Months	198,924,023	7.81%
6	to	12	Months	373,420,469	14.66%
12	to	18	Months	-	0.00%
18	to	24	Months	-	0.00%
24	to	36	Months	-	0.00%
36	to	48	Months	47,867,188	<u>1.88</u> %
				\$2,547,015,247	100.00%
Weig	ghted	Aver	age Maturity: 235 D	ays	

# **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. 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.

CITY AND COUNTY OF SAN FRANCIS		
Statement of Direct and Overlapping Debt and Long-Te 2002-2003 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	\$ 93,738,325,815	
2002-2005 Assessed Valuation (net of non-fermoursable de nonicownet exemptions).	Outstanding	Self-Supporting
DIRECT GENERAL OBLIGATION BOND DEBT	6/1/2003	Enterprise Rev.
General City Purposes Carried on the Tax Roll	\$919,900,000	
Harbor Bonds (paid from Port revenues)	800,000	\$800,00
GROSS DIRECT DEBT	\$920,700,000	\$800,00
NET DIRECT DEBT	\$919,900,000	4800,00
LEASE PAYMENT AND OTHER LONG-TERM OBLIGATIONS		
San Francisco Courthouse Corporation COPs, Series 1995	\$42,520,000	
San Francisco COPs, Series 1997 (2789 25th Street Property)	8,740,000	
San Francisco COPs, Series 1999 (555-7th Street Property)	7,850,000	
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)	7,940,000	
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)	137,235,000	
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property)	14,675,000	
San Francisco Settlement Obligation Bonds, Series 2001 (Business Tax Judgment)	49,470,000	
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	36,575,000	
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	41,965,000	
San Francisco Finance Corporation	252,035,000	
San Francisco Permit Center, Series 1993	6,575,000	
San Francisco Lease Revenue Refunding Bonds, Series 1998-I	4,415,000	
San Francisco Redevelopment Agency Moscone Convention Center	193,063,250	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002	67,670,000	
LONG-TERM OBLIGATIONS	\$870,728,250	
GROSS DIRECT DEBT & OBLIGATIONS	\$1,791,428,250	
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		
Bayshore Hester Assessment District	\$940,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	161,793,333	
San Francisco Community College District General Obligation Bonds - 2002	37,505,000	
San Francisco Parking Authority Meter Revenue Bonds -1994	1,405,000	
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	21,640,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994	17,465,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998	55,050,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	294,100,281	
San Francisco Unified School District COPs (1235 Mission Street), Series 1992	11,197,467	
San Francisco Unified School District COPs - 1992 Refunding	1,545,000	
San Francisco Unified School District COPs - 1996 Refunding	2,910,000	
San Francisco Unified School District COPs - 1998	3,550,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	\$609,101,081	
GROSS COMBINED TOTAL OBLIGATIONS	\$2,400,529,331	[1][2][3]
Ratios to Assessed Valuation:	Actual Ratio	Charter Req.
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	1.91%	n/a
Gross Combined Total Obligations	2.56%	n/a
STATE SCHOOL BUILDING AID REPAYMENT FOR FY 02-03	\$254,817	
<sup>1</sup> Reflects Cross-over Refunding and includes \$45,303,368 in accreted value to be paid upon final maturity.		
Excludes revenue and mortgage revenue bonds notes, and non-bonded capital lease obligations.		
<sup>1</sup> Includes debt service payments through 6/1/03.		
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 of the City and as yet unissued is \$922,500,000. See Table A-12 below. As of June 1, 2003 the City had \$920,700,000 in general obligation bonds outstanding including \$800,000 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.

		UNTY OF SAN FI	
		Supported Debt S	Service
	As	of June 1, 2003 <sup>[1]</sup>	
Fiscal			Annual
Year	Principal	Interest	Debt Service
2003	\$60,275,000	\$22,998,805	\$83,273,805 <sup>[2]</sup>
2004	64,555,000	43,388,755	107,943,755
2005	60,550,000	40,486,900	101,036,900
2006	63,005,000	37,635,240	100,640,240
2007	66,075,000	34,355,713	100,430,713
2008	67,030,000	30,920,774	97,950,774
2009	70,255,000	27,604,535	97,859,535
2010	70,570,000	24,114,215	94,684,215
2011	71,610,000	20,559,590	92,169,590
2012	59,475,000	16,959,382	76,434,382
2013	49,810,000	14,061,626	63,871,626
2014	43,640,000	11,601,000	55,241,000
2015	35,810,000	9,304,015	45,114,015
2016	36,205,000	7,417,252	43,622,252
2017	25,195,000	5,434,161	30,629,161
2018	27,525,000	3,976,209	31,501,209
2019	23,995,000	2,631,832	26,626,832
2020	14,225,000	1,321,270	15,546,270
2021	8,855,000	551,365	9,406,365
2022	2,040,000	86,701	2,126,701
TOTAL <sup>[3]</sup>	\$920,700,000	\$355,409,340	\$1,276,109,340
The City's only o	outstanding direct tax sup	ported debt is general o	bligation bonds.
	not reflect any debt other		
	ct indebtedness or any re		
	vice payments through 6		
	les general obligation bo		venues and
	City's property tax roll.	r	
list letted on the	eng s property aux ron.		
Source: Mayor's	Office of Public Finance	e, City and County of Sa	an Francisco.

TABLE A-11	

In November 1992, voters approved Proposition A, which authorizes up to \$350 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program. The purpose of the Seismic Safety Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued \$35 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed the remaining \$26,665,000 in outstanding bonds. The City has no current plans to issue any more bonds under this authorization.

In June 1997, voters approved Proposition A, which authorizes up to \$150 million in general obligation bonds for the acquisition, construction and/or reconstruction of educational facilities used or to be used by the San Francisco Unified School District or the San Francisco Community College District. The City has issued a total of \$120,520,000 in four series of bonds. The Series B Bonds will be the last series of bonds issued under this authorization.

In June 1997, voters also approved Proposition C, which authorizes up to \$48 million in general obligation bonds for the acquisition, construction and/or reconstruction of San Francisco Zoo facilities. The City has issued \$40,495,000 in three series of such bonds.

In November 1999, voters approved Proposition A, which authorizes up to \$299 million in bonded debt, other evidences of debt and/or lease financing for the reconstruction, improvement and expansion of a new health care, assisted living and/or other type of continuing care facility or facilities to replace facilities at Laguna Honda Hospital. The City anticipates issuing a portion of the total authorized amount for the project in late 2003.

In March 2000, voters approved Proposition A. Proposition A authorizes up to \$110,000,000 in general obligation bonds to acquire, construct, or reconstruct recreation and park facilities and properties. The City has issued two series of Neighborhood Recreation and Park Bonds in June 2000 and in February 2001.

The voters also approved Proposition B in March 2000, which authorizes up to \$87,400,000 in general obligation bonds to acquire, construct, or reconstruct the facilities of the California Academy of Sciences. In November 1995, the voters approved Proposition C, which authorized the issuance of up to \$29,245,000 to pay the cost of acquisition, construction and/or reconstruction of certain improvement to Steinhart Aquarium and related facilities. Proposition C and Proposition B proceeds will be used together with other monies of the Academy of Sciences to reconstruct the existing structure. The City anticipates issuing the first series of the California Academy of Sciences Bonds in 2004.

In November 2000, voters approved Proposition A, which 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 in the amount of \$17,665,000 was issued in July 2001 and the second series in the amount of \$23,135,000 was issued in October 2002. The City anticipates issuing the third series in 2004.

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 1, 2003, the City had authorized and unissued general obligation bond authority of \$922,500,000.

# **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 1, 2003)

				Authorized
Description of Issue (Date of Authorization)	<u>Series</u>	Issued	Outstanding	<u>&amp; Unissued</u>
Habor Improvement Bonds	В	10,000,000	800,000	-
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	-
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	-
Fire Department Facilities Project (11/3/92)	1994D	10,105,000	480,000	-
	1996C	14,285,000	2,450,000	-
Seismic Safety Loan Program (11/3/92)	1994A	35,000,000	-	\$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 Relocation 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	-
Educational Facilities - Community College District (6/3/97)	1999A	20,395,000	18,435,000	-
	2000A	29,605,000	27,890,000	-
Educational Facilities - Unified School District (6/3/97)	1999B	60,520,000	54,715,000	29,480,000
Zoo Facilities Bonds (6/3/97)	1999C	16,845,000	15,225,000	-
	2000B	17,440,000	16,430,000	
	2002A	6,210,000	6,210,000	7,505,000
aguna 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 Improvement (3/7/00)		-	-	87,445,000
Branch Library Facilities Improvement (11/7/00)	2001E	17,665,000	17,080,000	
	2002B	23,135,000	23,135,000	65,065,000
SUB TOTALS		\$697,610,000	\$412,275,000	\$922,500,000
General Obligation Refunding Bonds Series 1997-1 issued 10/27/97		\$449,085,000	\$389,480,000	
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		\$118,945,000	\$118,945,000	
TOTALS		\$1,265,640,000	\$920,700,000	\$922,500,000

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

#### Lease Payments and Other Long-Term Obligations

Under the Charter, most lease financings can only be authorized 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 include the full-accreted value of any capital appreciation obligations that will accrue as of the final payment dates.

CITY AND COUNTY OF SAN FRANCISCO						
Lease Payment and Other Long-Term Obligations As of June 1, 2003						
	ns or guite	1, 2005	Annual			
Fiscal			Payment			
Year	Principal	Interest	Obligation			
2003	\$0	1,017,461	\$1,017,461 [1]			
2004	44,401,625	31,604,650	76,006,275			
2005	48,296,625	30,937,150	79,233,775			
2006	44,910,000	29,732,110	74,642,110			
2007	42,525,000	28,522,831	71,047,831			
2008	41,275,000	27,388,141	68,663,141			
2009	41,435,000	26,244,747	67,679,747			
2010	36,620,000	25,071,777	61,691,777			
2011	37,600,000	24,041,965	61,641,965			
2012	31,695,000	22,945,254	54,640,254			
2013	32,815,000	22,077,669	54,892,669			
2014	32,185,000	21,138,790	53,323,790			
2015	32,900,000	20,083,877	52,983,877			
2016	34,345,000	18,719,929	53,064,929			
2017	33,960,000	17,074,415	51,034,415			
2018	34,460,000	15,383,139	49,843,139			
2019	34,935,000	13,658,563	48,593,563			
2020	20,220,000	12,288,732	32,508,732			
2021	21,220,000	11,284,459	32,504,459			
2022	20,540,000	10,228,794	30,768,794			
2023	20,940,000	9,220,876	30,160,876			
2024	21,790,000	8,193,371	29,983,371			
2025	17,445,000	7,120,906	24,565,906			
2026	17,610,000	6,367,132	23,977,132			
2027	18,690,000	5,592,998	24,282,998			
2028	19,485,000	4,773,679	24,258,679			
2029	20,605,000	3,915,329	24,520,329			
2030	21,460,000	3,008,936	24,468,936			
2031	11,855,000	2,123,898	13,978,898			
2032	12,470,000	1,505,656	13,975,656			
2033	10,740,000	913,544	11,653,544			
2034	11,300,000	349,856	11,649,856			
TOTAL <sup>[2][3][4][5]</sup>	\$870,728,250	<u>\$462,530,634</u>	<u>\$1,333,258,884</u>			
Includes debt service paym						
Amount includes \$45,303,3	368 in accreted value	of capital appreciati	ion bonds to			
be earned upon final matur	ity.					
Totals reflect rounding to n	earest dollar.					
For purposes of this table, t		on the Lease Reven	ue Bonds,			
Series 2000-1, 2, 3 (Mosco	1	3				
3.50% - the approximate hi	storical average of the	e Bond Market Asso	ociation Index.			
Does not include the certifi	cates offered hereund	er.				

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 have or will be repaid from lease payments made from 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 opened in February 2002. There are no current plans to issue any more series of bonds under Proposition F.

In 1990, voters approved Proposition C, which amended the City Charter to authorize the City to leasepurchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Lease revenue bonds issued pursuant to this authorization are repaid from lease payments made by the City from its General Fund. Proposition C provides that the outstanding aggregate principal amount of obligations outstanding with respect to lease financings may not exceed \$20 million, such amount increasing by five percent each fiscal year. Based on that formula, as of April 1, 2003, the total authorized amount for such financings was \$35,917,127. On April 1, 2003, the corporation issued its eleventh series in an aggregate principal amount of \$10,975,000, leaving a capacity of \$11,952,127. Total amount of bonds outstanding pursuant to this authorization is \$23,965,000. It is anticipated that in fiscal year 2003-04, the Corporation will issue approximately \$10 million in equipment lease revenue bonds under this authorization.

In 1993, voters approved Proposition H, which authorized the issuance of up to \$50 million in lease revenue bonds for the acquisition and construction of a citywide emergency radio communication system. The Corporation issued the first series of bonds for the project on January 22, 1998 in an aggregate principal amount of \$31,250,000. The Corporation 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 Corporation 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 Corporation issued \$23,295,000 to finance emergency information and communications equipment for the center. The remaining authorization under the program is approximately \$14 million, however; there is no plan to utilize such authorization and the first event was held shortly thereafter.

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 Corporation issued such bonds on November 2, 2000. Substantial Completion Certification was issued on April 9, 2003.

In June 1997, voters approved Proposition D, which authorizes 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 Propositions B and H. Proposition B authorizes 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 may 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

The Mayor's proposed fiscal year 2002-03 budget includes approximately 30,000 full time personnel, not including San Francisco Unified School District, San Francisco Community College District, San Francisco Superior Court employees. City workers are represented by 48 different unions and labor organizations. The largest unions in the City 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 City employees are determined by collective bargaining pursuant to State law and City Charter. Except for nurses, transit workers, and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through a final and 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, and the uniformed police and fire are in a "3% at 55" plan.

The City has completed negotiations with all of the labor groups covered under Charter Section A8.409 for successor agreements that will be in effect July 1, 2003 through June 30, 2005. Of the two unions covered under Charter Section A8.590-1, Fire has approved a new agreement and the City continues to negotiate with Police. The contract covering transit operators does not expire until June 30, 2004. Pursuant to the Charter, the Municipal Transit Agency ("MTA") shall negotiate contracts with labor unions representing employees in service critical bargaining units and those agreements shall be subject to approval by the MTA Board.

The 2003-2005 collective bargaining agreements will not provide for any general wage increases. Instead, labor, in response to the City's financial crisis, has agreed to have represented employees resume payment of the 7.5% employee contribution to the retirement plan for fiscal year 2003-2004. In recognition of the employees resuming payment of their retirement contribution, the City provided additional floating holidays. Almost all of the labor agreements will have reopener negotiations to discuss wages and retirement contribution for fiscal year 2004-05.

In addition, the City adopts an annual "Unrepresented Ordinance" for employees who are not exclusively represented by a union. As with the negotiated labor agreements, the present ordinance, for fiscal year 2003-

04 also provides for unrepresented employees to resume payment of the employee contribution to retirement plan and receive additional floating holidays.

Employee Organizations as of	Budgeted	Expiration Date
Organization	Positions	of MOU
Automotive Machinists, Local 1414	420	June 30, 2005
Bricklayers, Local 3/Hod Carriers, Local 36	9	June 30, 2005
Building Inspectors Association	77	June 30, 2005
Carpenters, Local 22	107	June 30, 2005
Cement Masons, Local 580	23	June 30, 2005
Deputy Sheriffs Association	837	June 30, 2005
District Attorney Investigators Association	58	June 30, 2005
Electrical Workers, Local 6	788	June 30, 2005
Glaziers, Local 718	12	June 30, 2005
International Alliance of Theatrical Stage Employees, Local 16	3	June 30, 2005
Ironworkers, Local 377	18	June 30, 2005
Hod Carriers, Local 36	8	June 30, 2005
Laborers International Union, Local 261	1,068	June 30, 2005
Law Librarian	3	June 30, 2005
Municipal Attorneys' Association	417	June 30, 2005
Municipal Executives Association	924	June 30, 2005
MEA - Police Management	3	June 30, 2005
MEA - Fire Management	8	June 30, 2005
Operating Engineers, Local 3	57	June 30, 2005
Painters, Local 4	106	June 30, 2005
Pile Drivers, Local 34	15	June 30, 2005
Plumbers, Local 38	337	June 30, 2005
Probation Officers Assoc., Teamsters Local 856	164	June 30, 2005
Professional & Technical Engineers, Local 21	4,203	June 30, 2005
Roofers, Local 40	11	June 30, 2005
S.F. Institutional Police Officers Association	16	June 30, 2005
S.F. Firefighters, Local 798	1,759	June 30, 2005
S.F. Police Officers Association	2,474	June 30, 2005
SEIU, Local 250	1,875	June 30, 2005
SEIU, Local 535	1,410	June 30, 2005
SEIU, Local 790	7,728	June 30, 2005
SEIU, Local 790 (Staff Nurse)	1,447	June 30, 2005
SEIU, Local 790 (H-1 Rescue Paramedics)	24	June 30, 2005
Sheet Metal Workers, Local 104	45	June 30, 2005
Stationary Engineers, Local 39	634	June 30, 2005
Supervising Probation Officers, Operating Engineers, Local 3	22	June 30, 2005
Teamsters, Local 350	2	June 30, 2005
Teamsters, Local 853	166	June 30, 2005
Teamsters, Local 856 (multi-unit)	128	June 30, 2005
Teamsters, Local 856 (Supervising Nurses)	142	June 30, 2005
TWU, Local 200 (SEAM multi-unit & claims)	319	June 30, 2005
TWU, Local 250-A TWU - Auto Service Workers	145	June 30, 2005
TWU, Local 250-A TWU - Miscellaneous	100	June 30, 2005
TWU, Local 250-A TWU - Transit Operators	2,113	June 30, 2004
Union of American Physicians & Dentists	176	June 30, 2005
Unrepresented Employees	151	June 30, 2004
	30,552 [1]	
	20,002	

# **Risk Management**

The City self-insures the majority of its 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 (SFO, Municipal Railway, Hetch Hetchy Water and Power, the Port and Convention Facilities). The remainder of the insured program is made up of insurance for General Fund departments required to provide coverage for bond-financed facilities, 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 Employees' 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 the 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, 2002 was 33,833, including 773 vested members and 515 reciprocal members, compared to the 30,524 members a year earlier. The total new enrollees for fiscal year 2001-02 were approximately 1,350. Checks are mailed to approximately 17,800 benefit recipients monthly.

The estimated market value of Retirement System investments as of June 30, 2002 was \$10,415,950,000 compared to \$11,246,080,000 as of June 30, 2001 and \$12,931,306,000 as of June 30, 2000.

Table A-15 shows Retirement System actual contributions for fiscal years 1997-98 through 2001-02.

**TADITA 15** 

	CITY AND COUNTY OF SAN FRANCISCO Employee Retirement System (000s) Fiscal Years 1997-98 through 2001-02								
Fiscal Years		Market Value	٨	tuarial Value	Don	sion Benefit	Percent	E	mployee & Employer
Ending June 30		of Assets	At	of Assets	ren	Obligation	Funded	<u>C</u>	ontribution <sup>[1</sup>
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%		145,203
2002		10,415,950		11,102,516		9,415,905	118.0%		155,918

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 2002. 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, 2002, the plan was over-funded by \$1.687 billion based on actuarial value of assets.

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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 counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Its major industries include heavy manufacturing, high technology, semi-conductor manufacturing, petroleum refining, bioscience, 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 are also major contributors to economic activity within 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 793,633 as of the end of 2002, ranking it the fourth largest city in California after Los Angeles, San Diego and San Jose. The table below reflects the population and per capita income of the City and the State between 1998 and 2002.

POPULATION AND INCOME							
		1998 - 20	02				
			San Francisco	California			
	City and County	State of	Per Capita	Per Capita			
Year	of San Francisco	<u>California</u>	Income	Income			
1998	768,700	33,387,000	44,518	28,280			
1999	776,300	33,387,000	49,695	29,856			
2000	785,700	34,385,000	57,414	32,225			
2001	793,700	35,037,000	N/A *	32,702			
2002	793,633	35,301,000	N/A *	N/A *			
* Note: In	formation not availabl	e. County data	are compiled from	numerous sources			
	S. Department of Corr	5					
-	released with a signifi			-			
Sources:	State of California De	epartment of Fir	ance, Demograph	ic and Finance			
Research	Units; U.S. Departme	ent of Commerce	e, Bureau of Econo	omic Analysis.			

TABLE B-1	

# **Conventions and Tourism**

The City's tourism industry generated approximately \$6.5 billion in calendar year 2001 (an average of \$17.8 million per day). Approximately 15.7 million people visited the City, representing an average daily tourist population of 130,000. On average, these visitors spent about \$127 per day and stayed three to four nights.

Hotel occupancy rates averaged 78.2% over the seven years ending in calendar year 2001; however, hotel occupancy rates decreased to 67.7% in 2001 from 81.9% in calendar year 2000. The economic downturn and the terrorist events of September 11, 2001 resulted in a sharp decrease in air travel and related tourism prompting steep discounting in average daily room rates. Average daily room rates for fiscal year 2001-02 were approximately \$155 per night with average occupancy of 66%. Hotel room tax revenue decreased by 35.7% in fiscal year 2001-02 from fiscal year 2000-01.

Although visitors who stay in San Francisco hotels account for only 69% 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. The following table describes visitor growth trends from calendar years 1997 through 2001.

San Francisco Overnight Hotel Guests (000s)						
Calendar Year	Annual Average Hotel Occupancy	Total Visitors Staying in Hotels or Motels	Total Hotel Visitor and Convention Related Spending			
1997	79.8%	3,610	N/A []			
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%	3,550	N/A <sup>[]</sup>			

TABLE B-2

Based upon information provided by the San Francisco Convention and Visitor Bureau, convention business is almost at full capacity for the Moscone Convention Centers 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. The City issued bonds in November 2000 to finance a portion of the construction of an expansion to the Moscone Convention Center. Moscone West opened in mid April 2003, providing 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 State of California Employment Development Department, the unemployment rate for San Francisco in 2002 was 5.2%.

The table below illustrates average annual employment totals in the City by land use activities from 1997 to 2001. From 1997 to 2001, retail employment grew by 14.0%, industrial employment decreased by 11.4% and hotel jobs have remained relatively stable during the entire five-year period.

1007				
1997	1998	1999	2000	2001
194,017	203,512	211,499	224,167	236,959 [2
89,043	94,220	97,159	103,508	101,505
121,706	124,071	120,922	119,922	107,837
18,918	19,498	19,522	18,862	17,962
133,490	134,816	142,064	140,573	122,222
900	39	30	1,307	6
558,074	576,156	591,196	608,339	586,491
	89,043 121,706 18,918 133,490 900	89,043         94,220           121,706         124,071           18,918         19,498           133,490         134,816           900         39	89,043         94,220         97,159           121,706         124,071         120,922           18,918         19,498         19,522           133,490         134,816         142,064           900         39         30	89,043         94,220         97,159         103,508           121,706         124,071         120,922         119,922           18,918         19,498         19,522         18,862           133,490         134,816         142,064         140,573           900         39         30         1,307

TA	BLE	<b>B-3</b>

# **Taxable Sales**

The following table reflects a breakdown of taxable sales for the City from 1997 to 2001. Taxable sales information for 2002 taxable sales is not yet available. Total retail sales decreased in 2001 by 8.7% compared to 2000. When business and personal services and other outlet sales are included, taxable sales decreased by 11.6% in 2001.

#### TABLE B-4

CITY	AND COUN	NTY OF SA	N FRANCIS	SCO	
	Taxable	Sales 1997 -	- 2001		
		(\$000s)			
	1997	1998	1999	2000	2001 <sup>[</sup>
Retail Stores <sup>[2]</sup>					
Apparel	\$718,649	\$688,770	\$722,597	\$792,508	\$749,391
General Merchandise	823,068	832,104	908,704	1,166,524	1,078,664
Drug Stores	164,572	172,188	187,630	2,277,432	1,998,450
Food	369,620	376,229	392,569	416,735	413,650
Packaged Liquor	69,417	70,885	77,452	81,800	81,705
Eating/Drinking	1,505,241	1,594,872	1,723,368	1,896,054	1,802,057
Furniture & Appliances	416,033	475,003	572,425	637,662	513,618
<b>Building Materials</b>					
and Farm Implements	239,959	260,749	292,107	321,632	313,27
Automotive	351,466	357,924	387,300	456,851	435,787
Service Stations	562,848	272,036	388,696	549,967	454,149
Other Retail Stores	1,738,808	1,785,928	2,023,242	153,291	149,638
Retail Stores Total	\$6,959,681	\$6,886,688	\$7,676,090	\$8,750,456	\$7,990,38
Business and					
Personal Services <sup>[3]</sup>	\$821,089	\$921,855	\$1,063,729	\$1,226,650	\$1,107,02
All Other Outlets <sup>[3]</sup>	3,185,453	3,460,146	3,596,942	4,112,820	3,357,822
Total All Outlets <sup>[2][3]</sup>	\$10,966,223	\$11,268,689	\$12,336,761	\$14,089,926	\$12,455,23
<sup>[1]</sup> Most recent data available					
<sup>[2]</sup> See Table B-5. Taxable Sa	les in the 272 L	argest Cities by	Type of Busin	ess.	
<sup>[3]</sup> See Table B-3. Taxable Sa		• •	• •		
Source: California State H					

# **Building Activity**

Table B-5 shows a summary of building activity in the City for fiscal years 1997-98 through 2001-02, during which time approximately 14,639 total housing units were authorized in the City (both market rate and "affordable"). The total value of building permits was \$663 million in fiscal year 2001-02.

CITY AND COUNTY OF SAN FRANCISCO Building Activity 1998-2002							
Fiscal Year	Authorized						
Ended	New	Va	lue of Building Pe	rmits			
June 30	Dwelling Units	<b>Residential</b>	Non-Residential	Total			
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			
2002	3,273	299,028,000	364,801,000	663,829,000			

# **Banking and Finance**

The City is a leading center for financial activity. 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, Citibank, First Republic Bank, United Commercial Bank, 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.

As of December 2001		
	Number of	
Employer	Employees	Nature of Business
City and County of San Francisco	27,439	Local government
Jniversity of California, San Francisco	13,835	Health services
an Francisco Unified School District	11,296	Education
Charles Schwab & Co. Inc.	9,873	Financial services
Vells Fargo & Co. Inc.	6,366	Banks
United States Postal Service, San Francisco District	5,579	Mail delivery
AT&T	5,200	Telecommunications
G&E Corp.	5,000	Energy
acific Bell/SBC Communications	4,600	Telecommunications
California Pacific Medical Center	4,500	Health care

# TABLE B-6

# **Commercial Real Estate**

According to the 3rd Quarter 2002 Report from CB Richard Ellis, the San Francisco office market continued to have significant vacancies. Class A lease rates decreased to \$29.95 per square foot per year, down 5.7% from its second quarter rate of \$31.76. Class B had the largest decline of approximately 7.2% from \$21.84 per square foot to \$20.26. Class C rates declined by 4.4% to \$17.05 from \$17.84.

In the second quarter of 2002, citywide vacancy rates increased to 17.2% from 16.5%. Total availability, which includes newly delivered space, reached a factor of 19.9% during the second quarter.

The Union Square area continues to be the City's principal retail area and includes Macy's, Neiman Marcus, Saks Fifth Avenue, Levi's, NikeTown, Disney, Crate and Barrel, Borders Books, Nordstrom, William Sonoma and Virgin Records. Union Square Park opened in Summer 2002 after undergoing a \$25 million renovation to provide improved public use with a performance area and 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 approximately 1.4 million square feet of retail and entertainment complex. It is currently anticipated

that construction on this project will begin in 2003. 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. Construction is anticipated to begin in late 2003.

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 Loews Metreon entertainment/retail center and a children's center.

There are several new commercial opportunities on Port property including the recently completed renovation of Pier 1 and the Ferry Building opening March 2003, a new restaurant at the Waterfront Park, and the development of other Port facilities. Developments on various piers include 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 of San Francisco. The project will consist of affordable and market rate housing for over 10,000 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 approximately 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, 61 airlines (including 46 passenger airlines and 15 cargo only airlines) served SFO. The domestic service covered non-stop and one-stop service to 90 cities in the United States. Seventeen domestic passenger airlines and 22 foreign flag carriers provided service to over 50 international destinations; however, some international cities are only reachable from SFO via multiple carriers.

Based on Airports Council International final ranking for calendar year 2001, SFO was ranked the ninth most active airport in the United States in terms of total passengers. SFO was also ranked the eleventh most active airport in the United States in terms of domestic origin and destination passengers, according to the U.S. Department of Transportation statistics for calendar year 2001.

SFO has been particularly affected both by losses in business travel and by the decline in air traffic of all kinds since the events of September 11, 2001. During fiscal year 2001-02, scheduled passenger aircraft arrivals and departures decreased by 13.9% and total enplanements decreased by 20.1% over the previous year.

By the end of September 2001, management at SFO had developed a detailed financial plan to address the anticipated decline in revenues. Management at SFO and staff identified numerous expenditure reductions as well as additional funding sources, including the use of passenger facility charge revenues and the reimbursement from commercial paper proceeds of amounts paid in prior fiscal years as interest on outstanding revenue bonds.

On December 9, 2002, UAL Corp. ("UAL"), the parent company of United Airlines, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. UAL accounts for approximately 32% of total operating revenue at

SFO. The filing under Chapter 11 permits a company to continue operations while it develops a plan of reorganization to address its existing debt, capital and cost structures.

On December 10, 2002, the U.S. Bankruptcy Court approved a series of motions, including, a motion ordering the payment of sales and use taxes, transportation taxes, fees, passenger facilities charges and other similar government and airport charges. United Airlines therefore has been granted authority to pay certain ongoing landing fees, passenger facilities charges and similar charges to SFO and other parties, whether incurred prior to or after the bankruptcy filing. It is unclear at this time what, if any, impact the UAL bankruptcy will have on SFO's operations.

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

i	SAN FRANCISCO			FURI
	Fiscal Years end	e	Mail Data for . 1998 through	2002
			, 0 0 <b></b>	
	Passenger	S	Cargo T	raffic
Fiscal year	Enplanements	Annual	Freight and	U.S. and
Ended	and	Percent	Express Air	Foreign Mail
June 30	Deplanements	Change	(Metric Tons)	(Metric Tons)
1998	39,799,780	1.8%	621,538	165,336
1999	39,158,482	-1.6%	618,334	182,384
2000	40,238,576	2.8%	680,051	190,579
2001	38,723,290	-3.8%	621,434	150,538
2002	30,950,129	-20.1%	466,809	94,297

### TABLE B-7

### Port of San Francisco

The Port of San Francisco (the "Port") consists of 7.5 miles of San Francisco 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.

The Port is governed by a five-member Port Commission which 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 \$4.9 million for fiscal year ending June 30, 2002. Port properties generated \$50.5 million in operating revenue in fiscal year 2001-02 as shown in the table below.

### TABLE B-8

	PORT OF S	AN FRANCIS	SCO	
FIS	CAL YEARS 20(	01 AND 2002	REVENUES	
	(	\$000s)		
	FY 00-01	Percentage of	FY 01-02	Percentage of
Business Line	Audited Revenue	2001 Revenue	Audited Revenue	2002 Revenue
Commercial & Industrial Rent	\$31,990	63.5%	\$32,482	64.3%
Parking	8,189	16.3	7,380	14.6
Cargo	3,035	6.0	3,797	7.5
Fishing	1,350	2.7	1,488	3.0
Ship Repair	960	1.9	1,000	2.0
Harbor Services	848	1.7	915	1.8
Cruise	600	1.2	459	0.9
Other Maritime	1,469	2.9	1,445	2.9
Other	<u>1,904</u>	<u>3.8</u>	<u>1,528</u>	<u>3.0</u>
TOTAL	\$50,345	100%	\$50,494	100%
Source: Port of San Francisco A	udited Financial State	ements.		

In June 1997, the Port Commission adopted a Waterfront Land Use Plan (the "Port Plan") which established 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, Rincon Park, a two acre park and public open space located on Port property, was recently completed. The park was a collaborative effort of the Port, the San Francisco Redevelopment Agency, and Gap Inc.

An \$18 million project to relocate and expand the Downtown Ferry Terminal, and a \$7 million project to provide new berthing and auxiliary facilities for commercial fisherman at Hyde Street Harbor, were both completed during fiscal year 2001-02. 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 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 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, two continuation schools, five charter high schools and one independent study alternative high school 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 study 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<sup>\*</sup> FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2002

<sup>\*</sup> Includes all material listed on the Comprehensive Annual Financial Report's Table of Contents through Note 17 of the Notes to Basic Financial Statements. The Comprehensive Annual Financial Report may be viewed online or downloaded from the Controller's website at http://www.ci.sf.ca.us/controller/.

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## CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report Year ended June 30, 2002



Prepared by: Office of the Controller

Edward Harrington Controller

VICISCO
OF SAN FI
COUNTY
CITY AND

# COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2002

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## CITY AND COUNTY OF SAN FRANCISCO

COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2002

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Combining Statement of Changes in Assets and Liabilities - Agency Funds.

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### COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 2002 Page 174 175 176 177 178 179 180 165 165 165 168 170 172 180 181 182 182 183 Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years. General Governmental Revenues by Source - Constant Dollar Value - Last Ten Debt Service Coverage by Enterprise Revenues - Airport, Port, Clean Water, Municipal Railway, Water, and Hetch Hetchy - Last Ten Fiscal Years ...... Ratio of Net General Obligation Bonded Debt to Net Assessed Value and Net General Obligation Bonded Debt per Capita - Last Ten Fiscal Years. General Governmental Expenditures by Function - Last Ten Fiscal Years.. General Governmental Expenditures by Function - Constant Dollar Value Last Ten Fiscal Years Construction, Bank Deposits and Property Value - Last Ten Fiscal Years. Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures - Last Ten Fiscal Years..... TABLE OF CONTENTS (Continued) General Governmental Revenues by Source - Last Ten Fiscal Years. Capital Assets Used in the Operations of Governmental Funds: Property Tax Levies and Collections - Last Ten Fiscal Years. Assessed Value of Taxable Property - Last Ten Fiscal Years. Demographic Statistics - Last Ten Fiscal Years. Schedule of Changes by Function. • Computation of Legal Debt Margin .. CITY AND COUNTY OF SAN FRANCISCO Schedule by Function Schedule by Source.. Miscellaneous Statistics.. Per Capita Direct Debt. Principal Taxpayers ... STATISTICAL SECTION Fiscal Years ..



# INTRODUCTORY SECTION

- Controller's Letter of Transmittal
   Certificate of Achievement Government Finance Officers Association
   Organization Chart
   List of Principal Officials

E OF THE CONTROLLER	CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER
	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 Comportation Authority, the San Francisco Parking Authority, and the San Francisco Energies of the City. In addition, there are two component units, the San Francisco Redevelopment Agency and the Tierabendency with the City. For reporting purposes these entities are shown as discretely presented component units.
R) of the City and County of San with the Independent Auditors' .105 and California Government ontroller's Office in conformance the Governmental Accounting data and the completeness and ity. 1 believe that the data. as shows the financial position and	San Francisco is the economic and cultural hub of the Bay Area, a metropolitan region with more than 6.78 million residents in nine counties. The population of the City has grown by approximately 7.3 percent in the part bin years to 776,733. The year 2000 federal consus once again pightights Sara fact and the third diversity. All minority groups combined represent just over 56 percent of the population. <sup>11</sup>
of its various funds, and that the tity's financial affairs. ancial reporting requirements as - and Amangements Discussion GASB Statement requires that accompany the Basic Financial sA). This letter of transmittal is fith it. The MD&A can be found	San Francisco is a charter city, exercising the powers and duties of both a city and county. The elected Mayor of San Francisco serves as the excutive, and appoints the heads of most city departments. Many departments are also advised by Commissions on Boards Morse members are appointed either by the Mayor, or, in some cases, by a combination of the Mayor, the Board of Supervisors, and other elected officials. Elected officials include the Assessor-Recorder, City Attorney, District Attorney, Public Defender, Tresurer, and Sheriff. In November 2000, the eleven members are of Supervisors were elected by district for the first time since the 1970s. In order to provide for staggered terms of fiftice on the Board of Supervisors ware elected by district for an electon for each of the City's even-numbered supervisorial districts was conducted in November 2002, and subsequent run-off elections are being held in two districts was conducted in November 2002, and subsequent run-off elections are being held in two districts was conducted in November 2002.
structure of the City, the City's irements by including the MD&A, mentary Information. The Basic that present an overview of the search the financial information of fiduciary, and other funds. Also ancial statements.	Overall, nearly 50,000 jobs were created in San Francisco during the 1990s expansion, for an aggregate increase of 13%. <sup>III</sup> Unemployment dropped from 7 percent in 1993 to a low of 2.8 percent in 2000, among the lowest in the state. However, the overall economic slowdown, compounded by the impact of the events of September 11 <sup>IIII</sup> 2001, has affected the City's economy since early 2001 and is expected to continue to do so during the next fiscal year. The the chology sector, including in particular 'dot-com' comparies, has experienced significant job losses. In addition, losses in financial services, travel, and tourism have impacted many professional and services. Jub losses in financial services, travel, and tourism have impacted many professional and services. Jub losses in financial services, travel, and tourism have impacted many professional and services. Jub losses in financial services, travel, and tourism have impacted many professional and services June of 2002, the close of the fiscal year. San Francisco's unemployment rate to a peak of 7.3 percent in Jauray 2020. By June of 2002, the close of the fiscal year. San Francisco's unemployment cale at eatily worse than that of California as a whole with 6.6 percent San Francisco's economic base continues to be dominated by the services sector, which provides approximately 4.1 percent of all jobs. Retail employs the max largest portion, with 16 percent, followed by finance, instrance and real sectie bublices, swith 17 percent, of those working in the City".
cial data, debt statistics, and potential investors in our bonds iture information on an inflation-	Downtown office vacancy rates, which decreased steadily for over eight years, dropping below one percent at certain points, have reversed and risen in each of the last two fiscal years. Surveys show the vacancy rate rising steadily to 15 percent halfway through the fiscal year and to 20 percent by June 2002. Asking prices for office space rents have also declined by as much as 60 percent, from an average of \$80 per square foot in July of 2000, to around \$30 per square foot by June 2002. Analysts now report that during
850, is a legal subdivision of the ounty under California law. The strice legislative authority, and a thority. The services provided by anithenance of all public facilities, n, and many others.	<ul> <li>Source: California Department of Finance</li> <li>Source: United States Census</li> <li>Source: California Department of Finance</li> <li>Source: California Employment Development Department</li> </ul>

December 3, 2002

OFFIC

CITY AND COUNTY OF SAN FRANCISCO

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 S: Francisco, California (the City) for the fiscal year ended June 30, 2002 with the Independent Auditor Report, submitted in compliance with City Charter Sections 2.115 and 3.105 and California Governme Code Sections 25250 and 22653. The CAFR has been prepared by the Controller's Office in conformant with the principles and standards for financial reporting set forth by the Governmental Accountin fairness of the presentation, including all disclosures, rests with the CH. I believe that the data, presented, is accurate in all material respects; that is presentation fairly shows the financial position as included disclosures will provide the reader with an understanding of the City's financial affairs. This is the second year the City prepares the CAFR using the new financial reporting requirements a prescribed by the GASB Statement to .34, *Basic Financial Statements - and Mangement's Discussio and Analysis - for State and Local Governments* (GASB 34). This GASB Statement requires thr 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. Statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal designed to complement the MD&A and should be read in conjunction with it. The MD&A can be four 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 de each of the City's entire fundor funds. The swell as non-major governmental, fiduciary, and other funds. Also included in this section is the Independent Auditors' Report on the basic financial statements.

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 inflationadjusted 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 official serving as the executive authority. The services provided by the City induced public dransportation, construction and maintenance of all public facilities, water, parks, public health systems, social services, planning, tax collection, and many others. :=

CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER	CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER
the July to September period of 2002, rents have leveled off, vacancy rates have begun to drop, and leasing activity has increased, indicating that an expected recovery in the market may have begun. "	people. $^{\rm k}$ The City's economy overall has demonstrated sustained growth since the severe recession of the early 1990s.
Despite these weaknesses in areas of the economy, property values in San Francisco remain among the highest in the nation. Regional housing prices, after dipping for periods in 2001, have climbed again, and	MAJOR INITIATIVES AND ACHEIVEMENTS
as Transcisso and the greater tasy trag s ongoing mousing smortage keeps upward preasure on une curva residential real estate market. Despite steady construction, including 3,273 new units of housing permitted during fiscal year 2002, San Francisco's shortage persists. The gap between housing demand and supply	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.
has also contributed to a worsening attroctability gap in the Uity, with homeownership remaining out of teach for most residents and workens in the City. As of June 2002, the mediation price for an average single femily, home in Can Francisco had nitmend sithwith from the notion variand short at 5677 (000 a level that	Health and Safety Projects, Programs, and Systems
warmy frontine to derive the strengt of the propulation. Affordable housing continues to be built and the sa affordable by less than 14 percent of the population. Affordable housing continues to be built and developed in the City, funded in part by a \$100 million general obligation bond issue approved by the voters	The City is in the process of designing and constructing a new campus on the site of the current Laguna Honda Hospital, including new facilities as well as a rebuild of the existing hospital. The projecti is financed
in 1996. During the November 2002 election, however, voters rejected an additional \$250 million bond authorization for affordable housing. Housing is and will remain a critical challenge for the City's policymakters, channets, employers, and restdents.	by general obligation bonds, with tobacco settlement tunds and supplemental Medicalio payments also available to reduce the property tax burden of the bond issue. The new Laguna Honda will provide housing and a complete continuum of fonty-term healthcare services, with all facilities built to modern design.
eal estate, the City's property ta	environmental, seismic, and technological standards. The project's Environmental Impact Reports and
largest tax revenue for the City's general fund, has grown in some cases by as much as 12 percent annually over the last five vears, reflection extraordinary crowth in property values and prices during the	community consultation processes were substantially completed in zouz. Retocation of miniastructure and other preparatory work has begun. Site preparation work will begin in 2003 and construction on the new
anneary or the rest rates of any pound, recording overcoming government property are not not not not not not not time period. Helped by failing interest rates, property tax revenues overall grew by approximately \$68.9 million during the fiscal varar an increase of interestreat from the origin faced varar. Trends in other	facilities will begin in early 2004. Community outreach processes will continue throughout construction of the project.
sources of local tax revenue were more typical of the current downturm in the business cycle, with sales,	San Erancison's Public Health and Human Services departments are statewide leaders in providing
parking, and other local taxes decreasing by between eight and 24 percent. Hotel taxes showed among the more review devine, drowing 36 necreart driving the fiscal vear—a loss of almost \$70 million in funding	pair rialicisous rubble readin and rubble services dependences to homeless, very low income, and other al-
the most severe exerting to populating or percent examined in the most of the second poet	risk populations. Working with community-based organizations, these departments also provide substance abuse mental health and bruistion services designed to improve the economic and health status of
The decrease in hotel tax collections experienced by the City is further	vulnerable populations. For example, since 1999, the City has developed over 1,200 units of supportive
indicative of an overall decline in travel and tourism to San Francisco. The Convention and Visitors Bureau estimates that 15.7 million people visited San	housing targeted to chronically homeless persons and those with disabilities. Combinations of these and other programs have increased the City's success rates in helping clients access State and Federal health
Francisco in calendar year 2001, down over nine percent from the year before. Total visitor spending in the City dropped to approximately \$6.5 billion or nearly	and nutrition programs for which they are eligible, obtain employment, increase income, and stabilize their housing.
15 percent, down from \$7.6 billion during 2000. <sup>w</sup> Hotel occupancy rates during the 2001-2007 feveal user averaged 63.5 percent down from a range of 77 to	An innovative design-build deal has been completed, and ground broken. for the construction of a new jail
B percent occupancy rates in the last three fiscal years. Occupancy rates for	at the City's existing jail site in San Bruno. The new facility is being built by a private developer, and
fiscal year 2002-2003 are currently projected to improve somewhat, returning to the area of 70 percent—levels commensurate with a gradual recovery and a	operated by the City under a financing and lease-back plan which will eventually transfer ownership to the oublic. San Francisco has been working to reduce overcrowding and improve conditions at the jails—the
strengthening 2003 convention season. Will	new facility means the achievement of many of the City's goals in this area. In other recent public safety
At San Francisco International Airport (SFO), losses in business travel which were already apparent in the	improvements, the Police company which serves one of the City's most densely populated areas, the Tenderloin, was relocated in October 2000 from an inadequate basement site to a newly renovated station
spring of 2001, and the drops in an traffic of all kinds following September 11, have reduced passenger thefe build of an and across hearing the answer the from the anticy user. SECVs transfer of concession	house. The new site includes security improvements as well as facilities to allow the San Francisco Police
reame of the percent and days cominge of our percent nom the proof year. We see the percent of percent the year revenues to the City general fund, budgeted at \$25 million for the fiscal year, was reduced during the year	Department to better serve the population of primarily immigrant and low-income tamilies in the area. Finally in February 2002, San Francisco's Emergency Communications system tested and then began
	receiving 911 calls from most wireless phones directly, rather than through the California Highway Patrol,
While the economic contraction in the nation and the Bay Area has affected the City's economy. San Francisco's overall economic environment is built upon a solid foundation of business and industry	becoming the first city or county in California to do so under a new State law authorizing this service.
	Convention, Cultural and Recreational Facilities
Wells Fargo Bank, and Charles Schwab among others headquartered here. The City has large employers	The City's Moscone Convention Center has nearly completed the 300,000 square foot expansion of its
ranging from Providian Financial to The Gap, yet over 55 percent of ousinesses employ fewer triait twenty	exhibit and meeting space at woscone west. The new, hee-standing facting, located at routin and howard Streets one half block west of the existing Convention Center, is scheduled to open in 2003 and events are
	currently being booked. Meeting Professionals International will be the first group to hold a convention at the facility, with 3,000 members scheduled to attend their World Education Congress in August of 2003.
<ul> <li>Source: Grubb &amp; Ellis, Cushman &amp; Wakefield</li> <li>Connect: Control of Accession of Doctional</li> </ul>	
Source: Calinoritia Association or Relations Source: San Francisco Convention and Visitor's Bureau	
M Source: PKF Consulting	k Source: California Department of Finance

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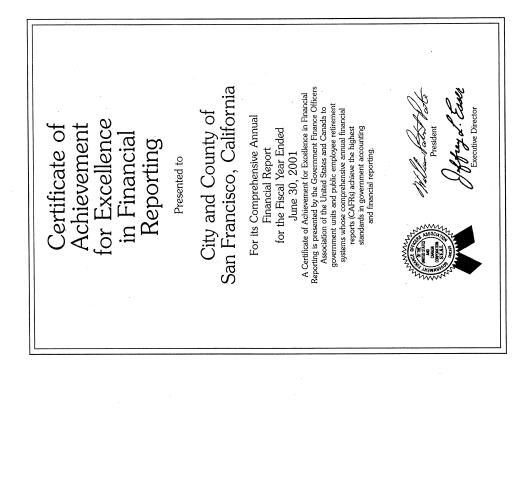
CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER	CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER
In the same neighborhood as the Moscone Center and as Yerba Buena Gardens with its arts spaces and commercial facilities, the Citys outural institutions are being developed, with the Mexican, African- commercian and lawish Mineauros acach in the mider of maxim carbonism renovation provided.	on the former military base, with renovation of 84 units of housing for homeless families getting underway in April 2002.
Thertext, and the oversuits each of the mean reversion of the mean intervent properties. In the concernent of the new Asian Art Museum in the Reme Main Library building is nearing completion and the collection is being prepared for a March 2003 re-opening. The new Asian Art Museum that be able to a completion of \$54 million of voter-approved bonds and \$58 million in private Analisms and charactions and charactions are approved bonds and \$58 million in private Analism and the collection is being prepared for a March 2003 re-opening. The new Asian Art Museum Anasima and the collection is being prepared for a March 2003 re-opening. The new Asian Art Museum Anasima and the collection is being prepared for a march 2003 re-opening and \$58 million in private Anasima and the collection and the collection and the analism of the approved bonds and \$58 million in private Anasima and the collection and the approved bonds and \$58 million in private Anasima and the collection are approved bonds and \$58 million in private Anasima and the collection and the approved bonds and \$58 million in private Analia and \$50 million in pr	In recent years the City has also replaced outdated public housing projects including unsafe high-rises with new buildings better designed for families. Bernal Dwellings, a severely distressed public housing high-rise building located in the Mission District, was replaced with 150 komhouses and fats, completed in Sentember 2011. In Development-2011, an additional 193 howhouses and fats ware computed in
contractors and greatly increased are concretency, spored another and programming which which a extension to a the public. The City's DeYoung museum, under a campaign funded entirely by private donations, razed the seismically unsafe portions of its buildings in 2005 and is preparing the site for the construction of the new mission schedulad for completion in 2005. A \$105 g minim phont former an another by the views to be	Burenzier of a former high-rise a partment build on the Western Addition. In October of 2002, ground breaking was held for the new North Beach Place housing developments, which will be the largest mixed-use. mixed-hoome development of its kind in California. combining affordable partments with relati
improve San Francisco's branch libraries continued its work in 2005, why get a couple to the part of the part in the program has underway at the Glen Park, Mission Bay, Inglesie, Visitacion Valley and Portola sites. The Program has	space. In addition to the 229 public housing units being replaced, 112 units of housing for low-income families and seniors will be added to the site.
aso purchased a site for a Library support service center, and is engaged in preliminary design at the Excelsion, Richmond, Noe Valley, Marina, and Parkside sites.	Improving the City and the Bay Area's capacity to move people and goods has long been recognized as a key challenge for the region and transit projects are underway throughout the nine-county area to meet the
Recreational facilities and public park projects which were completed were the last year include improvements to Coil Tower and Ploneer Dork in the Morth Brook and more accounted on the historic accounted of the	need. The Bay Area Rapid Transit (BART) system is adding service both in the east bay and the peninsula, with four new BART stations to the south of the City reactivity completed or under construction, including one at the San Examision that advince distinct scheduled to nown in 2003.
ran in the norm beach area, tenovation of the instantic carouse at Golden Gate Park, improvements at the San Francisco Zoo including	recording on a sub data targetor monitorial and the consideration of operation in 2000. Con Econologo International Aircont (CEO) including the new International Consulty with a new terminal
a new Education Center, Animal Resource Center and public entrance and parking lot, and completion of the new Martin Luther in the second	oal rianosco mematorial Auptu (or C), mounding tre new mematorial complex with a new terminal, parking garages, and an improved airport roadway system opened just under two years ago serves as the two strategics between the per Amon and the method is and the method strategics as the
king Fool in the hunter's Fourt neginovincoor. In addition, the City LICE A Company of began the reconstruction of the unique glass Conservatory of	region's air traffic and 94 percent of international traffic. The recent decreases in passenger and freight
Flowers in Golden Gate Park. With these and other projects, the City is engaged in a major capital overhaul of its parks system which was fully underway for the first time during the 2002 fiscal year. General	traffic using SFO affected the current fiscal year and beyond, however projections of long-term demand for the airport's new facilities are robust. The new BART connection will provide a direct rail line from San
obligation bonds, the City's property-tax supported Open Space fund, grants and private donations will be combined to carry out improvements at over 200 sites citywide over the next fen vears. Finally, in July of	Francisco and the East Bay to the Airport for the first time, and a light rail "people mover" system is being built within the airport.
2002, the redesigned Union Square held its grand opening after an 18-month renovation. The new Union	
Square includes a café, the half-price theater ticket booth, an open stage platform for performances, grassy terraces, palm trees, and oranite paving structures throughout, making new public open space and seating	Groundbreaking for Phase 1 of the san Francisco municipal Rallways (muni) new Third Street light rail line was held in May of 2002 and construction is now underway. The project will eventually connect the
available in the heart of the downtown shopping district.	communities along Third Street and in the Bayshore area with Mission Bay, South of Market, Downtown, and Chinatown. Phase 1 extends Muni service from 4 <sup>th</sup> and King Streets to the Bavshore Caltrain station.
Housing. Economic Development, and Transportation Projects	with over five miles of track and 19 stations. Phase 2, which includes a new central subway extending from the San Francisco Caltrain Station (Caltrain provides rail service from the peninsula cities south of San
Over a noniected 20 vear neriod in total, the former warehouses and rail varids in San Francisco's Mission	Francisco) to Chinatown, is currently in the design consultant selection
Over a projected to year period in way, we primer waterboases and rain years in dain raincase a masker Bay area in the southeast part of the City are being transformed into a new neighborhood of housing,	stage. When completed this major increase in service will improve air outsliv reduce downtown traffic concestion increase connections with
mixed-use buildings, retail, and medical and technology development. Work on the residential, retail, and industrial and industrial and the second s	BART and Calitain, and support economic revitalization in the
incoming projects in mission but are as proceeding on supreme.	southeast part of the city. Over 95 percent of the Phase 1 funding for the Phase 1 funding for the Third Street Light rail project comes from local sales tax funds. In
along the king Street corridor hear Pacinc Bell Park and in other areas. The new medical research facility being built by the University of California at San Francisco is nearly complete.	the last year, Muni has also completed the replacement of all aging cars on the Matri hies with new Breds vehicles and rule out 165 new busices including any zaro mension elaboration variables and han elaborations to a zaro mension allowed vehicles and han elaborations to a zaro mension allowed vehicles and han elaborations to zaro mension allowed vehicles and han elabo
The final \$40 million in bonds available under the City's \$100 million voter-approved Affordable Housing and Home Ownership Bond Program was issued in July 2001, Notices of Funding Availability were issued	tuel vehicles.
in the fall of 2001, and the process for committing these monies was underway during the 2002 fiscal year. The Program provides for the development of rental housing and for downpayment assistance to first-time	Projects to improve parking options in San Francisco are also in progress. A new North Beach Parking
homebuyers. As of August 2002, the City had funded \$73 million in loans or grants for the development of	garage was compreted in reprusity 2002, provining much meeded parking in an area that is boun densery populated and home to many of the City's restaurants, clubs and tourist sites. Parking meters throughout
rental nousing, with the program on track to develop approximately z, zou units or nousing and pees in group housing. The Downpayment Assistance Loan Program funded by the bonds has assisted	the City are being updated with a plan for new digital technology that accommodates coins and debit cards. Installation of the new meters becan in 2002 and is expected to improve parking management in
approximately 250 low and moderate-mome households to become first time homebuyers. With a current median household income of about \$55,000, 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	commercial areas, reduce theft, and lower the maintenance costs to the City.
to remain in the City.	

During fiscal year 2001-2002, affordable housing development continued city-wide. Significant projects completing construction during the year include Church Street Apartments (93 units of family rental

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CIEV AND COUNTY OF SAN ERANCISCO	CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER
	Budgetary Process
Status of City Services	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
In the spring of 2002, the City, through the Controller's Office, conducted its seventh annual Citizen Survey. A total of 1.565 San Franciscans were surveyed, providing their opinions of recreation programs and parks, libraries, services for children and youth, public transportation (MUNI), streets, public safety and general City performance.	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(c) 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.
The 2002 survey results indicated that:	Pension Trust Fund Operations
<ul> <li>San Franciscans generally felt safer walking alone in their neighborhoods and in the downtown than in previous years. A higher percentage of respondents also reported feeling safe crossing the street.</li> </ul>	The City has a defined benefit retirement plan in which a substantial majority of full-time employees participate. The plan's most recent actuarial calculations, as of July 1, 2001, estimate the plan is 129% funded.
<ul> <li>Residents of the southeastern part of San Francisco feel the least safe in their neighborhoods, and experience more crime than residents of other areas of the City.</li> </ul>	<mark>Cash Management</mark> The Critic Leviel description and inverteed on invested currented to mainer activitiehed for the Treasurae
<ul> <li>MUNI's ratings were better than or equal to any year since survey data has been collected. As in other years, routes and fares received the most favorable ratings, while the MUNI transit system's cleanliness and timeliness/reliability were rated least favorably.</li> </ul>	The cuts produce deposits and investments are invested provents to prove sectores or your investores and investment 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 2001-05 was 4.1390%. The Employees Retifement System and the Dadactoment Accordences to accordence or a production content of the California Government Code.
<ul> <li>Survey respondents reported visiting the City's libraries more frequently than in the previous year, and continued to rate library services favorably.</li> </ul>	received in the respective governing to a more than the remaining of the received of the received of the respective governing boards.
<ul> <li>Two-thirds of respondents felt that the children they knew in San Francisco received good health care, but fewer than half said that children were getting a good education.</li> </ul>	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
<ul> <li>White respondents were more likely than those in other ethnic/racial groups to have children attending private schools and using private health care providers.</li> </ul>	tunds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations. The City maintains limited ooverage for certain facilities, appropriatily property of the San Fancisco International Airport, Port of San Francisco, Municipal Raiway,
<ul> <li>45 percent of respondents rated the cleanliness of the streets in their neighborhood as good or very good, whereas only 25 percent rated the cleanliness of City streets in general as good or very good.</li> </ul>	Hetch Hetchy, 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 Additiont. The City is self-insured for workers' compensation claims. Claims payment history (experience) Airport. The Sity is experimented for workers' compensation claims. Claims payment history (experience) and payroll costs (exposure) are considered when calculating the claims liabilities and workers'
<ul> <li>Almost half of survey respondents chose "fair" in assessing how well local government provides services. Opinions of services provided for children and youth were less favorable than those for services in general.</li> </ul>	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.
OTHER FINANCIAL INFORMATION	INDEPENDENT AUDIT
Internal Controls	The City's Charter requires an annual audit of the Controller's records. These records, represented in the
In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting system, consideration is given to the adequacy of 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 for dosts 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 recording of financial transactions.	Comprehensive Annual Financial Report, have been audited by a consortium headed by the nationally recognized certified public accounting frm, 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 Rodnjuez. Perez, Delgado & Co. CPAs. 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 Auditor's Report on our current financial statements is presented in the Financial Section.



**OFFICE OF THE CONTROLLER** 

## 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, 2001. This was the wentieth consecutive year (fiscal years ended June 30, 1982 – 2001) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an assily readable and efficiently 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.

## 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 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 CItys financial operations.

Respectfully submitted Edward Harrington le sa Controller

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## List of Principal Officials As of June 30, 2002

## 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	Dennis J. Herrera
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. Controller

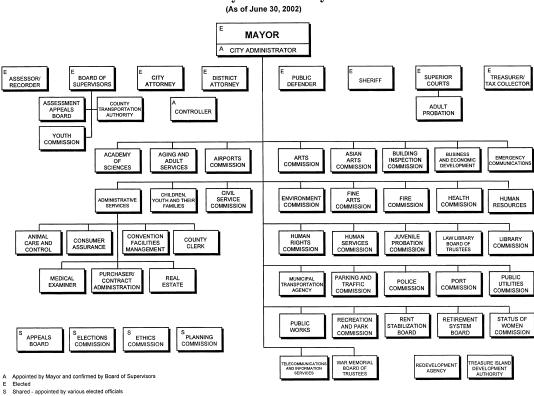
William L. Lee Edward Harrington

## DEPARTMENT DIRECTORS/ADMINISTRATORS

Administrative services	Kyan Brooks
Animal Care and Control	Carl Friedman
Consumer Assurance	David Frieders
Convention Facilities Management	Jack Moerschbaecher
County Clerk	Nancy Alfaro
Elections .	John Arntz (Acting)
Medical Examiner	Boyd G. Stephens, M.D.
Purchaser – Office of Contract Administration	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



Shared - appointed by various elected officials

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# DEPARTMENT DIRECTORS/ADMINSTRATORS-(Continued)

Arts Commission	Richard Newirth Emily Sano
Building Inspection Commission	Frank Chiu Gloria Young
Assessment Appeals Board	Dawn Duran
County Transportation Authority	Jose Louis Moscovich
Business and Economic Development	Leamon Abrams
Children, Youth and Their Families	Brenda Lopez
Civil Service Commission	Kate Favetti
Emergency Communications	Thera Bradshaw
Ethics Continuission	Jared Blumenfeld
Fine Arts Commission	Harry S. Parker III
	Mario Trevino
Health Commission	Mitchell Katz, M.D.
Human Resources	Andrea Gourdine
Human Rights Commission	Virginia Harmon
Human Services Commission	Trent Rohrer
Juvenile Probation Commission	Jesse E. Williams, Jr.
-aw 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 vvong Patricia Martel
	Edwin Lee
Recreation and Park Commission	Elizabeth Goldstein
Rent Stabilization Board.	Joseph Grubb
Retirement System Board	Clare M. Murphy
Status of Women Commission	Belle Taylor-McGhee
Superior Court	Gordon Park-Li
Telecommunications and Information Services	Lewis Loeven
War Memorial Board of Trustees	Elizabeth Murray

## DISCRETELY PRESENTED COMPONENT UNITS

Marcia Rosen	Annemarie Conroy
Redevelopment Agency	Treasure Island Development Authority

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## FINANCIAL SECTION

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



Three 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 andited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining find information of the City and County of San Francisco, California (the City), as of and for the year ended June 30, 2002, which collectively comprise of the City's basis financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our addit. The prior year partial and summarized compartive information has been derived from the City's 2001 financial statements and, in our report dated January 22, 2002, we expressed unquilifed opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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 assumate 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the City and County of San Francisco, California, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and schedules of funding progress, on pages 2 through 19 and 118, respectively, are not a required part of the basic financial statements but use supplementary information required by commit principales generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Our andit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the first statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional marky statements that collectively of the basic financial statements. The conducting and individual nonmajor fund financial statements, and statements the conduction scale of additional marky statements have been subjected to the auditing procedures applied in the audit of the basic financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

November 27, 2002

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KPMG LLP: KPMG LLP, a U.S. Imited liability partnership, is a member of KPMG International, a Swiss association.

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 fixcal year ended June 30, 2002. 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	<ul> <li>The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5.7 billion (net assets). Of this amount, \$438 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.</li> </ul>	<ul> <li>The government's total net assets increased by \$120 million, or just over two percent, during the fiscal year. The increase is largely attributable to acquisition of capital assets in certain of the government's business enterprises and to scheduled retirement of debt faster than depreciation.</li> </ul>	<ul> <li>As of June 30, 2002, the City's governmental funds reported combined ending fund balances of \$1.25 billion. Approximately 23 percent of this total amount, \$283 million, is unreserved fund balance available for spending at the government's discretion within the purposes specified for the City's funds.</li> </ul>	<ul> <li>At the close of the fiscal year, unreserved fund balance for the general fund was \$136.7 million or seven percent of total general fund expenditures of \$1.9 billion.</li> </ul>	<ul> <li>The City's total long-term debt increased by \$335 million, approximately 4.5 percent, during the fiscal year. Key factors in this increase were issuances of \$140 million in revenue bonds by the Water Department, 561 million in settlement obligation bonds issued to provide for refunds under City's business tax which was repeated in fiscal year 2001, and \$37 million in certificates of participation for the purchase of a building at 30 Van Ness Avenue for City offices. The City also issued \$988 million in refunding bonds and certificates during the year to take advantage of favorable interest rates in the current market and to retire outstanding commercial paper primarily held by San Francisco International Airport and other enterprises.</li> </ul>	The City's revenues from local sources including hotel, sales, and business tax showed significant drops from budget estimates during fixeal year 2002. In addition, concession and fee revenues collected by Nan Francisco International Airport dropped, and slowing business and construction activity decreased other fees and charges collected by the City. These factors were evaluated early in fixeal year 2002, and he City to know the state of the restruction activity in the set of the restruction activity in the control hearter of the city and he City the lowered revenues have also affected both the estimated uncevered fund balance and the operating revenues available to the City in the fixeal year edurg june 30, 2003. City management will motior revenue streams and control expenditures and has already restricted expenditures to budget for a general fund revenue decrease currently estimated at \$20 million during fixeal year 2003.	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) <b>Government-wide</b> financial statements, (2) <b>Fund</b> financial statements, and (3) <b>Notes</b> to the financial statements. This report also contains other <b>supplementary information</b> in addition to the basic financial statements themselves. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic on the following page:
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Organization of City and County of San Francisco Comprehensive Annual Financial Report

		ysis		ements		Fiduciary	Funds		Statement of	fiduciary	net assets			Statement of	changes in	fiduciary	net assets		Than MD&A	supplementary			
RY SECTION		Management's Discussion and Analysis		Fund Financial Statements		Proprietary	Funds	Statement of	net assets	Statement of	revenues,	expenses, and	changes in fund	net assets	Statement of	cash flows		Notes to the Financial Statements	rmation Other	or funds and other is not required	+	L SECTION	
INTRODUCTORY SECTION	+	gement's Discu		Fund		Governmental	Funds	Balance	Sheet	Statement of	revenues,	expenditures,	and changes in	fund balances	Budgetary	comparison	statement	es to the Finar	ementary Info	ividual non-major funds and of information that is not required		STATISTICAL SECTION	
		Mana	Government-	wide Financial	Statements			Statement of	net assets						Statement of	activities		Not	Required Supplementary Information Other Than MD&A	Information on individual non-major funds and other supplementary information that is not required			
Introductory Section											Financial	Section										Statistical	Section
									(	CA	F	R											

The following figure summarizes the major features of the financial statements. The overview section below also describes the structure and contents of each of the statements in more detail.

	Government-	Fur	Fund Financial Statements	nts
	wide Statement	Governmental	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating The day-to-day operatin activities of the City for basis pacivities of the City for governmental services business-type enterprise	The day-to-day operating activities of the City for business-type enterprises	Instances in which the City administers resources on behalf of others, such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current Accrual accounting and financial resources foc- measurement focus	Acctual accounting and economic resources focus	Accrual accounting and economic resources focus; except agency funds do not have measurement focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities All assets and liabilities, the conce due during the year both financial and capital, or soon thereafter, capital short-term and long-term assets and long-term liabilities	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others and all liabilities
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	during year, recents and expanses Revenues for which each is during year, regardless of received during the year or when cash is received or seou thereafter, expenditures when cash is received or seources have paid been received and the related been received and the related inability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## **Government-wide Financial Statements**

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

The **statement of net 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 preiods, such as revenues metation 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 apported 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 (busines-type activities). The governmental activities of the City include public protection, public works, transportation and activities). The governmental activities of the City include public protection, public works, transportation and administration and finance, and englishorhood development, community health, culture and recreation, general administration and finance, and general city responsibilities. The business-type activities of the City include an administration and finance, and general city responsibilities. The business-type activities of the City include an administration and finance, and general city responsibilities. The business-type activities of the City include an administration and finance, and general city responsibilities. The business-type activities of the City include an administration and finance, and general city responsibilities. The business-type activities of the City include an administration and finance, and general city responsibilities. The business-type activities of the City include an administration and finance, and sensities and power operations, an acute care hospital, a long-term care hospital, sever operations, and various parking facilities.

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The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate development agency, the San Francisco Redevelopment Agency (RDA) and a legally separate development authority, the Treasure Island Davelopment Authority (TIDA), for which the City is financially accountable. Financial information for these component units is reported separately from the financiall information presented for the primary government. 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 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: **governmenta 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 governments. By doing so, readers may better understand the long-term impact of the government's near-term financing doing so, readers may better understand the long-term impact of the governmental fund statement of evenues, 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, deb service, tapital projects and permanent funds). Information is presented separately in the governmental fund balance streta and in the governmental fund statement of revenues, expenditures, and changes in fund balance streta and in the governmental fund statement of revenues, expenditures, and changes in fund balance stor 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 annually 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 enstoners, or in itemal units or departments of the City. Proprietary funds provide the seme 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),

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Water Department, Hetch Hetchy Water and Power (Hetch Hetchy), 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, management information services, priming and mail services, and, beginning in fiscal year 2002, for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental activities 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 fort.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employes' pension and health pins, the external portion of the Treasurer's officie 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 use dor 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 second 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 – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. Because this reporting model charged significantly both the recording and presentation of financial data, the City's CAFR for fixeal year 2010 ddin to provide comparative information in its MD&A. This year marks the first time that two years of financial information in the GASB 34 format are available. In addition, adjustments have been made to some prior year balances to conform to current year presentation formats.

Assets	(in thousands)
Net	une 30, 2002

Gover         activity           Asets:         2002         2002         2002         2003	Governmental activities           2002         activities           2004         301           5         1,005           2,014,451         1,821,115           2,041,451         1,821,115           3,947,882         3,920,696           1,877,387         1,844,966           4,95,255         617,410           2,9552         2,462,366	Busines activity 2002 \$ 2.158.248 8.165.824 10.344.072 5.392.934 5.392.934 6.114.062 6.114.062	Business-type activities 202 2001 5524 7.722.633 14.072 982.773 2534 4.725.413 22394 4.725.413 21.128 970.662 2.6566.075	Total 2002 \$ 3,964,380 \$ 3,964,380 14,191,655 14,191,655 7,270,261 14,191,655 14,195	2001 2001 \$ 4,139,726 9,603,748 13,743,474 13,743,474 6,570,389 6,570,389 6,570,389 1,588,072 8,158,441
Net assets:					

### 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 \$5.7 billion at the close of the current fiscal year.

3,749,896 1,301,864 533,273

2,970,198 577,830 578,675

> 546,019 568,599 \$ 4,230,010

779,698 724,034 (45,402) \$ 1,458,330

887,667 717,879 (130,525) \$ 1,475,021

Restricted...

Unrestricted..... Total net assets...

Invested in capital assets, net of related debt......

3,115,392

4,003,059 1,263,898 438,074 \$ 5,705,031

\$ 5,585,033

\$ 4,126.703

The largest portion of the City's net assets (70 percent) reflects its investment of 54 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, \$1.3 billion (22 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$438 million (eight 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 \$130.5 million related in part to \$128 million in debt from

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general obligation bonds for the San Francisco Unified School District which is recorded with no corresponding assets. This deficit has also increased from the comparable figure of \$45.4 million in 2001 due to use of reserves to balance the budget.

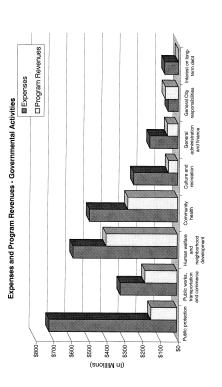
### Changes in Net Assets June 30, 2002 (in thousands)

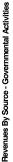
	Govern activ	Governmental activities	Busine activ	Business-type activities	Total	tal
	2002	2001	2002	2001	2002	2001
Revenues Program revenues:						
Charges for services	\$ 348,898	\$ 344.721	\$ 1.479.232	\$ 1.408.121	\$ 1.828.130	\$ 1.752.842
Operating grants and contributions	781,767	763,863	282,059	260,520		
Capital grants and contributions	58,394	22,619	251,747	335,520	310,141	358,139
Property taxes.	697.703	628,846			697 703	808 B46
Business taxes	274,848	277,822			274 848	977 825
Other local taxes	444,590	581.480			444.590	581 480
Interest and investment income	70.597	81,084	63.530	96.493	134.127	177.577
Other.	115,943	115,695	85,425	28,779	201,368	144,474
Total revenues	2,792,740	2,816,130	2,161,993	2,129,433	4,954,733	4,945,563
Expenses						
Public protection	\$ 717,552	\$ 688,994		'	717,552	688,994
Public works, transportation						
and commerce	317,778	300,355	•	•	317,778	300,355
Human welfare and						
neighborhood development.	586,188	499,096	•	•	586,188	499,096
Community health	493,856	455,101	•	•	493,856	455,101
Culture and recreation	246,620	229,721	•	•	246,620	229,721
General administration and finance	156,770	153,742	•	•	156,770	153,742
General City responsibilities.	55,551	109,804		•	55,551	109,804
Unallocated Interest on long-term						
debt.	77,335	73,588	•	•	77,335	73,588
Airport	'	'	599,335	529,002	599,335	529,002
Transit	'	•	528,725	468,753	528,725	468,753
Port.	'	•	58,694	47,587	58,694	47,587
Water	•	•	165,362	145,858	165,362	145,858
Power		•	113,754	107,000	113,754	107,000
Hospitals	•	•	525,045	513,486	525,045	513,486
Sewer.		•	159,896	149,687	159,896	149,687
Garages	1		32,274	34,155	32,274	34,155
Total expenses.	2,651,650	2,510,401	2,183,085	1,995,528	4,834,735	4,505,929
Increase/(decrease) in net assets						
before special items and transfers.	141,090	305,729	(21,092)	133,905	119,998	439,634
Special items	•	'		126,014	•	126,014
Transfers.	(124,399)	(102,154)	124,399	102,154		
Increase in net assets	16,691	203,575	103,307	362,073	119,998	565,648
Net assets at beginning of year	1,458,330	1,254,755	4,126,703	3,764,630	5,585,033	5,019,385
Net assets at end of year.	\$ 1,475,021	\$ 1,458,330	\$ 4,230,010	\$ 4,126,703	\$ 5,705,031	\$ 5,585,033

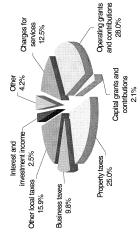
## Analysis of Changes in Net Assets

The City's net assets overall increased by \$120 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 acquisition and completion of capital assets, and in some measure to expenditures growing more slowly than revenues, particularly in the business'type funds.

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**Governmental activities.** Governmental activities increased the City's net assets by \$16.7 million, accounting for 14 percent of the overall change. Key factors of this increase are as follows:

- Property tax revenues increased by approximately \$68.9 million or eleven percent during the year. Most of this increase is attributable to a continued strong real estate market and consequent growth in the assessed value of property and a reduction in the City's estimated assessment appeals reserve. In addition, the City is processing deeds more efficiently and is able to issue supplemental tax bills within a shorter time period following the sale of a property.
- Operating and capital grants and contributions together increased by \$53.7 million, or approximately seven percent in the aggregate, largely related to increase in State reimbursement rates to San Francisco General Hospital and to receipt of State traffic congestion relief funds and other State funds by the Department of Public Works and the Department of Patking and Traffic.

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- Governmental activities showed an increase in capital assets through progress on the construction of the Moscone West Convention Center, the Asian Art Museum, and various other parks and public works improvements.
- The growth in property taxes and other net increases were somewhat offset by losses in the City's
  other local taxes, which include sates, hole, parking and utility users taxes. Revenue from these
  sources dropped by approximately \$137 million or 24 percent overall during the year. Hotel
  occupancy and room rates were weak at the beginning of the year and were severely impacted during
  the second six months of the fiscal year. Sates tax similarly decreased during
  the severa sources of a sharp increase in 2001 related in part to high prices during the run-up in
  California energy markes.
- Interest and investment income also dropped by approximately \$10.5 million or 13 percent during the year due to a decrease in the average yield of City pooled investments from 6.06 percent to 4.14 percent. Because the City's investments are concentrated in Treasury Bills and Notes and other shortterm instruments the Federal Reserve's interest rate cuts during the year have significantly affected the City's investment teruns.

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. The transics of General Hospital and Lagunal Honda Hospital, to help finance the operations of two enterprises, San Francisco General Hospital and Lagunal Honda Hospital, decreased by five percent in the aggregate from \$100 million in 2001. Both hospitals experienced in retreases in the proportion of patients covered by Medicare, Medi-Cal or other insurets, and/or improvement in reimbursement rates which allowed them to recover a higher share of their costs of service. Responsibilities largely due to the City's completion of most refund payments due under the repeal of a portion of the business tax.

The charts on the previous page 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 percent), followed by human welfare and neighborhood development (22 percent) and community health (19 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 grans and other local taxes (159 percent). These ratios are used support program activities citywide. For governmental activities overall, with the notable grans and other local taxes (150 percent). These ratios are availably sumilar to 2001, with the notable exception of other local taxes (150 percent). These ratios can substantially similar to 2001, with the notable exception of other local taxes (150 percent). These ratios are oblectively taxes (25 percent) and control class chorping in 2002 related to the City's decreased collections in hole, sales, and other taxes.

<ul> <li>Laguna Honda Hospital's net assets overall increased by \$21 million, largely related to the receipt of approximately that same amount in cash under the tobacco settlement monies paid to the City and County of San Francisco. These revenues are retricted for the Laguna Hond a Repearement Project and will be used to py contract costs and debt service for construction of the new hospital complex. Laguna Hond also experienced a five percent increase in net patient revenue under increased Medi-Cal reimbursements for skilled nursing facilities.</li> </ul>	<ul> <li>Hetch Hetchy, which operates the City's water storage and power generating facilities in the Sierra Nevada Mountains, increased total net assets by \$15.5 million primarily as a result of a lowered revenue transfer to the City's General Fund. In the prior fiscal year, Hetchy transferred \$29.9 million, decreasing in fiscal year 2002 to less than half a million. This action was taken by the City management and the Public Utilities Commission to order to allow Hetch Hetchy to better manage cash flows and cope with the highly volatile electricity market which affected California during the year.</li> </ul>	<ul> <li>San Francisco International Airport's net asset decrease of \$46.9 million is due primarity to major capital assets being depreciated on a straight-line basis over an average of 30 years, while principal retirement of debt scataless over time. During frast year: 2002, depreciation expense exceeded the principal retirement of outstanding debt by more than \$100 million. The City projects that this situation will continue through approximately 2010, then reverse for the remaining life of the bonds. The Airport also experienced losses in operating revenue from multiple sources including rents, parking, and other charges, for a reduction from these sources of approximately \$200 million to 4000 set. The Kara Josen transfer from the Airport to the City projects that this situation will not the sources in operating revenue from multiple sources including rents, parking, and other charges, for a reduction from the Airport to the City \$200 million to \$21.8 million, reflecting the decrease in Airport concession revenues.</li> </ul>	<ul> <li>The Clean Water Department's net assets decreased by \$14.3 million. The enterprise reduced restricted assets by \$34 million primarily through the use of funds from the State Water Resources Control Board Revolving Loan Fund Program to defease outstanding bonds, and increased capital assets by \$15 million through debt reductions which are scheduled to occur faster than depreciation.</li> </ul>	As shown in the charts above, the largest of San Francisco's business-type activities—the San Francisco 64.7% International Airport, the City's two hospitals combined, and the Municipal Railway, each had total expanses prover \$500 million in fiscal year 2002, with the business-type activities, charges for services provide the largest share of the total business activities. Total of the business-type activities, charges for services provide the largest share of revolutes (65 percent), and followed by operating grants and contributions (122 percent), and capital grants (105 percent), which is attributable to charges for services has increased from 60 percent in 2001, in part as a result of passenger facility service charges which the Airport began collecting as of October 2001.	FINANCIAL ANALYSIS OF THE CITY'S FUNDS	As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal seare as follows:	rily due to increases in the <b>Governmental Funds</b> talitation of infrastructure The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and and sa parking fees 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
Expenses and Program Revenues - Business-type Activities		Apor Transit Port Water Power Hospitals	Revenues By Source - Business-type Activities Ch	S . 4%	Interest and Operating grants and Operating grants investment income contributions 2.8% 11.0% 11.0%	<b>Business-type activities.</b> Business-type activities increased the City's net assets by \$103.3 million, accounting for 84 percent of the overall growth in the City's net assets. Key factors of this increase are as follows:	<ul> <li>The Municipal Railway's net assets overall increased by \$126.2 million primarily due to increases in the total value of equipment with the acquisition of new rolling stock, and to capitalization of infrastructure investments. Muni's non-operating revenues, which include state and federal grants as well as parking fees and fines, increased by \$22.6 million. The increase is largely due to improved collection, and in some cases to increased by \$22.6 million.</li> </ul>

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As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.25 billion, a decrease of \$243.8 million in comparison with the prior year. The drop represents the City's individual of a combined and the prior year. The drop represents the City's in fiscal year 2002. In addition, the San Francisco Finance Corporation, which is an entity used to lease-finance equipment on behalf of City departments, was consolidated beginning in fiscal year 2002 as an internal service funds. As a result, \$144.7 million in cash and other balances was transferred from governmental to proprietary funds.

Approximately \$283 million of the combined ending fund balance in the governmental funds constitutes unreserved fund balance, which is available for spending at the City's discretion within the purposes specified the City's funds. 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 (\$393.3 million), (2) to fund committed purposes in future fixeal periods (\$391.2 million), (3) to pay debt service (\$36.5 million), and (4) for a variety of other restricted purposes (\$145.1 million). Revenues for governmental functions overall totaled approximately \$2.78 billion in the fiscal year ended June 30, 2002, which represents a decrease of 1.37 percent from the fiscal year ended June 30, 2001. Expenditures 50 to zovernmental functions, totaling \$2.96 billion, increased by approximately 5.9 percent from the fiscal year ended June 30, 2001. In fiscal year 2002, expenses for governmental functions overall exceeded revenues by approximately \$183 million, or slightly less than seven percent. The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved finnel balance of the general fund was \$136.7 million, while itotal fund balance was \$30.4 million. Total fund balance decreased in the City's general fund by \$98.8 million during the fiscal year mainly due to continued decreases in revenues, sepcially local taxes, and to consequent use of cash and other reserves. As noted above, these factors were partly offset by increases in the City's general fund property tax collections and by magnetic noticels on general fund expenditures put in place beginning in the second quarter of the fiscal year. Overall, the general fund's performance resulted in revenues in excess of expenditures in the fiscal wear 0.002 of \$45 million, before tansfers and other items are considered. 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. For 2002, unreserved fund balance represents seven percent of total general fund expenditures of 51.912 billion, while total fund balance represents 20 percent of that same amount. For 2001, the general fund's unreserved fund balance transmotered to fund another \$1.798 billion, and the total fund's unreserved fund balance transmotered to fortal expenditures of positions also reflect the City's relatively higher budgetary use of reserved funds in 2002.

### **Proprietary funds**

The City's proprietary fund statements 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 \$2679 million, the Ware Department \$177 million, the Heich Heich Project \$25.77 million, the Clean Warer Program \$67 million, the Port of San Francisco 55.49 million, and the Parking Garges were \$46.2 million. Three proprietary funds had deficits in unrestricted net assets—the Municipal Railway fund had a deficit of \$68.2 million, and the San Francisco General Hospital and the Laguna Houda Hospital had deficits in unrestricted net assets of \$13.7 million and \$15.2 million respectively. The internal service funds which are used to account for certain governmental activities also had a deficit in unrestricted net assets of \$13.7 million and \$15.2 million and the 2000 the sective of the section of \$68.0 million. The total growth in net assets for the proprietary funds was \$103.3 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 \$46.9 million due to drops in operating revenue and to an increase in met bonded debricalated by the descance of commercial paper.

The following table shows actual revenues, expenses and results of operations (excluding capital contributions and expenses) for the current fiscal year in the City's proprietary funds (in thousands):

	Po Po Po Po Po Po Po Po Po Po Po Po Po P	Operating Revenues	ЪЧ	Operating Expenses	0 -	Net Dperating Income (Loss)	ų s g	Non- Operating Revenues (Expenese)	Cont	Capital Contributions	로부	Interfund Transfers	-	Change In Net Assets
Virport.	÷	465,176	ŝ	409,659	s	55,517	s	(117,595)	s	32,937	s	(17.784)	69	(46.925)
N ater		147,216		148,430		(1,214)		(499)		•		• •		(1,713)
Hetch Hetchy		125,777		113,754		12,023		3,885		•		(382)		15,526
unicipal Railway		107,455		528,725		(421,270)		220,453		216,063		110,945		126,191
General Hospital		301,482		382,253		(80,771)		73,397		•		2,961		(4,413)
Jean Water.		134,595		128,948		5,647		(19,988)		,				(14.341)
Port		50,494		55,878		(5,384)		7,545		2,747		•		4,908
aguna Honda Hospital		111,392		141,030		(29,638)		22,004		•		28,659		21.025
Parking Garages/Other		35,645		30,928		4,717		(1,668)						3,049
Total.	S	,479,232	s 1	1,939,605	φ	(460,373)	Ş	187,534	ŝ	251,747	ŝ	124,399	s	103,307
											I			

### 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 heal in trust to benefit public services or employees. As of the end of fiscal year 2001.2002, the net assets of the Retirement System and Health Service System totaled \$10.5 billion, representing a decrease of \$826.5 million in total net assets since June 30, 2001. The change is primarily related to decrease of \$826.5 million in total net assets since June 30, 2001. The change is primarily related to decrease in the market value of the Retirement System's investments. The Investment Trust Fund's are assets totaled \$300.6 million, with an increase in net assets over the fiscal year of \$25.4 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 suphemental appropriations approved during the fiscal year. In fitsel year 2002, significant suphemental appropriations were approved for the Department of Elections for temporary salaries, materials, and services (55.15 million), the Sheriff for overtime and other personnel costs (54.99 million). Emergency Communications Department for civilianization foring and for additional personnel costs (51.62 million), the City Attorney for affirmative lingation (3951 thousand), and the District Attorney's Office due to the high cost of prosecuting a lengthy out-of-venue case (35.60 thousand). During the year, actual revenues and other resources lagged budgetary estimates by \$3.59 million. The majority of this armount is attributable to local taxes—specificatily the sales, hole, and utility taxes where actual performance was less than estimates. In addition, transfers in to the General Fund were \$31 million less than estimates, primarily due to a reduction in the transfer of concession revenues armed by the Airport. The funds which are transferred from the General Hospital Fund to the General Fund for the City's participation in the State cost-sharing program among county hospitals was also reduced, however there is no net loss to the General Fund as a result of this transaction. Budgetary shortfalls were offset in part by receipts greater than estimates in property taxes and in federal health and social services funds.

Differences between the final budget and the actual (budgetary basis) resulted in a \$133.8 million decrease in total charges to appropriations. This is primarily due to the following factors:

 Expenditures less than budgeted by the Fire Department of approximately \$7.3 million related to fewer retirements than had been anticipated, and the resulting decrease in the required recruitment, Fire Academy training classes, and hiring expenses need to fulfill the Department's personnel needs.

582,129 98,482 325,128 \$ 315,838 6,530,943 454,899 1,051 ,620,406 \$ 9,603,748 completions of the Near Term Master Plan Program. This program, which includes new parking facilities, roadways, runway improvements, and the new International Terminal, was substantially completed in 2001, with the Airport reporting a 13 percent increase in capital assets that year. During fiscal year 2002, major project completions include the BART station at SFO and the Air Train (people mover) Domestic and capitalization of the completed Automated Train Control System for the Metro subway. In April 2002, Muni entered into a lease transaction involving 118 Breda light rail vehicles which allows equity investors holding title to the vehicles to take advantage of tax benefits not available to public entities. During the term of the lease Muni maintains custody and use of the vehicles, and is obligated to insure and maintain The Water Department's total capital asset additions of \$16.2 during the fiscal year include an upgrade to the Sunol Valley Water Treatment Plant of \$5.6 million, and improvements at the Harry Tracy Water Treatment Plant of \$9.6 million, and many smaller projects at less than \$1 million each. During fiscal year 2002 the primary capital asset event at Hetch Hetchy was the completion of the O'Shaughnessy Dam electrical project at a value of \$927 thousand, as well as many other smaller projects such as completed maintenance and construction of pipelines, and purchase of vehicles and equipment. them. As a result of the transaction, Muni recorded a deferred gain in 2002 of \$35.5 million which will be amortized over the life of the sublease. During fiscal year 2003 Muni will request authorization to use the The Clean Water Program completed sewer replacement projects at four sites within the City for a capital Governmental activities construction in progress increased by \$190 million due to additional work on the Moscone Center West facility, the Asian Art Museum, and other public works and recreation and park The Airport showed an increase of \$126 million or three percent in capital assets related to additional Muni capital assets increased by \$158.8 million due to improvements at the Woods Division bus facility, progress on the Third Street Light Rail Project, acquisition of 145 motor coaches and 24 light rail vehicles, 2001 Total 772,268 845 99,631 1,844,887 \$ 10,227,275 6,679,725 504,791 2002 60 Changes in Capital Assets , Net of Accumulated Depreciation Stations. These facilities are scheduled to begin operations in calendar year 2003. 98,482 515 184,299 5,316,447 493,757 454,899 1,234,234 \$ 7,782,633 2007 Major capital asset events during the current fiscal year included the following: Business-type 185,594 \$ Activitie 5,456,106 694,659 481,128 309 99,631 \$ 8,185,824 1,268,397 2002 (in thousands) s Governmental Activities 131,539 536 \$ 1,821,115 1,214,496 88,372 386,172 2001 139,534 \$ 77,609 23,663 \$ 2,041,451 536 576,490 1,223,619 2002 funds for one-time capital needs. asset increase of \$2.5 million. ŝ Facilities and Improvement. Machinery and equipment. Property held under lease. Construction in progress.. Infrastructure. Easements. sites Total.. Land. . • . • • A decrease in expenditures by the Human Services Department of approximately \$14.9 million related to reduced costs under local, State and federal welfare programs. In particular, the City spent less than was 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 six percent (a 12 percent increase for governmental activities and a five percent increase A decrease in expenditures by the Department of Public Health of approximately \$31.2 million, primarily associated with a reduction in the local match requirement for the State hospital cost-sharing program noted above (SB 855 Medi-Cal disproportionate share program). This decrease is non-program related and does The General Fund was able to reduce its transfers to other funds by \$43 million, stemming primarily from unanticipated State revenues which were received by San Francisco General Hospital and Laguna Honda Budgetary reserves of \$22.1 million for various programs and payments which had been anticipated and included in the budget were not used due to management restrictions on spending, and were able to be The net effect of the under-utilization of appropriations and the receipt of some actual revenues greater than estimates resulted in a positive budgetary fund balance of \$130 million at the end of the fiscal year. In creating its budget for the fiscal year ending June 30, 2005, the City used an estimated budgetary fund balance of \$124 million (see Note 4 to the Basic Financial Statements). The City's capital assets for its governmental and business type activities as of June 30, 2002, amount to \$10.2 expense reductions are almost entirely offset by decreases in the subvention funds which San Francisco is A decrease in expenditures of approximately \$2.4 million in the General City Responsibilities area resulting primarily from debt service payments which were less than the budgeted level due to debt being However, these budgeted in wage augmentation programs, childcare subsidies, and personnel costs.

Hospital, thus allowing for reduced subsidy transfers.

issued later in the year than projected.

not result in service reductions.

.

able to claim under these programs

•

liquidated at the close of the fiscal year.

**Capital Assets and Debt Administration** 

Capital Assets

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for business-type activities) as shown in the table on the following page.

ient-
acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as
xpenditures.

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 2002, newly completed projects are capitalized and 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 Basic Financial Statements.

### Debt Administration

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$7.8 billion. Of this amout, \$919.2 million is general obligation boads (incluing 32 million in generation obligation boads (including 32 million in generation obligations obtack) whether of the Port of San Francisco) backed by the full faith and credit of the City, and \$5.7 billion is revenue bonds, commercial paper, hours, and other obligations of the City's business enterprises. The transition bounds commercial paper, hours, and other obligations of the City's business enterprises. The transition bounds, contributions, as well as revenue bonds, certificates of participation, and other debts of City parking garages, the Moscone Convention Center, and other governmental activities.

During fiscal year 2002, the City's total bonded debt increased by approximately \$713 million. Key factors were the issuances of \$140 million in revenue bonds for Water Department projects, \$50.8 million in settlement obligation bonds for refunds under a portion of the City's business tax which was repeated, \$37.2 million in certificates of participation to finance the acquisition of an office building at 30 Van Ness Avenue, and \$17.7 million in general obligation bonds to fund continued work on the Branch Library Improvement Program.

In addition, the City issued \$988 million in refunding bonds and refunding certificates to take advantage of restroble interest rates and reduce total debt payments both in the general obligation bond and revenue bond programs. Of this amount, \$853.5 million was for the purpose of largely refunding the commercial paper programs the San Francisco international Airport.

The City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is three percent of the taxable assessed value of property in the City—approximately 300.4 billion in value as of the close of the fixeal year. As of June 30, 2002, the City had 5919.2 million in authorized, outstanding arother close set the fixeal year. As of June 30, 2002, the City had 5919.2 million in authorized, outstanding arother close of the fixeal year. As of June 30, 2002, the city had 5919.2 million in authorized, outstanding arother close of the fixeal year. As of June 30, 2002, the taxable assessed value of property. As of June 30, 2002, there were an additional 5951.8 million in bonds that were authorized but unissued. If all of these bonds were issued and outstanding, the total deb burden would be approximately wou percent of the taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2002 were:

Aa3	AA	AA	
Moody's Investors Service, Inc.	Standard and Poor's Corporation	Fitch IBCA, Inc.	

The City's enterprise activities have experienced some changes in debt ratings since June 30, 2001. In July ODI, Standard & Poor's downgraded the Water Department's underlying rating on outstanding debt from AAnegative outlook to A+ stable outlook primarily related to political uncertainty regarding a long-term capital plan and the Department's inability to raise service rates without voter approval. Subsequently, in November 2002, voters approved \$1.6 billion in Water Revenue Bonds for capital projects.

Following the events of September 11, 2001, Standard & Poor's placed all of its North American airport and airport-talated facilities, including the San Francisco International Airport, on CreditWatch with negative implications, and has since lowered its long-term ratings for San Francisco Airport debt from A+ to A. Moody's Investors Service as affirmed its A1 rating for the Airport, but revised the outlook from developing to negative. Fitch ICBA, Inc. lowered its rating for the Airport from A+ to A-

Since the close of the 2002 fiscal year, the City has issued additional debt of \$250 million in Water Department events bonds, primarily for refunding purposes, and \$203 million in general obligation bonds for acquisition and construction projects under the Zoo Facilities Program and the Branch Library Improvement Program. In 1994, the City issued 535 million in taxable general obligation bonds for a program to provide loans for asseminabonds and other sources, the City paid, in full, the outstandings. On October 16, 2002, from proceeds of the bonds and other sources, the City paid, in full, the outstanding \$26,665,000 principal amount, accrued interest from June 15, 2002, and the redemption prenium.

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

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

- The City appropriated \$124 million in estimated available fund balance in the General Fund for spending in fiscal year 2003. It is intended that this use of fund balance will avoid the need to cut public safety, health and human services programs in the budget year.
- The City evaluated the basis on which it has calculated the cash reserves held in relation to property tax
  collections. Where previously San Francisco had maintained at nen precent cash reserve for all property-tax
  based funds, including the General Fund, the voter-approved set-aside funds (Children's, Library, and Open
  Space Funds), the Redevelopment Agency, and the School District, and others, the City has determined that
  the rever equirement as stated in Charter Section 9.113 is intended to guarantee against losses only in
  funds under the City's budgetary control. As a result of this determination, \$45.8 million was made
  available and appropriated to fund the 2005 budget on a one-time basis.
- The City currently faces a less favorable economic environment resulting from the decline in technology industries, continued weakness in the travel and tourism markets, and the overall downturn in the business cycle. As noted in our transmittal letter, San Francisco's unemployment rate has more than doubled from its low point of 2.5 percent in 2000 to approximately 6.7 percent by November 2002.
- Hotel and sales, with losses already experienced related to the economic downturn and the aftermath of September 11, 2001 have further fallon off during the first quarter of 2003, down approximately eight to ten percent from budgeted projections. Other major local tax revenues have showed lesser shortalls in the first quarter, but are nonetheless not at projected budget levels. The City has restricted departmental spending in the current year, and is preparing to further reduce spending in 2004 to budget for these conditions.

All of the above factors were considered in preparing the City's budget for fiscal year 2003.

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## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Below are the contacts for questions about this report or requests for additional financial information.

City and County of San Francisco Office of the Controller City Hall, Room 316 I.Dr. Carlton B. Goodlett Place San Francisco, CA 94102-4694

## Individual Department Financial Statements

San Francisco International Airport Office of the Airport Deputy Director
Business and Finance Division PO Box 8097
San Francisco, CA 94128
San Bennisson Water Danatement

San Francisco Water Department Hetch Hetchy Water and Power San Francisco Clean Water Program 1155 Market Street, 5th Floor San Francisco, CA 94103

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

San Francisco, CA 94111 Port of San Francisco Fiscal Officer

Pier 1

San Francisco Municipal Railway MUNI Finance and Administration 875 Stevenson Street, Room 260 San Francisco, CA 94103

Health Service System Department of Human Resources 44 Gough Street San Francisco, CA 94103

San Francisco General Hospital Medical Center Chief Financial Officer 25789 – 25<sup>111</sup> Street San Francisco, CA 94110

San Francisco Employees' Retirement System Finance Department 30 Van Ness Avenue, Suite 3000 San Francisco, CA 94102

## **Component Unit Financial Statements**

San Francisco Redevelopment Agency Finance Department 770 Golden Gate Avenue, 3rd Floor San Francisco, CA 94102

## **Blended Component Units Financial Statements**

San Francisco County Transportation Authority 100 Van Ness Avenue, 25<sup>th</sup> Floor San Francisco, CA 94102

San Francisco Finance Corporation City Hall, Room 336 1 Dr. Carlton B. Goodlett Place San Francisco, CA 94102

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**Basic Financial Statements** 

### Statement of Net Assets June 30, 2002

### (In Thousands)

	Pri	Primary Government	nent	Component Units	ent Units	
	Common the	Business-		San Francisco	Treasure	d d
ASSETS	Activities	Activities	Total	Kedevelopment Agency	Development Authority	ment rity
Current assets:						
Deposits and investments with City Treasury	\$ 1,050,766	\$ 754,778	\$ 1,805,544	' S	с \$	3,442
Deposits and investments outside City Treasury	184,591	3,508	188,099	104,394		,
Receivables (net of allowance for uncollectible amounts						
of \$23,252 for the primary government):						
Property taxes and penalties	33,395	'	33,395	,		
Other local taxes.	173,873	'	173,873	•		
Federal and state grants and subventions	139,975	39,306	179,281	•		12
Charges for services	21,755	156,220	177,975	•		678
Interest and other	11,862	68,364	80,226	19,077		12
Loans and capital lease receivables	•	'	'	21,927		
Due from component unit	22,587	'	22,587			,
Inventories	'	37,801	37,801	•		
Deferred charges and other assets	1,658	6,266	7,924	,		,
Total current assets.	1,640,462	1,066,243	2,706,705	145,398	4	4,144
Restricted assets:						
Deposits and investments with City Treasury	•	601,351	601,351	,		,
Deposits and investments outside City Treasury		390,938	390,938	219,060		
Grants and other receivables		33,960	33,960	1,202		
Total restricted assets		1,026,249	1,026,249	220,262		.
Noncurrent assets:						
Receivables (net of allowance for uncollectible amounts						
of \$165,637 and \$110,771 for the primary government						
and component units, respectively):						
Loans and capital lease receivables	149,125	•	149,125	207,491		
Deferred charges and other assets	16,545	65,756	82,301	712		,
Property held for resale	•	'	'	4,297		,
Capital assets:						
Land and other assets not being depreciated	716,024	1,453,991	2,170,015	64,798		
Facilities, infrastructure, and equipment, net of						
depreciation	1,325,427	6,731,833	8,057,260	126,568		,
Total capital assets	2,041,451	8,185,824	10,227,275	191,366		· ·
Total noncurrent assets	2,207,121	8,251,580	10,458,701	403,866		.
Total assets.	3,847,583	10,344,072	14,191,655	769,526	4	4,144
					(Continued)	(per

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, 2002

### (In Thousands)

## Primary Government

Component Units

	adki			Davalonment
Activities	Activities	Total	Agency	
157,542	119,989	277,531	066,6	
82,553	61,174	143,727	•	
59,132	38,811	97,943	859	
38.926	30.476	69,402	,	
PT0100	16 668	75,807	•	
+77'S	10, 10,	20,02	100.00	
114,626	185,185	299,811		
11,511	12,381	23,892		
2,995	•	2,995	•	
•	'	'	22,587	
(30.785)	30.785	'		
40.644	107 474	156 085	0360	
405 225	4/4' /01	1 008 178	85.830	
100,000	042'200	011 0001	200100	
•	12,115	GL1,21	•	
,	42,666	42,666	•	
	63,404	63,404		
	118,185	118,185	1	
62 828	30.617	93,445		
137 061	06 078	234 779		
100,101	076'06			
122,28	2010'07	aco'no		
1,644,427	5,183,842	6,828,269		
,	'	•	144,009	
•	52,929	52,929	'	
1,877,327	5,392,934	7,270,261	714,916	
2,372,562	6,114,062	8,486,624	800,746	
887,667	3,115,392	4,003,059		
93,293	'	93,293		
12,135	334,747	346,882		
115,052	141,154	256,206	•	
135,308	•	135,308		
142,740	'	142,740	•	
219.351	70,118	289,469	1,200	
(130,525)	568,599	438,074	(175,875)	
\$ 1.475.021	\$ 4,230,010	\$ 5,705,031		s
- F - C - 1 4   - P - P - P - P - P - P - P - P - P -				1668         25,882         2           12,381         23,892,11         2           2,395,812         2,995,812         2           12,381         23,892         2           20,785         23,892         2           100,414         156,985         8           602,943         1,096,178         8           602,943         1,096,178         8           602,943         1,096,178         8           603,404         63,404         63,404           63,404         63,404         63,404           63,404         63,404         63,404           61,118,185         118,185         14           1118,185         118,185         14           5,183,612         633,209         66           5,183,612         6,033,059         66           5,114,062         6,486,624         80           5,115,982         6,486,624         80           5,114,062         6,486,624         80           5,114,062         6,486,624         80           5,114,062         6,486,624         80           6,114,062         6,486,624         80           70,18         234,774

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

5

## Statement of Activities Year ended June 30, 2002

(In Thousands)

Net (Expense) Revenue and Changes in Net Assets

onent Units

		_	Brotram Devenues		1	Primero Constant		Component Units	
						IIII A OOVEI III		San Francisco	-
		Charges	Operating	Capital	Govern-	Business-		Redevelop-	Island
		for	Grants and		mental	Type		ment	Development
Functions/Programs Primary government:	Expenses	Services	Contributions	Contributions	Activities	Activities	Total	Agency	Authority
Governmental activities:									
Public protection	\$ 717,552	2 \$ 42,254	<b>\$</b> 103,941	' s	\$ (571,357)	' s	\$ (571,357)	, \$	\$
Public works, transportation									
and commerce	317,778	3 102,576	\$ 22,307	56,168	(136,727)	'	(136,727)	•	
Human welfare and									
neighborhood development	586,188	3 20,292	379,062	•	(186,834)		(186,834)	•	
Community health	493,856			•	(214,575)	'	(214,575)	•	
Culture and recreation	246,620	47,116	3,458	1,213	(194,833)	'	(194,833)		•
General administration and									
finance	156,770	53,434	3,510	1,013	(98,813)		(98,813)	•	
General City responsibilities	55,551	47,050		•	17,883	'	17,883	ì	
Unallocated Interest on									
long-term debt.	77,335		•	•	(77.335)	'	(77.335)	•	
Total governmental									
activities	2,651,650	348,898	781,767	58,394	(1,462,591)	'	(1,462,591)	'	•
Business-type activities:									
Airport.	599,335	465,176	•	32,937	'	(101,222)	(101,222)	•	
Transit	528,725	107,455	210,746	216,063	'	5,539	5,539	•	
Port.	58,694	50,494	,	2,747	•	(5,453)	(5,453)	•	
Water.	165,362	147,216	•	•		(18,146)	(18,146)	•	
Power	113,754	125,777	1,788	•	•	13,811	13,811	'	
Hospitals	525,045	412,874	69,525	•	'	(42,646)	(42,646)	•	•
Sewer	159,896	134,595		•	•	(25,301)	(25,301)	•	,
Garages	32,274	35,645	•		•	3,371	3,371	•	
Total business-type									
activities	2,183,085	1,479,232	282,059	251,747	•	(170,047)	(170,047)	•	•
Total primary government	\$ 4,834,735	\$ 1,828,130	\$ 1,063,826	\$ 310,141	\$(1,462,591)	\$ (170,047)	\$(1,632,638)	s	s'
Component units:									
San Francisco Redevelopment									
Agency	\$ 116,252	\$ 25,747	\$ 16,620		' s	' s	s	\$ (73,885)	S
Transition Island Development									•

Treasure Island De Authority......

•		2.754	2,754				'		'	•	'	'	•	2,754	1,122	3,876
ŝ			5				ŝ									ŝ
\$ (73,885)		•	\$ (73,885)				\$ 59,434		5,806	16,652	3,179	•	85,071	11,186	(42,406)	\$ (31,220)
•		•					\$ 697,703	274,848	444,590	134,127	201,368	•	1,752,636	119,998	5,585,033	\$ 5,705,031
,		,	'				,		,	õ	ŝ	6	1.71	Þ	<u>ଅ</u>	0
s			\$				\$			63,530	85,425	124,399	273,354	103,307	4,126,703	\$ 4,230,010
•		•	1.1				8	48	6	97	43	(66	8	91	8	되
							697,703	274,848	444,590	70,597	115,943	(124,399)	,479,282	16,691	,458,330	1,475,021
\$			ŝ				ŝ						÷		÷	ŝ
•		'	1				1	1	1						1	
· ·			s									mment				
116,252 \$ 25,747 \$ 16,620		226	16,846				Property taxes	Business taxes	Other local taxes	Interest and investment income	Other	Transfers - internal activities of primary government	Total general revenues and transfers	Change in net assets	Net assets (deficit) - beginning	Net assets (deficit) - ending
\$		l	\$							come		of pri	s and	ets		
25,747		8,651	34,398				s	SS	xes.	stment in		activities	al revenue	n net asse	- beginnir	- ending
÷			ŝ	00110	sanii		taxe	s taxe	cal ta	inve		emal	enera	ngei	eficit)	eficit)
116,252		6,123	122,375	ound Done	Ochelal Neveriues.	Taxes:	Property	Busines	Other lo	terest and	ther	isfers - int	Total g	cha	assets (de	assets (de
			ŝ	ĉ	5	۴				5	0	Trar			Net	Net
	d Development		t units													

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, 2002 (with comparative financial information as of June 30, 2001)

### (in thousands)

					-	Other	_		Total	a	
		BT	General Fund		Gov	ernme Funds	Governmental Funds	Ū	Governmental Funds	nent ds	al
		2002		2001	2002		2001	2002	8		2001
ASSETS											
Deposits and investments with City Treasury	θ	311,466	s	400,595	\$ 724,801		\$ 838,427	\$ 1,036,267	6,267	\$ 1.	\$ 1,239,022
Deposits and investments outside City Treasury		361		356	132,498	8	297,592	13	132,859		297,948
Receivables:											
Property taxes and penalties.		26,948		21,687	6,447	4	7,542	ŝ	33,395		29,229
Other local taxes		147,368	-	165,567	26,505	S	17,159	17	173,873		182,726
Federal and state grants and subventions		56,890		62,247	83,085	ŝ	78,881	13	139,975		141,128
Charges for services.		16,125		17,775	5,630	0	4,960	8	21,755		22,735
Interest and other.		7,506		10,935	3,105	ŝ	15,897	-	10,611		26,832
Due from other funds		66,651		48,937	5	4	•	ø	66,705		48,937
Due from component unit		400		400	22,187	~	19,187	8	22,587		19,587
Loans receivable (net of allowance for uncollectable											
amount of \$165,637 in 2002; \$155,235 in 2001)		183		183	148,942	2	117,934	4	149,125		118,117
Deferred charges and other assets		5,862		5,529	1,338	0	1,443		7,200		6,972
Total assets	ω	639,760	\$	734,211	\$1,154,592		\$1,399,022	\$ 1,794,352	4,352	\$ 2,	\$ 2,133,233
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	ŝ	92,514	ŝ	66,338	\$ 58,214	4 8	36,912	\$ 15	50,728	s	103,250
Accrued payroll		66,071		59,439	14,167	~	13,077	80	80,238		72,516
Estimated claims pavable.				2,104			63,000		•		65,104
Accrued interest payable		•		•	398	8	398		398		398
Deferred tax. grant and subvention revenues		27,604		27,822	11,680	0	24,640	e	39,284		52,462
Due to other funds		•		•	33,893		89,046	e	33,893		89,046
Deferred credits and other liabilities.		73,180		99,321	167,669	പ	158,419	24	240,849		257,740
		000 010			00000		206 400	ĩ	000 111		01000

73,180	99,321	167,669	158,419	240,849	257,740
259,369	255,024	286,021	385,492	545,390	640,516
93,293	93,293	'	,	93,293	93,293
4,198	4,198	'	'	4,198	4,198
6,406	6,089	41,233	51,548	47,639	57,637
	•	36,548	63,308	36,548	63,308
52,735	37,743	340,591	373,088	393,326	410,831
61,716	77,060	285,508	446,211	347,224	523,271
25,379	53,337	18,604	9,664	43,983	63,001
136,664	207,467	•		136,664	207,467
'	•	97,167	54,018	97,167	54,018
'	'	44,487	11,629	44,487	11,629
'		4,433	4,064	4,433	4,064
380,391	479,187	868,571	1,013,530	1,248,962	1,492,717
\$ 639,760	\$ 734,211	\$1,154,592	\$1,399,022	\$ 1,794,352	\$ 2,133,233
	73,180 259,589 4,198 6,408 6,408 6,408 6,408 6,408 6,408 6,408 6,408 6,408 6,408 6,408 6,408 6,408 6,307 136,684 1380,391 2,53,379 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,399 2,53,5392,539 2,53,539 2,53,539 2,53,539 2,53,5392,53,539 2,53,539,539 2,53,539,5392,539,539 2,53,539,5592,539,		99,231 265,024 4,198 6,089 5,337 77,060 53,337 207,467 207,467 	99.321         167.669           256.024         286.021           255.024         286.021           4,198         4,123           6,089         4,123           7,743         36.48           77,760         285.608           77,760         285.608           77,760         285.608           77,790         285.608           77,790         285.608           77,960         285.608           77,97         97.167           744         4.437           4.437         4.437           4.437         4.437           4.437         4.437           4.437         4.437           4.431         57.145.15	99,321         167,669         158,419           256,024         286,021         386,492           93,293         51,548         51,548           9,198         4,198         51,548           6,089         36,5482         51,548           37,743         36,5481         3308           37,745         36,561         37,088           77,060         255,508         446,211           57,337         18,604         9,664           207,467         97,167         54,018           -         47,437         10,634           -         44,437         10,634           -         44,437         10,634           -         44,437         1,013,530           -         44,437         1,013,530           -         44,437         1,013,530           -         44,437         1,013,530           -         47,421         1,013,530           -         1,013,522         51,143

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, 2002

### (In Thousands)

\$ 1,248,962		2,037,854	7,545	(1,835,214)	(8,116)	229,549	(205,559)	\$ 1,475,021
Fund balances - total governmental funds	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.	Bond issue costs are not financial resources and, therefore, are not reported in the funds.	Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	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.	Internal service funds are used by management to charge the costs of capital lease financing, fleet management, printing and mailing services, and information systems to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	Net assets of governmental activities

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, 2002 (with comparative financial information for the vea

(in thousands)	(in thousands)	sands)	,				
			B	Other	Ę	Total	
	Ger	General Fund	Govern	Governmental Funds	Goverr	Governmental Funds	
Dereseners	2002	2001	2002	2001	2002	2001	
Demoty toyot	8 EUT 200	171 174				6 CJ7 CE 4	
Property taxes	274.125	277.094	723 723	5 100,463	274.848	\$ 02/,004	
Other Incel taxes	334 357	448 132	110 233	133 348	444 590	581 480	
licatese parmite and franchisae	10.548	17 714	6 214	282.3	767,767	23 503	
Fines forfeitures and nenaties	8.591	260.6	3 454	3.676	12 045	12 773	
Interest and investment income	20,737	27,693	44,860	63,736	65,597	91,429	
Rents and concessions.	17,636	19,298	45,987	56,084	63,623	75,382	
Intergovernmental:							
Federal	150,444	135,410	157,499	161,348	307,943	296,758	
State	510,952	501,020	97,852	74,341	608,804	575,361	
Other	'	'	33,924	6,245	33,924	6,245	
Charges for services	102,782	100,325	122,765	115,087	225,547	215,412	
Other revenues.	10,338	17,395	16,067	13,724	26,405	31,119	
Total revenues	1,956,818	2,015,349	819,420	799,589	2,776,238	2,814,938	
Expenditures:							
Outrent.	650.010	964 969	100.01	15 003	000 000	670 110	
	610,050	020,130	100,04	40,400	000'060	012,119	
Fublic works, transportation and commerce	8/0'01	904'06 434 266	145,032	204,403 176 076	230,411	233,343 FF7 243	
Community health	900'/0 <del>1</del>	101,104	644'C41	0/6'071	010,010	342,100	
	090'400 108 810	062,200	100,501	03,000	404,020	404°A/0	
Culture and recreation	108,810	105,728	916,921	12/,135	238,326	233,863	
General administration and tinance	130,143	995,121	28,602	23,116	C4/,401	150,482	
General City responsibilities	1/0'84	45,380	/ 9/ 9	64,3/3	54,628	109,/23	
Uebt service:			001.00	010 000	001 00	010 00	
Principal retirement	•	•	950,80	0/8/60	956,89	0/8'60	
Interest and fiscal charges	, ,	•	68,111	68,367	68,111	68,367	
Bond issuance costs	534	•	2,453	7,368	2,987	7,368	
Capital outlay	'	•	276,662	170,472	276,662	170,472	
Total expenditures.	1,911,809	1,797,652	1,047,606	996,808	2,959,415	2,794,460	
Excess (deficiency) of revenues over expenditures	45,009	217,697	(228,186)	(197,219)	(183,177)	20,478	
Other financing sources (uses):							
Transfers in	109,941	134,983	157,166	126,974	267,107		
I ransfers out	(316,691)	(115,162)	(519,989)	(107,861)	(536,680)	(305,178)	
Issuance of bonds and loans							
Face value of bonds issued	60,/35	,	189,240	394,040	249,995	394,040	
Premium on Issuance of Donds			CEN'S	803	3,020		
Discount on issuance of bonds	(176)	,	(62)	(2,773)	(238)	(2,773)	
Payment to retunded bond escrow agent			(136,230)	'	(136,230)		
Other financing sources-capital leases	1,417	•	200'06		91,424	•	
	100 01 11	100 0087	100.00	007 777	RPB		
I otal other linarcing sources (uses)	(00 200)	(122,334)	1111 00,221	411,103	(9/0'00)	200,049	
Fund halance at herinning of year as previously reported	479 187	275.640	1 013 530	792 104	1 492 717	1 067 744	
Cumulative effect of a change in accounting principles	'	108.184	-	7.462	-	115.646	
Fund balances at beginning of year, as restated	479,187	383,824	1,013,530	799,566	1,492,717	1,183,390	
Fund balances at end of year	\$ 380,391	\$ 479,187	\$ 868,571	\$ 1,013,530	\$ 1,248,962	\$ 1,492,717	

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

Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Reconciliation of the Statement of Revenues, **City and County of San Francisco** 

### Year ended June 30, 2002 (In Thousands)

Net change in fund balances - total governmental funds	\$ (243,755)
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 twos and reported as depreciation expense. This is the amount by which capital outlays exceeded depredation in the current period.	219,333
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the decrease in certain labilities reported in the statement of net assets of the previous year exceeded expenses in certain labilities reported in the statement of net assets of the use of current financing resources.	10,280
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	10,553
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.	(1,838)
Lease payments on the Moscone Convertion 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 protion of the payments even to reduce the liability in the statement of net assets under the accurated interest serves to include the liability in the statement of net assets and result in additional expenses in the statement of activities. This is the amount by which principal payments exceeded newly accreted interest.	6,933
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amoritzed in the statement of activities. This is the amount by which current year bond issuance costs exceed amoritzation expense in the current period.	2,642

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and the advance refunding of debt consume the current financial resources of governmental tunks. These transactions, however, have no effect on the assets. This is the amount by which bond proceeds exceeded principal retirement and payment to escrow for refunded debt in the current period.

Bond premiums and discounts are expended in the governmantal funds when the bonds are Issues, and are capitalized and annizzed in the statement of the eases. This is the net amount of bond permiums and discounts capitalized during the current period.

(2,857)

(135,653)

Losses incurred on the advance retunding of debt are expended in the governmental funds when the refunding occurs and are deferred and amoritated for purposes of the statement of activities. This is the portion of the retunding loss lated to the payment to escrow funded from non bond proceeds. The remaining portion of the refunding loss is reported within the other financing use entitled "payment to refunded bond escrow agent".

3,666

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

### **Budgetary Comparison Statement - General Fund** CITY AND COUNTY OF SAN FRANCISCO Year ended June 30, 2002

### (In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary fund balance, July 1 Decourses (influence)	\$ 188,710	\$ 489,347	\$ 489,347	' s
Property taxes	461,550	461,715	510,001	48,286
- 1	275,669	275,669	274,125	(1,544)
Other local taxes:				
Sales tax	155,190	155,190	111,293	(43,897)
Hotel room tax	141,635	141,634	72,285	(69,349)
Utility users tax.	77,346	77,346	70,779	(6,567)
Parking tax.	35,022	35,022	30,484	(4,538)
Other local taxes.	50,622	50,622	49,516	(1,106)
Licenses, permits, and franchises:				
Licenses and permits	7,634	7,634	7,575	(59)
Franchise Tax	11,141	11,141	11,973	832
Fines, forfeitures, and penalties	5,793	6,180	8,591	2,411
Interest and investment income.	24,733	25,063	29,992	4,929
Rents and concessions:				
Garages - Recreation and Park	8,487	8,487	7,105	(1,382)
Rents and concessions - Recreation and Park	10,155	10,155	9,183	(972)
Other rents and concessions	1,351	1,351	1,347	(4)
Intergovernmental:				
Federal subventions:				
Health and social service subventions	121,626	129,560	147,773	18,213
Other grants and subventions	6,826	3,626	2,670	(956)
State subventions:				
Social service subventions	115,916	116,800	101,417	(15,383)
Health and welfare realignment	85,890	85,841	87,475	1,634
Health/mental health subventions	120,958	120,958	127,497	6,539
Public safety sales tax	75,066	75,066	70,959	(4,107)
Motor vehicle in-lieu - county	102,171	102,171	102,751	580
Other grants & subventions	26,254	22,722	20,853	(1,869)
Charges for services:				
General government service charges	29,087	29,108	29,506	398
Public safety service charges	12,620	15,434	15,435	-
Recreation charges - Recreation and Park	9,754	9,754	9,445	(309)
MediCal, MediCare and health service charges	43,347	48,646	48,397	(249)
Other financing sources:				
Transfers from other funds	61,364	136,028	105,070	(30,958)
Proceeds from issuance of bonds and loans	62,800	63,662	61,233	(2,429)
Other resources (inflows)	900	1,312	1,518	206
Total amounts available for appropriation	\$ 2,329,617	\$ 2,717,244	\$2,615,595	\$ (101,649)
				(Continued)

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

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# Budgetary Comparison Statement - General Fund (Continued)

## Year ended June 30, 2002

## (In Thousands)

			Actual	Variance	
	Budget	Budget	Basis	(Negative)	
Charges to appropriations (outflows): Public Protection					
Administrative Services - Animal Care and Control	s 3.224	\$ 3.252	\$ 3.033	s	219
Administrative Services - Consumer Assurance					110
Administrative Services - Medical Examiner	4,365	4,595	4,315	0	280
Adult Probation	9,025	9,076	8,837	2	239
District Attorney	21,259	21,759	21,702		57
Fire Department	195,173	202,583	195,286	7,297	97
Juvenile Probation	37,094	30,398	29,942	4	456
Mayor - Office of the Emergency Services	1,313	1,247	1,207		40
Police Department.	235,982	247,432	247,256	-	176
Public Defender	13,075	13,146	12,806	e	340
Sheriff	83,969	92,009	91,477	5	532
Trial Courts.	33,552	33,687	32,742	6	945
Public Works Transportation and Commerce					
Board of Appeals	425	426	403		23
Business and Economic Development	2,734	2,544	2,316	2	228
Clean Water	306	246	246		
Department of Public Works	38,200	32,261	32,208		53
Emergency Communications	19,008	19,395	19,323		72
Light, Heat and Power	2,687	2,492	2,466		26
Parking and Traffic Commission	42,716	43,624	43,046	Ω.	578
Telecommunications and Information Services	2,773	2,307	2,306		-
Human Welfare and Neighborhood Development					
Adult and Aging Services	19,064	21,434	20,826	9	608
Children, Youth and Their Families	10,917	9,427	9,353		74
Commission on the Status of Women	2,585	2,403	2,237	÷	166
Environment	738	3,601	3,594		7
Human Rights Commission	1,876	1,886	1,884		8
Human Services.	437,298	443,992	429,072	14,920	20
Mayor - Housing and Neighborhood	150	667	606		61
Rent Arbitration Board	•	113	113		,
Public Health.	447,126	426,683	395,471	31,212	12
Culture and Recreation					
Academy of Sciences	2,169	2,270	2,236	.,	34
Administrative Services - Convention Facilities	5,982	5,705	5,420	2	285
Art Commission	7,270	8,128	8,099		29
Asian Art Museum	3,469	3,599	3,253	è	346
County Education Office	99	99	64		2
Fine Arts Museum.	5,597	5,604	4,786	èo	818
Law Library	520	522	471	•,	51
Mayor - Grants for the Arts	16,995	18,784	15,743	3,041	Ħ
Recreation and Park Commission	72,237	68,775	68,446	33	329
General Administration and Finance					
Administrative Services	7,353	6,089	6,089		
Administrative Services - Purchasing	•	87	87		,
Administrative Services - Office of Contract Administration.	3,196	2,936	2,619	'n	317
Assessor/Recorder	10,803	11,174	10,954	2	220
Board of Supervisors.	8,967	9,964	9,721	5	243

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

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

## Budgetary Comparison Statement - General Fund (Continued) Year ended June 30, 2002

### (In Thousands)

Variance

Actual

	Original	Final	Budgetary	Positive
	Budget	Budget	Basis	(Negative)
City Attorney	7,522	13,282	13,282	
City Planning.	13,404	13,385	13,081	304
Civil Service	665	620	615	2
Controller	20,929	20,051	19,821	230
Elections	8,330	14,299	14,293	9
Ethics Commission	878	853	811	42
Human Resources	19,082	21,584	20,883	701
Mayor	7,772	8,159	8,033	126
Retirement Services.	420	155	155	
Treasurer/Tax Collector.	17,018	18,241	17,808	433
General City Responsibilities				
General City Responsibilities.	118,012	116,601	114,195	2,406
General Fund Unallocated	•	20	20	'
Other financing uses:				
Debt Service.	9,550	240	240	
Transfers to other funds.	219,125	293,517	250,550	42,967
Budgetary reserves and designations	73,879	123,346	3,154	120,192
Total charges to appropriations	2,329,617	2,462,417	2,230,568	231,849
Budgetary fund balance, June 30	د	\$ 254,827	\$ 385,027	\$ 130,200

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

	\$2,615,595			. (489,347)	(2,693)	(9,254)	8,820	(61,233)		(105,070)		\$ 1,956,818		\$2,230,568			(1,417)	(638)	(3,154)	(63,000)		(250,550)	\$1,911,809	
Sources/inflows of resources	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	Property tax revenue - Teeter Plan	Unrealized loss on investment.	Interest reclassified as transfers from other funds	Proceeds from issuance of bonds and loans	Transfers from other funds are inflows of budgetary resources but are not	revenues for financial reporting purposes	Total revenues as reported on the statement of revenues, expenditures, and changes	in fund balances - governmental funds	Uses/outflows of resources	Actual amounts (budgetary basis) "total charges to appropriations"	Difference - budget to GAAP:	Capital asset purchases funded under capital leases	with Finance Corporation	Pension reimbursement and other budget to GAAP differences	Change recognized in budget basis reserves	GAAP to budget basis change of business tax settlement recorded in prior year	Transfers to other funds are outflows of budgetary resources but are not	expenditures for financial reporting purposes	Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	

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

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

### June 30, 2002 (with summarized financial information as of June 30, 2001)

(In Thousands)

### Business-type Activities - Enterprise Funds

					mood type	routilico	citterprise i	unua					
	San Francisco Interna- tional	Water	Hetch Hetchy Water and	Municipal	General Hospital Medical	Clean Water	Port of San	Laguna Honda	Parking		otal	Govern Activities Service	-Internal Funds
LIABILITIES	Airport	Departmen	Power	Railway	Center	Program	Francisco	Hospital	Garages	2002	2001	2002	2001
Current liabilities:													
Accounts payable	20,260	5,779	8,063	39,913	19,327	1.563	1,981	1,068	22,035	119,989	127,540	6.814	5,241
Accrued payroll	8,414	5,654	1,080	21,170	12,724	2,243	1,397	8,195	297	61,174	57,351	2,315	2,069
Accrued vacation and sick leave pay	5,709	3,475	917	12,025	9,317	1,885	951	4,532		38,811	36,262	1.434	1,244
Accrued workers' compensation	1,275	1,731	385	19,852	3,385	641	613	2,594	-	30,476	25,582	250	155
Estimated claims payable	209	1,574	197	13,197		291	1,200	· · ·	-	16,668	15,470		-
Due to other funds	206	-	1,200	-	31,694	800	· · ·	10,414	-	44,314	2,436	2.027	
Deferred credits and other liabilities	30,134	48,974	354	5,382	11,683		8,143	2.026	778	107,474	61,429	58,752	
Accrued interest payable Bonds, loans, capital leases, and other payables.	43,550	3,325 99,715	:		78	8,798 39,391	157 1,315	210	101 926	12,381 185,185	12,470 148,939	2,997 16,094	1,619
Total current liabilities	109,757	170,227	12,196	111,539	88,208	55,612	15,757	29,039	24,137	616,472	487,479	90,683	10,328
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables.	8,710		-	-			3,405			12,115	405,882		
Accrued interest payable	37,940	-		-			1.036	3.690	-	42,666	35,704		_
Other	44,074	11,598	-	923	27	2,643	4,139		-	63,404	84,142		-
Total liabilities payable from restricted asset	90,724	11,598	-	923	27	2,643	8,580	3,690	-	118,185	525,728		-
Noncurrent liabilities:													
Accrued vacation and sick leave pay	5,236	3,609	827	8,958	6,610	1,570	844	2,963	-	30.617	29,084	1,382	1,306
Accrued workers' compensation	4,128	5,576	1,240	62,490	11,290	2,054	1,857	8,293		96.928	80.011	762	423
Estimated claims payable	250	3,394	3,423	16,714		4,437	400	· · .		28,618	26,025		
Deferred credits and other liabilities Bonds, loans, capital leases, and other payables.	4,218,798	9,535 347,026	-	38,191	724	1,395 545,739	3,808 34,267	- 222	37,066	52,929 5,183,842	33,205 4,557,088	244,099	1,932
Total noncurrent liabilities	4,228,412	369,140	5,490	126,353	18,624	555,195	41,176	11,478	37,066	5,392,934	4,725,413	246,243	3,661
Total liabilities	4,428,893	550,965	17,686	238,815	106,859	613,450	65,513	44,207	61,203	6,127,591	5,738,620	336,926	13,989
NET ASSETS													
Invested in capital assets, net of related debt	4,346	244,416	208,658	1,559,864	60,920	774,794	213,399	29,262	19,733	3,115,392	2,970,198	4,164	674
Debt service	277,521	13,955				43,271				224 747	276,392		
Capital projects.	11.729	16,684		-	1,203	43,271	-	46.237		334,747 141,154	129,299		-
Other purposes.	11,720	10,004		61.453	291	03,301	6.201	2.173		70.118	129,299	-	-
Unrestricted (deficit)	267,876	177,049	52,668	(68,177)	(13,735)	67,014	54,892	(15,192)	46,204	568,599	638,479	(8,570)	(3,968)
Total net assets (deficit)	\$ 561,472	\$ 452,104	\$ 261,326	\$1,553,140	\$ 48,679	\$950,380	\$274,492	\$ 62,480	\$ 65,937	\$4,230,010	\$4,126,703	\$ (4,406)	\$_(3,294)

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, 2002 (with summarized financial information as of June 30, 2001)

(In Thousands)

				Bus	iness-type	Activities -	Enterprise F	unds					
	San Francisco Interna- tional Airport	Water Departmen	Hetch Hetchy Water and Power	Municipal <u>Railway</u>	General Hospital Medical <u>Center</u>	Clean Water Program	Port of San <u>Francisco</u>	Laguna Honda Hospital	Parking <u>Garages</u>	Tol 2002	al	Govern Activities Service 2002	-Internal
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	\$ 278,894	\$ 227,351	+	\$ 74,329		\$ 54,370	\$ 59,584	\$-	\$-		\$ 701,962		\$ 7,796
Deposits and investments outside City Treasury	10	40	10	588	10	-	5	1	2,844	3,508	2,467	51,732	-
Receivables (net of allowance for uncollectible amounts of \$13,462 and \$10,089 in 2002 and 2001, respectively):													
Federal and state grants and subventions	-	-	179	36,452	1,805	-	870	-	-	39,306	56,222	-	-
Property taxes and penalties	-	-		-	-	-	-	-	-	-	-	-	-
Charges for services	33,419	25,642	9,017	4,718	34,685	22,170	2,546	23,879	144	156,220	149,626	-	-
Interest and other	4,099	3,652	425	6,661	51,322	426	1,589	-	190	68,364	20,208	1,251	301
Capital lease receivables	-	-	-	-	-	-	-	-		-	-	16,922	•
Due from other funds	-	-	206	12,445	802	-	-	76	-	13,529	42,545	-	-
Inventories	117	1,978	267	29,798	3,670	-	1,153	818		37,801	41,369	-	
Deferred charges and other assets	2,237			724		-	1,148		2,157	6,266	5,944	390 84,794	8,097
Total current assets	318,776	258,663	70,354	165,715	92,294	76,966	66,895	24,774	5,335	1,079,772	1,020,343	84,794	8,097
Restricted assets:													
Deposits and investments with City Treasury	299,826	103,140	-	51,160	1,494	90,726	4,005	51,000	-	601,351	648,968	-	-
Deposits and investments outside City Treasury Grants and other receivables	286,231 25,447	13,300 560		4,787 6,429	27	42,631	16,801	361 858	26,800	390,938 33,960	331,524 22,279	-	
Total restricted assets	611,504	117,000	-	62,376	1,521	134,023	20,806	52,219	26,800	1,026,249	1,002,771		
Noncurrent assets:													
Deferred charges and other assets	47,604	2,911	-	4,000	-	2,456	8,672	-	113	65,756	59,576	2,266	3
Capital lease receivables	-	-	-	-	-	-	-	-	-	-	-	241,863	
Capital assets:													
Land and other assets not being depreciated	780,055	121,468	22,676	310,126	3,460	33,058	138,296	22,693	22,159	1,453,991	1,418,533	-	•
Facilities, Infrastructrure, and													
equipment, net of depreciation	3,232,426	503,027	185,982	1,249,738	58,263	1,317,327	105,336	7,001	72,733	6,731,833	6,364,100	3,597	2,595
Total capital assets	4,012,481	624,495	208,658	1,559,864	61,723	1,350,385	243,632	29,694	94,892	8,185,824	7,782,633	3,597	2,595
Total noncurrent assets	4,060,085	627,406	208,658	1,563,864	61,723	1,352,841	252,304	29,694	95,005	8,251,580	7,842,209	247,726	2,598
Total assets	4,990,365	1,003,069	279,012	1,791,955	155,538	1,563,830	340,005	106,687	127,140	10,357,601	9,865,323	332,520	10,695

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### CITY AND COUNTY OF SAN FRANCISCO

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

Year ended June 30, 2002 (with summarized financial information for the year ended June 30, 2001)

(In Thousands)

				(in mou	sanusj								
				Busir	ness-type Ac	tivities - Er	nterprise Fu	nds					
	San Francisco Interna- tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Railway	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Tc	otal	Activitie	nmental s-Internal e Funds 2001
Operating revenues:												at the	ALL L
Aviation	\$ 318,772	s -		s -	s -	s -	s -	s -	s -	\$ 318,772	\$ 218,362	s -	s -
Water and power service		135,139	125,573		· -	•	· .	· .	· .	260,712	237,605	· .	· · ·
Passenger fees	-			97,162	-			-	-	97,162	103,289		
Net patient service revenue	-	-	-		287,703		-	111.079	-	398,782	358,164	-	
Sewer service	-		-	-		129,925	-		-	129,925	136.821	-	-
Rents and concessions	62,678	8,303	204	-	2,961	-	41,586		2,181	117,913	139,719	31	
Parking and transportation	55,883	-	-	-	-		7,380	-	32,848	96,111	124,635	-	
Charges for services	-	-	-	-	-	-	-	-				102,331	96,025
Other revenues	27,843	3,774		10,293	10,818	4,670	1,528	313	616	59,855	66,041		· · ·
Total operating revenues	465,176	147,216	125,777	107,455	301,482	134,595	50,494	111,392	35,645	1,479,232	1,384,636	102,362	96.025
Operating expenses:													
Personal services	139,819	49,676	16,647	368,604	217,365	35,588	47,759	123,565	6,755	1.005.778	896,304	39,819	34,470
Contractual services	76,330	3,958	5,426	21,268	101,408	6,801		2.675	3,252	221,118	201,288	37,216	34.316
Light, heat and power	21,773	-	65,337	-	-				702	87,812	54,903		
Materials and supplies	8,766	5,955	1,586	36,182	40,800	7,853	-	10,546	1,135	112,823	115,713	16,331	18,289
Depreciation and amortization	140,983	25,909	9,614	55,336	6,284	38,306	8,119	1,215	1,068	286,834	256,119	2,709	2,915
General and administrative	1,318	21,003	8,677	20,979	702	18,585	-	•	18,016	89,280	76,076	1,737	58
Services provided by other													
departments	10,763	29,307	2,772	21,329	15,474	17,867	-	2,937		100,449	107,828	2,985	3,054
Other	9,907	12,622	3,695	5,027	220	3,948		92		35,511	61,709	2,778	3,790
Total operating expenses	409,659	148,430	113,754	528,725	382,253	128,948	55,878	141,030	30,928	1,939,605	1,769,940	103,575	96,892
Operating income (loss)	55,517	(1,214)	12,023	(421,270)	(80,771)	5,647	(5,384)	(29,638)	4,717	(460.373)	(385,304)	(1,213)	(867)
Nonoperating revenues (expenses):											make should be		
Operating grants:													
Federal	-	-	1,788	3,363		-	-		· · · ·	5,151	13.056		
State / other	-	-	· -	207,383	69,525	-	-		-	276,908	247,464		
Interest and investment income	31,512	12,691	1,739	3,901	112	8,116	3,246	1,738	475	63,530	96,493	7.003	50
Interest expense	(189,676)	(16,932)	-		(1,221)	(30,948)	(2,816)	(541)	(1,346)	(243,480)	(202,103)	(7,432)	(1,117)
Other, net	40,569	3,742	358	5,806	4,981	2,844	7,115	20,807	(797)	85,425	28,779	18	986
Total nonoperating revenues													
(expenses)	(117,595)	(499)	3,885	220,453	73,397	(19,988)	7,545	22,004	(1,668)	187,534	183,689	(411)	(81)
Income (loss) before capital													
contributions, transfers and special items.	(62,078)	(1,713)	15,908	(200,817)	(7,374)	(14,341)	2,161	(7,634)	3,049	(272,839)	(201,615)	(1,624)	(948)
Capital Contributions	32,937			216.063			2.747			251.747	335.520		
Transfers in			-	111,138	74,584	-		28,659		214,381	225,798	512	1,117
Transfers out	(17,784)	-	(382)	(193)	(71,623)	-	-	-		(89,982)	(123,644)		(50)
Net income (loss) before special items	(46,925)	(1,713)	15.526	126,191	(4,413)	(14,341)	4,908	21.025	3,049	103.307	236.059	(1,112)	119
Special items	()0(020)	(1,110)		.20,101	(1,410)	(13,041)	4,000		5,048	,00,007	126,014	(1,112)	119
Change in net assets	(46,925)	(1,713)	15,526	126,191	(4,413)	(14,341)	4,908	21.025	3,049	103,307	362.073	(1,112)	119
Net assets (deficit) at beginning of year	608.397	453,817	245,800	1,426,949	53,092	964.721	269,584	41,455	62,888	4,126,703	362,073	(1,112) (3.294)	(3,413)
Net assets (deficit) at end of year	\$ 561,472	\$ 452,104	\$ 261,326	\$ 1,553,140	\$ 48,679	\$950.380	\$ 274,492	\$ 62,480					
Hor ababia (ucifor) at chu ui yeal	φ	+02,104	φ 201,320	a 1,003,140	ə 46,679	\$900,380	≥ 214,492	<b>3 02,480</b>	\$ 65,937	\$4,230,010	\$4,126,703	\$ (4,406)	\$ (3,294)

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

Statement of Cash Flows (Continued) Proprietary Funds

### Year ended June 30, 2002 (with summarized financial information for the year ended June 30, 2001) (In Thousands)

Tane         Tane         Ware         Ware         Ware         Multiple         Case         Case         Solution         Language         Total         Total         Construction           Rescursion         Solution         Solu						Busine	ss-type Activ	vities - Enterp	orise Funds		_			
Rescutabilish of operating income (loss) to nat cath used for operating activities         \$ 55,577         \$ (1,219) \$ 12023         \$ (421/270) \$ (807/11)         \$ 5,647         \$ (1,219) \$ 1,023         \$ (1,219) \$		Francisco Interna- tional		Hetchy Water and		Hospital Medical	Water	San	Honda				Activities-In Service F	nternal unds
Interaction cash usef for operating activities:         \$ 55,57         \$ (1,219) \$ 120,27         \$ (421-27) \$ (807) \$ (534) \$ (256.39) \$ 4.717         \$ (480,37) \$ (285.30) \$ (1,213) \$ (1957)           Adjustments for non-cala activities:         143,800         25,699         9,614         55,333         6,224         38,300         8,119         1,215         1,008         229,119         2,709         2,915           Provision for non-cala activities:         (205)         5.82         14         26,760         1,118         1,215         1,008         229,119         2,709         2,915           Provision for non-cala activities:         (2,044)         -         -         573         -         (1,475)         21,859         -         -         -         -         6002         2,549         -         -         -         -         -         6002         2,519         -         -         -         -         -         6002         2,519         -         -         -         -         -         -         6002         2,519         -         -         -         -         -         6002         2,519         -         -         -         -         -         -         -         -         -         -         -	Descention of examples in some (least) to	Airport	Department	Power	Railway	Center	Program	Francisco	nospital	Garages	2002	2001	<b>A</b> 00A	2001
Depreciation and amorbation         143,380         25,030         9,614         25,336         6,243         33,366         8,119         1,122         28,711	net cash used for operating activities:	\$ 55,517	\$ (1,214)	<u>\$ 12,023</u>	<u>\$ (421,270)</u>	<u>\$ (80,771)</u>	\$ 5,647	<u>\$ (5,384</u> )	\$ (29,638)	<u>\$ 4,717</u>	<u>\$ (460,373)</u>	<u>\$ (385,304</u> )	<u>\$ (1,213)</u> \$	(867)
Derovision for uncollectables         (200)         -         -         14         26,700         11.18         1,122         .         22,788         24,551         -         -         -         -         5,522         -         -         -         5,522         -         -         -         5,522         -         -         -         -         5,522         -         -         -         -         -         -         5,522         -	Adjustments for non-cash activities:													
Wate of of capital assets         5.22         .	Depreciation and amortization.		25,909	9,614			38,306			1,068			2,709	2,915
Other         · <td>Provision for uncollectibles</td> <td>(206)</td> <td>-</td> <td>-</td> <td>14</td> <td>26,740</td> <td>-</td> <td>1,118</td> <td>1,122</td> <td>-</td> <td></td> <td>24,551</td> <td></td> <td>-</td>	Provision for uncollectibles	(206)	-	-	14	26,740	-	1,118	1,122	-		24,551		-
Charge in sestimization         Link         Li				-		-	-	-	-	-			-	
Receivedus, net.         (5,557)         1,163         (244)         (356)         (56,82)         5,463         395         (11,13)         8         (70,53)         (21,244)         13.327         (301)           Due from ther funds.         2,112         (659)         4         3,963         16         -         (2)         (70)         1.40         (5,567)         1,63         (24,49)         13.327         (301)           Defined Charges and other asset.         (61)         (11,20)         11         (22,610)         -         (20,70)         (14,50)         (5,627)         149         (1,53)         53         2,673         1,232         2,205           Accurd worker's componsation         -         3,332         669         14,962         2,114         772         1,325         1,105         -         2,4209         6,448         444         94           Due to other funds.         (10,54)         -         1,200         -         3,164         600         -         2,238         -         4,1678         (6,77)         -         -         6,060         -         -         1,661         3,644         1,500         -         -         6,630         9,00,544         3,90,33         7,	Other	-	(2,048)	-	-		-	573	-	-	(1,475)	21,859	-	-
Due from cher funds         Celer / Final         Celer / Final <thceler final<="" th="">         Celer / Final         Cel</thceler>														
2,112       (659)       49       3,993       16       -       (2)       (70)       -       5,439       (654)       -       -       12         Accounts payable       (611)       (1,723)       222       (1,337)       3,829       (622)       116       (677)       (1,426)       (5,549)       5,389       (637)       1.2         Accounts payable       (1,120)       116       154       2,173       1.299       331       144       (1,138)       53       2,057       7,912       246       155         Accounts payable       -       5,333       16       3,469       2,454       264       165         Accounts ordered compensation       -       3,033       16       3,469       2,454       264       164       12,99       144,09       15,494       12,99       12,99       14,99       12,99       14,99       14,99 </td <td></td> <td>(5,957)</td> <td>1,163</td> <td>(244)</td> <td>(396)</td> <td></td> <td>5,493</td> <td>395</td> <td>(11,133)</td> <td>8</td> <td></td> <td></td> <td>13,327</td> <td>(301)</td>		(5,957)	1,163	(244)	(396)		5,493	395	(11,133)	8			13,327	(301)
Datament durge series         Int.				-	-		-			-				-
Mainter         (11)         (1723)         222         (1337)         (1329)         (11)         (1723)         222         (1337)         (1329)         (11)         (1723)         (129)         (1130)         (133)			(659)	49			-			-			-	-
Accured payroll.       (1120)       1116       154       2,173       1,289       371       149       (1,133)       53       2,057       7,912       246       152         Accured worker's compensation.       -       3,332       569       14,952       2,114       772       1,225       1,105       -       2,4209       6,448       444       94         Due to other funds.       (1,054)       -       1,200       -       3,168       6,000       -       2,239       6,448       444       94         Due to other funds.       (1,054)       -       1,200       -       3,168       860       -       9,238       6,41,878       (16,479)       -       6,000       6,428       5,004       6,039,838       (7,153)       5,755         Net cash provides by (used in) operating activities.       156,412       53,326       8,337       76,181       (4,852)       4,440       15,640       2,338       4,557       300,654       200,654       200,654       200,654       200,654       200,654       2,09,829       (7,6,221)       \$       (7,9,365)       4,428         Reconciliation of cash and cash equivalents       106,412       53,326       54,005       51,000       5       7,47		-	-				-							
Accurd vacuular														
Accurate sortient: componentiation.       -       3.332       569       14,952       2,144       772       1,325       1,105       -       24,209       6,448       444       94         Estimated dams payable       (2,055)       (2,082)       2,607       11,651       3,444       1,289       -       (6,060)       (4,420)       -       -       -       -       -       0,000       (4,420)       -       -       -       -       -       -       0,000       4,449       424       94       -       -       -       -       0,000       4,449       424       94       -       -       -       0,000       4,449       444       94       -       -       -       -       0,000       4,449       94       -       -       -       1,000       -       2,238       -       4,467       1,269       -       -       10,641       (2,053)       5,525       2,7239       4,005       3,00,033       -       -       5,755       +       16,410       4,949       1,794       7,796       -       1,049       5,755       +       5,92,945       -       5       7,92,718       7,701,962       5,14,994       7,796       -       -<		(1,120)												
Catality and claims public limit.         -         -         C(2055)         (2985)         2.897         (11,651)         3.842         1.289         -         -         0.000         (4.282)         -         -         0.000         (4.282)         -         -         0.000         (4.282)         -         -         0.000         (4.282)         -         -         0.000         (4.282)         5.001         -         -         0.000         (4.282)         5.003         (1.050)         -         0.000         (4.282)         5.003         (1.050)         -         0.000         (4.282)         5.003         2.0088         2.0088         2.0088         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.00564         2.00554         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.0054         2.00564         2.0056         2.00780 <td></td> <td>-</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>16</td> <td></td> <td></td> <td></td> <td></td>		-								16				
Due to other funds.       (10,54)       1200       31,844       800       23,235       41,878       (16,779)       -       -         Deterd cerds and other fabilities       20,089       23,275       -       (19,679)       -									1,105	-			434	54
Depared credits and other labilities.         20.088         23.275         .         (1980)         .         .         (107)         1.641         (650)         42.442         5.044         (95.321)         .           Total adjustments.         156.412         53.305         8.531         76.181         (4.852)         44.440         15.040         2.339         4.557         390.984         309.083         309.084         4.028           Reproduction of cash equivalents to the biance sheet         299.025         103.140         51.160         1.444         90.726         4.005         51.000         61.351         64.868         1.4499         \$         7.796           Restricted         10         40         10         588         10         -         5         1         2.844         1.530.877         1.533.877         6.82.17         -         1.736         7.196         7.196								1,269	-	-				
Total adjustments       156,412       53,336       8.53       76.181       (4,852)       48.40       15.040       2.339       4.557       390,054       300,033       (78,153)       5.755         Net cash provide by (used in operating activities       5       211,929       \$ 52,722       \$ 20,554       \$ (445.08)       \$ (65.623)       \$ 54.087       \$ 9,655       \$ (27.299)       \$ 9,274       \$ (99,785)       \$ (76.221)       \$ (73,355)       \$ 4,520         Reconclision of cash and cash equivalents to the balance sheet       209,025       100,140       - \$ 54.370       \$ 69,594       \$ .       \$ 74,778       \$ 701,962       \$ 14,499       \$ 7,796         Restricted       209,025       100,140       - \$ 51,160       1,494       90,725       \$ 000,55				1,200		31,694	800	(487)		(660)			(06 221)	
Net cash provided by (used in) oparating schellar.       2 11 s29       5 2,722       2 0,554       § (245,089)       § (85,623)       § 54,087       § 0,556       § (27,299)       9,274       § (97,89)       § (76,221)       § (79,386)       § 4,528         Resociliation of cash equivalents to the biamers shet       299,626       103,140       51,160       1,494       90,726       \$ 51,000       67,873       \$ 701,962       \$ 14,499       \$ 7,796         Resociliation of cash equivalents       299,626       103,140       51,160       1,494       90,726       \$ 51,000       648,686       \$ 14,499       \$ 7,796         Restricted       299,626       103,140       51,160       1,494       90,726       \$ 51,000       63,591       648,686       \$ 14,499       \$ 7,796         Charl Treasury       10       40       10       588       10       -       5       1       2,244       1,353,897       1,533,897       66,221       -		Manufacture and a second s												6 705
extinction         \$ 211,929         \$ 52,722         \$ 20,564         \$ (245,089)         \$ 9,656         \$ (27,299)         \$ 9,274         \$ (93,789)         \$ (76,221)         \$ (73,366)         \$ 4,628           Reconciliation of cash and cash equivalents to the balance sheet:         Deposite and investments foll (Treasury: Unrestricted         \$ 278,894         \$ 227,351         \$ 00,250         \$ 74,379         \$ 701,962         \$ 14,499         \$ 7,796           Rearriced         299,626         103,140         - 51,160         1,494         90,725         4,005         \$ 10,005         - 601,351         648,966         -         -         -         -         -         -         -         51,160         1,494         90,725         4,005         \$ 1,000         -         501,351         648,966         -         -         -         -         -         -         -         51,000         -         51,100         1,494         1,90,807         1,333,907         66,337         66,354         51,000         2,844         1,308,907         61,322         -         -         -         -         -         -         -         -         -         -         -         -         -         -         -         -         -         -		156,412	53,936	8,531	/6,181	(4,852)	48,440	15,040	2,339	4,557	360,564	309,065	(70,155)	5,795
Backmann         Carry Control		¢ 011.000	¢ 52722	e 20.654	¢ (345.080)	s (85.623)	\$ 54.087	< 9.656	¢ (27 200)	s 9.274	\$ (99.789)	\$ (76.221)	\$ (79.366) \$	4 928
to the balance sheet           Deposite and investments UCIV Treasury:           Unrestricted deposite and investments UCIV Treasury:           Unrestricted         229,628         10,351         60,250         7,4329         5         54,370         5         55,584         5         5         77,478         701,562         \$         14,499         7,796           Restricted         239,628         103,140         51,160         1,494         90,726         4,005         51,000         601,351         648,666         \$         1,4399         7,796           Unrestricted deposits and investments outside         0         40         10         568         10         -         5         1         2,844         3,508         2,467         51,732         -           Total deposits and investments         578,730         330,531         60,290         126,077         1,0435         100         -         1,532         10,767         - </td <td></td> <td>\$ 211,525</td> <td>¢ 52,722</td> <td>a</td> <td>J_(040,000)</td> <td>· (00,020)</td> <td>· 04,007</td> <td>4</td> <td>\$_(<u>21,200</u>)</td> <td>0,274</td> <td>•</td> <td>•</td> <td>•</td> <td>1,010</td>		\$ 211,525	¢ 52,722	a	J_(040,000)	· (00,020)	· 04,007	4	\$_( <u>21,200</u> )	0,274	•	•	•	1,010
Deposite and investments with City Treasury:         \$ 278,894         \$ 227,351         \$ 60,20         \$ 74,729         \$ -\$ 54,770         \$ 754,778         \$ 701,962         \$ 14,499         \$ 7,796           Restricted         299,626         103,140         -5         51,000         -5         1         2,844         3,569         2,447         54,569         \$ 14,499         \$ 7,796           Chr Y Treasury:         10         40         10         588         10         -         5         1         2,844         3,569         2,447         51,732         -														
Unrestricted       \$ 278,894       \$ 272,894       \$ 272,894       \$ 54,730       \$ 56,594       \$ - \$       \$ 54,730       \$ 56,594       \$ - \$       \$ 75,730       \$ 56,300       \$ - \$       \$ 75,730       \$ 56,300       \$ - \$       \$ 75,730       \$ 56,300       \$ - \$       \$ 75,730       \$ 56,300       \$ - \$       \$ 75,730       \$ 56,300       \$ - \$       \$ 75,730       \$ 56,300       \$ - \$       \$ 75,730       \$ 56,300       \$ - \$       \$ 75,730       \$ 56,300       \$ - \$       \$ 75,730       \$ 50,300       \$ - \$       \$ 75,730       \$ 50,300       \$ - \$       \$ 75,730       \$ 50,300       \$ - \$       \$ 75,730       \$ 50,300       \$ - \$       \$ 75,730       \$ 50,300       \$ - \$       \$ 51,000       \$ - \$       \$ 51,000       \$ 2,844       3,508       2,467       51,732       \$       \$       - \$														
Restricted         229,826         103,140         -         51,160         1,404         90,728         4,005         51,000         -         601,351         648,668         -         -           Unvesticated deposits and investments         10         40         10         668         10         -         5         1         2,844         3,508         2,447         51,732         -           Total deposits and investments         578,730         330,531         60.290         122,077         1,504         145,096         65,594         1         2,844         1,358,937         66,231         7,796           Add: Restricted deposits and investments not meeting the definition of cash quivelents.         -         4,787         -         10,435         100         15,322         10,767         -           Cash and cash equivalents         (231,128)         (3,933)         (598)         (1)         (50)         (759)         (817)         -         (237,255)         (641,553)         -         -         -         -         -         5         5         5         5         3,776         5         5,327         \$ 60,231         \$ 7,766         -         -         -         -         -         -         -					. 74 200		* 54.270				e 754 779	e 701.062	\$ 14.490 \$	7 706
Unserticist depoils and investments outside CNP result.         10         40         10         568         10         -         5         1         2.844         3.508         2.467         51,732         -           Total deposits and investments.         578,730         330,531         60.260         128,077         1,504         145,096         63,594         51,001         2.844         3.508         2.467         51,732         -           Add:         Restricted deposits outside CAP transurg         -         -         4,787         -         10,435         100         -         15,322         10,767         -				\$ 60,250						• •			φ 14,400 φ	1,150
City Treasury         10         40         10         568         10         -         5         1         2,644         3,508         2,447         5,17,22         -           Total deposits and investments.         578,730         330,531         60,200         128,077         1,504         145,096         65,594         51,001         2,844         1,358,397         66,231         7,796           Add. Restricted deposits and investments.         -         -         4,787         -         10,455         100         15,322         10,767         -           Uses: Deposits and investments not meeting the definition of cash quivelents.         (231,128)         (3,933)         (598)         (1)         (50)         (759)         (817)         -         (237,255)         (641,553)         -         -         -         -         -         (231,128)         (3,933)         (598)         (1)         (50)         (759)         (817)         -         (237,255)         (641,553)         -		299,826	103,140	-	51,160	1,494	90,720	4,005	51,000		001,331	040,300		
Total deposits and investments.       578,730       330,531       60,260       126,077       1,504       145,096       63,594       51,001       2,844       1,353,937       66,231       7,796         Add:       Restricted deposits outlines (by Trassury)       -       4,787       -       10,435       100       1,522       10,767       -       -         Less:       Deposits and investments       (231,128)       (3,003)       (599)       -       (1)       (50)       (759)       (817)       (237,256)       (64,1553)       -		10	40	10	588	10		5	1	2,844	3,508	2,467	51,732	
Add:       Restricted deposits outside City Treasury meeting the definition of cash equivalents.       -       4,787       -       10,435       100       15,322       10,767       -         Less:       Deposits and investments not meeting the definition of cash equivalents.       (231,128)       (3,003)       (598)       -       (1)       (50)       (759)       (817)       -       <							145.096	63 594	51 001	2 844	1 359 637	1 353 397	66 231	7 796
meeting the definition of cash equivalents.       -       -       4,787       -       10,455       100       15,322       10,767       -       <		576,750	330,331	00,200	120,077	1,004	140,000	00,004	01,001	2,044	1,000,001	1,000,007	00,201	1,100
Less: Daposits and investing:         (231,128)         (3,003)         (598)         (1)         (50)         (759)         (817)         (237,256)         (641,553)         -					4 787			10 435	100		15 322	10 767	-	
Bre definition of cash equivalents.         [231,128]         (3,003)         (598)         -         (1)         (50)         (759)         (817)         (237,256)         (641,553)         - <td></td> <td>-</td> <td></td> <td></td> <td>4,107</td> <td></td> <td></td> <td>10,100</td> <td>100</td> <td></td> <td></td> <td></td> <td></td> <td></td>		-			4,107			10,100	100					
Cash and cash equivalents at end of year on statement of cash lows		/231 128	(3 903)	(598)		(1)	(50)	(759)	(817)		(237,256)	(641.553)		-
on statement of cash flows       \$ 347,602       \$ 326,628       \$ 150,864       \$ 1,503       \$ 145,046       \$ 73,270       \$ 50,284       \$ 2,844       \$ 1,137,703       \$ 722,611       \$ 66,231       \$ 7,796         Non-cash investing, capital and financing admitise:       Team inprovements finance by entropedits       \$ - <td< td=""><td></td><td>(201,120)</td><td>(0,000)</td><td></td><td></td><td>0</td><td></td><td>(100)</td><td></td><td></td><td></td><td></td><td></td><td></td></td<>		(201,120)	(0,000)			0		(100)						
Tenant improvements franced by rent credits.         \$         \$         \$         \$         \$         \$         \$         375         \$         494           Loss on abandomment of property and equipment.         -         -         -         -         259         -         259         1,281           Contributed improvements by framents         7,726         -         -         -         -         7,720         18,124           Acquisition of capital assets on accounts payable and		\$ 347,602	\$ 326,628	\$ 59,662	\$ 130,864	\$ 1,503	\$ 145,046	<u>\$ 73,270</u>	\$ 50,284	<u>\$ 2,844</u>	\$ 1,137,703	\$ 722,611	<u>\$ 66,231</u> \$	7,796
Tenant improvements franced by rent credits.         \$         \$         \$         \$         \$         \$         \$         375         \$         494           Loss on abandomment of property and equipment.         -         -         -         -         259         -         259         1,281           Contributed improvements by framents         7,726         -         -         -         -         7,720         18,124           Acquisition of capital assets on accounts payable and	All second strength and the second second second strength datasets													
Loss an abandonment of property and equipment.         259         259         1,281           Contributed morements         7,726         7,726         18,124           Acquisition of capital assets on accounts psyable and capital leases         802         1,485         864         3,151         5,962								e 275		•	¢ 976	s 404		
Cost on adda foot ing the register of the registero of the register of the registero of the registero o		s -	5 -	<b>.</b> -	۰ ۰	÷ -	۰ ۰		• •	a -				
Combused insportenies by relians		7 700	-					259	-	-				
capital leases		7,726	-	-	-	-	-	-	-	-	1,120	70,124		
						902		1 495	864		3 151	5 962		
\$ 7,725 <b>S</b> - <b>S</b> - <b>S</b> - <b>S</b> 802 <b>S</b> - <b>S</b> 2,119 <b>S</b> 864 <b>S</b> - <b>S</b> 11,511 <b>S</b> 25,661	capital leases			<u> </u>										
		\$ 7,726	5 -	5 .	<u>s -</u>	\$ 802	<u> </u>	\$ 2,119	<u>&gt; 864</u>	<u> </u>	<u>s 11,511</u>	<u>a 25,861</u>		

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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, 2002 (with summarized financial information for the year ended June 30, 2001) (In Thousands)

				E	Business-typ	e Activities •	Enterprise Fu	inds					
	San Francisco Interna- tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Railway	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	To	al	Governn Activities- Service I 2002	Internal
Cash flows from operating activities:	- III BOIL	population	<u>r ower</u>	Itaninar	Genter	riogram	Francisco	nospital	Garages	2002	2001	2002	2001
Cash received from customers, including cash deposits	\$ 493,400	\$ 163,568	\$ 123,743	\$ 120,817	\$ 278,693	\$ 140.088	\$ 5.589	s .	\$ 33.529	\$ 1.359.427	\$ 995.283	\$ 115,302 S	\$ 95,736
Cash received from patients and third party payors				-	• 210,000	•	• •,•••	103,145	¢ 00,020	103,145	369,492	a 110,302 -	3 55,736
Cash received from lenants for rent	-	8.303	204		2,961		44,153	100,140	2,181	57,802	51.225		
Cash paid to employees for services	(140,938)	(45,424)	(15.985)	(350,612)	(214,671)	(34,465)	(19,912)	(114,025)	(6,686)	(942,718)	(881.371)	(38.873)	(34,109)
Cash paid to suppliers for goods and services	(140,533)	(69,698)	(87,369)	(107,353)	(152,606)	(51,129)	(20,174)	(16,419)	(19,750)	(665.031)	(599,615)	(155,795)	(56,699)
Cash paid for judgements and claims		(4,027)	(39)	(7,941)	(,,	(407)		(10,110)	(10,100)	(12,414)	(11,235)	(100,700)	(00,033)
Net cash provided by (used in) operating activities	211,929	52,722	20,554	(345,089)	(85,623)	54.087	9.656	(27,299)	9,274	(99,789)	(76,221)	(79,366)	4,928
Cash flows from noncapital financing activities:								(21,200)	5,214	(33,703)	(70,221)	(/9,300)	4,920
Operating grants	(5)	-	1,609	215,057	70,497	-			-	287,158	270,833	-	
Transfers in	-		-	111,138	74,584	-		28,659	· -	214,381	226,471	512	1.117
Transfers out	(17,784)		(382)	(193)	(71,623)	-				(89,982)	(123,644)		(50)
Cost allocation charges received	-	-	-	-	-	-		-	-		5,897	-	-
Transit Impact Development fees received	-	-	-	7,062				-	-	7,062	2,123	-	
Claims settlement proceeds		-	-	-	-			-			3,982		-
Other noncapital increases	-	•	•	-	4,980			244	-	5,224	3,583	-	
Other noncapital decreases				(232)		-	· ·	(304)	-	(536)	(30,234)		-
Net cash provided by (used in)													
noncapital financing activities	(17,789)	-	1,227	332,832	78,438			28,599		423.307	359.011	512	1,067
Cash flows from capital financing activities:													11007
Capital grants	15,989	-	-	253,311			3,123	-		272.423	267,785		
Bond sale proceeds and loans received	40,425	140,772	-				1,098		18.328	200,623	264,994	7,928	
Proceeds from sale of fixed assets		1,868	-	-				-		1,868	126,454		
Proceeds from commercial paper borrowings	160,847	100,000	-	-		-		-	-	260.847	298,231		
Loans received	-	-	-	-	-	-		-	-	-		3.541	972
Proceeds from passenger facility charges	30,606	-	-	-		-		-	-	30,606			
Acquisition of capital assets	(244,242)	(121,308)	(13,201)	(223,594)	(5,864)	(19,902)	(14,074)	(14,045)	(19,955)	(676,185)	(967.001)	(3.627)	(1,178)
Retirement of capital leases, bonds and loans	(27,290)	(7,350)	•	-			(13,344)	(200)		(48,184)	(69,710)	(16,902)	(1,136)
Retirement of commercial paper borrowings	-	(85,000)	-	-					-	(85,000)	(97,340)		
Bond issue costs paid	(2,406)	(1,358)	-	-	-	· •		-	-	(3,764)	(3,988)	(67)	
Interest paid on long term debt	(222,028)	(18,686)	-	-	(1,221)	(96,610)	(2,367)	(541)	(1,283)	(342,736)	(265,342)	(7,468)	(940)
Other capital financing increases	-	· · ·	-	35,521			9,278	20,970		65,769	47,902	-	-
Other capital financing decreases	(8,912)	-	-	(15)	-	-	(2,804)	· · ·	(797)	(12,528)	(3,225)		
Net cash provided by (used in) capital financing activities	(257,011)	8,938	(13,201)	65,223	(7,085)	(116,512)	(19,090)	6,184	(3,707)	(336,261)	(401,240)	(16,595)	(2,282)
Cash flows from investing activities:											(401,240)	(10,333)	(2,202)
Purchases of investments with trustees	(1.976.296)	(2.677)		(25.339)		(47,418)		-	(5.489)	(2,057,219)	(1,791,080)		
Proceeds from sale of investments with trustees	1.930.615			25,339		3.975		-	(0,400)	1.959.929	1.776.151		
Purchases of restricted deposits and investments	(586,295)	(17,815)	-			(3,975)		-		(608,085)	(1.154.624)		
Proceeds from sale of restricted deposits and investments	979,303	35,437				48,515			-	1,063,255	773,414		
Interest income received	38,224	8,811	893	4,199	112	6,280	3.172	1.738	475	63,904	92.397	8,178	50
Claims settlement proceeds	-					-,				00,001	275	0,110	55
Other investing activities		2,374	358	353		2.995		(29)		6,051	4,835	(85)	809
Net cash provided by (used in) investing activities	385.551	26,130	1,251	4,552	112	10.372	3,172	1,709	(5.014)	427,835	(298,632)	8.093	859
Net increase (decrease) in cash and cash equivalents	322,680	87,790	9.831	57.518	(14,158)	(52,053)	(6.262)	9,193	(5,014) 553	427,835	(417,082)	(87,356)	4.572
Cash and cash equivalents-beginning of year	24,922	238,838	49,831	73,346	15,661	197.099	79.532	41.091	2.291	722.611	1.139.693	(87,356) 153,587	4,572 3,224
Cash and cash equivalents-end of year	\$ 347,602	\$ 326,628	\$ 59,662	\$ 130,864	\$ 1,503								
owan and cash equivalents-end of year	<u>¢ 347,002</u>	<u> </u>	a 59,062	<u>a 130,864</u>	<u>ə 1,503</u>	\$ 145,046	\$ 73,270	\$ 50,284	<u>\$ 2,844</u>	\$1,137,703	\$ 722,611	\$ 66,231	\$ 7,796

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

### Statement of Fiduciary Net Assets

#### Fiduciary Funds June 30, 2002

#### (In Thousands)

Pension and Other Employee Investment Benefit Trust Trust Agency Funds Fund	\$ 70,570 \$ 300,937 \$ 103,933 11,026,161 - 2,930	12,358 - 48,329 256,100 1,903 85,441	1,461,506 - 3 12,826,698 302,840 5 2	15,458 2,267 73,049 14,911 - 13,349 173,345	252,500 593,214 -	1,461,506 34,782 2,372,371 2,267 <u>\$ 246,434</u>	<b>\$10,454,327 \$ 300,573</b>
ASSETS	Deposits and investments with City Treasury	Payroll contribution	Invested securities lending collateral. Deferred charges and other assets. Total assets.	Llabilities Accounts payable. Estimated carns payable. Acento obligations	Obligations under fixed coupon dollar repurchase agreements. Payable to brokers.	Securities lending collateral	Net Assets Held in trust for pension and other employee benefits and pool participants

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, 2002

#### (In Thousands)

	Pension	
	and Other	
	Employee Benefit Trust	Investment Trust
	Funds	Fund
Additions:		
Employees' contributions	\$ 228,169	' 9
Employer contributions	218,854	•
Contributions on pooled investments.	•	2,119,085
Total contributions.	447,023	2,119,085
Investment income (loss):		
Interest.	215,271	10,773
Dividends	63,875	
Net decrease in fair value of investments	(820,239)	•
Securities lending income.	35,676	
Fixed coupon dollar repurchase agreement income	7,791	
Total investment income (loss)	(497,626)	10,773
Less investment expenses:		
Securities lending borrower rebates and expenses	(24,505)	•
Fixed coupon dollar repurchase finance charges and expenses	(7,061)	
Other expenses	(18,517)	
Total investment expenses.	(50,083)	1
Total additions (loss), net	(100,686)	2,129,858
Deductions:		
Benefit payments.	704,194	•
Refunds of contributions.	9,814	
Distribution from pooled investments.		2,104,493
Administrative expenses	11,827	•
Total deductions.	725,835	2,104,493
Change in net assets	(826,521)	25,365
Net assets at beginning of year	11,280,848	275,208
Net assets at end of year	\$ 10,454,327	\$ 300,573

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

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### **VOTES 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 provers as both a city and a county under state law. As required by generally accordent 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 avoite of the electorate to allow the City to lease-purchase SAD million (plus 5% per year growth) of equipment using tax-exterpt 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 reported within government and using the operations of the Finance Corporation financing to the City. Beginning on July 1, 2001, the operations of the Finance Corporation began to be reported within governmental funds. Prior to July 1, 2001, the operations of the Finance Corporation were reported within governmental funds.

Effective July 1, 2001, Finance Corporation net assets of approximately \$145 million were transferred, by areas of interfund transfers, from other governmental funds to the internal service funds to the internal service tunds the transmost internal service tund. Internal service tund, internal service tund, internal service tund, internal service tund, internal service tund transfers, and liabilities that are not reported in governmental funds since the assets do not represent current financial resources and the liabilities that are not reported in governmental funds since the assets do not represent current financial resources and the liabilities that are not offset by a corresponding transfer in to the newly created Finance Corporation internal service fund. Financial statements for the Finance Corporation can be obtained from the Finance Corporation sumistrative offices at City Hall, Room 336, #1 Dr. Cartlon B. Goodlett Place, San Francisco, CA 94102.

San Francisco Parking Authority (Parking Authority) – The Parking Authority was created in October 1949. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment reated the Parking and Traffic Commission (PPT), 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. Separate financial statements are not prepared for the Parking Authority rank of Authority can be obtained from the Parking Authority's administrative offices at 25 Van Ness Avenue. San Francisco, CA 94102.

## CITY AND COUNTY OF SAN FRANCISCO

## VOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 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 ecconnic development opportunities Citywale. Included in its financial data are the accounts of the San Erancisco Redevelopment Financing Authority (SFRFA), a component unit of the Agency. The SFRFA is a separate joint-power saturd between the Agency and the City to facilitate the long-term financing of Agency activities. The Agency's governing commission serves as the Board of Directors of Nes Xenne, San Francisco CA 4470.

The Agency's governing body is not substantively the same as that of the City, and the Agency does not voide 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. Complete financial statements can be obtained from the Agency's budget Complete financial statements can be obtained from the Agency's administrative offices at 770 Golden Gate Ave., San Francisco, CA 94102, CA 94102. Treasure Island Development Authority (TIDA) – The TIDA is a nonprofit public benefit corporation. The TLA 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 Navai 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 colurm to emphasize that its legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's budget and the City to exprove the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial administrative offices at 410 Palm Avenue, Building 1, Room 223, Treasure Island, San Francisco, CA 94130.

### 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 Sam Francisco Altrport 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 (BAACM), which are also excluded more the City is represented in two regional agencies,

CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	Property taxes, other local taxes, licenses, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period.	All other revenue items are considered to be measurable and available only when the City receives cash.	The City reports the following major governmental fund:	The <b>General Fund</b> is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.	The City reports the following major proprietary (enterprise) funds:	The San Francisco International Airport Fund accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.	The <i>Water Department Fund</i> accounts for the activities of the San Francisco Water Department. The department is engaged in the distribution of water to the City and certain suburban areas.	The <i>Hetch Hetchy Water and Power Fund</i> accounts for the activities of Hetch Hetchy Water and Power Department (Hetch Hetch). The department is engaged in the collection and conveyance of anonvirtation KSA, of the Circle's varier sumply and in the neuration and transmission of electricity.	The <i>Municipal Railway Fund</i> 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 its 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.	The <i>Clean Water Program Fund</i> 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 <b>Port of San Francisco Fund</b> 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.	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 <b>Parking Garages Fund</b> 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.	
CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	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-fiduciany activities of the primary government and its	component units. For the most part, the effect of interfund activity has been removed from these component units. For the most part, the effect of interfund activity are supported by taxes and intergovernmental schedules, which normally are supported by taxes and intergovernmental schedules.	and charges for supports reported which the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.	The statement of activities demonstrates the degree to which the direct expenses of a given function or semment are offset by monram 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 servicent and (2) includes and contributions that are restricted to meeting the operational or capital	requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.	Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.	The basic financial statements include certain prior-year summarized comparative information. This information is presented only to facilitate financial analysis.	(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 fluctuanty 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 outches with the measurable and available.	train perform of source independences to pay national so the end of the current foreout or source projection of the current fiscal period. All other revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are generally collected within 120 days of the end of the current fiscal period. It is the City's policy to submit reinbursement and commerces of the end of the current fiscal period.	state grant revenues within so uays on the enu or une progrant ruporten its perferant y reventary reventary to within the first or second quarker of the following fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as spenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.	

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CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	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) Budgetary Data The City adopts annual budgets for all governmental funds on a Modified Accrual basis of accounting except for capital project funds which adopt project length budgets.	The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts variable for appropriation and (3) the estimated carges 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 beginning in December and submit their budget proposals to the Controller's Office no later than February 21.	(2) The Controller's Office consolidates the budget estimates and transmits them to the Mayor's Office. Staff of the Mayor's Office analyze, review and refine the budget estimates before transmitting a budget to the Board of Supervisors.	(3) By the first working day of June, the Mayor submits the proposed budget to the Board of Supervisors along with a draft of the annual appropriation ordinance prepared by the Controller's Office.	(4) Within five working days of the Mayor's proposed budget transmission to the Board of Supervisors, the Controller reviews the estimated revenues and assumptions in the Mayor's proposed budget and provides an opinion as to their accuracy and reasonableness. The Controller also may make a recommendation regarding prudent reserves given the Mayor's proposed resources and expenditures.	(5) The appropriate Committee of the Board of Supervisors conducts hearings, obtains public comment, and reviews the Mayor's proposed annual budget. The Committee recommends an interim budget reflecting the Mayor's budget transmittal and, by June 30, the Board of Supervisors passes an interim budget.	(6) 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.
CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	Additionally, the City reports the following fund types:	The <i>Permanent Fund</i> accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.	The Internal Service Funds account for the financing of goods or services provided by one City department to another City department on a cost reimbursement basis. Internal Service Funds account for the activities of the equipment maintenance services, centralized printing and mailing services, centralized telecommunications and information services, and lease financing through the Finance Corporation.	The <b>Pension and Other Employee Benefit Trust Funds</b> 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 employer entiments, withdrawals, disability and death bretifts as well as administrative expenses. The Health Service System accounts for contributions from active and retired employees and surviving spouses, City contributions from active and retired employees and surviving spouses, City contributions, and the earnings and profits from	investments. It also accounts for the disbursements to various health plans and health care providers for the medical expenses of beneficiaries.	The <i>Investment Trust Fund</i> 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 Account Funds account for the resources held by the City in a custorial canacity on behalf of	Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally	are followed in both the government-wide and proprietary tund imancial statements to the extent mat those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Baard 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	In general, the effect of interfund activity has been eliminated from the government-wide financial constant, the effect of interfund activity has been eliminated from the government-wide financial constants. These charges have not been eliminated because elimination 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 restricted to meeting the operational or capital requirements of a particular function or segmental revenues.	Proprietary funds distinguish potentiary revenues and expenses from non-operating items. Operating Proprietary funds distinguish potentiary revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal orgoing operations. The principal operating revenues of the City a enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, atime fees and charges, parking fees, commercial and industrial rents, princing services, vehicle animenance 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

CITY AND COUNTY OF SAN FRANCISCO	CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
<i>Final Budg</i> et The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:	For reports on the external investment pool, contact the Office of the Treasurer, Room 140, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102. Investment Valuation
	<i>Treasurer's Pool</i> – 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 participant's percentage participant in the event that a certain fund overdraws its share of pooled case, the current that a certain fund overdraws is share of pooled cash, the overdraft 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 approximate market work.
(2) Appropriations may be adjuring the year with the approval or the Mayor and the board of Supervisors. Additionally, the Controller is authorized to make certain transfers of surplus suppropriations within a department. Such adjustments are reflected in the final budgetary data. The Annual Appropriation profilation of the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make certain transfers of appropriations within department. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.	approximates market value. Employees' Retirement System (Retirement System) - Investments are reported asles price at current traded on national or international excitanges are valued at the last reported asles 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 thict-park papersiens. The fair values of venture capital investments are estimated base primarily on audited financial statements provided by the individual fund managers. Such market value estimates involve subjective judgments, and the actual model of the context of the supersistic provided by the
Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures. Generally, 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.	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
(d) 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 City's investment policy and the California State Government Code. The City's investment policy and the California State Government Code. The City and the California State Covernment Code. The City and California State Covernment Code. The City and the California State Covernment Code California State Covernment Code. The City and the California State Covernment Code. The City and the California State Covernment Code. The City and California State Covernment Code. The City and California State Covernment Code California State Covernment Code. The City and California State Covernment Code. The City City California State Covernment Code. The City California State Covernment Code California State Covernment Covernment Code California State Covernment Code California State Covernment Covernment Covernment Covernment Covernment Covernment Covernment Covernme	prices from national exchanges. As of June 30, 2002, the fair value of open purchase contracts was \$966.8 million, offset by the fair value of open sales contracts of (\$980.4) million for a net fair value of (\$13.6) million. The Retement System utilized contracts netting to \$17.9 million to hedge (or decrease) the currency risk of foreign investments or to settle trades, and contracts netting to \$4.3 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.
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 City Charter and Retirement System Board (Board) policies permit the Retirement System to use investments of the Retirement System's Pension Plan (the Plan) to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral, with a
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 bend 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' Retirement System and deposits and investments of the Redevelopment Agency are held by trustees (note 5).	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, 2002, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers executies the amounts the Retirement System owes the borrowers executies and risk exposure to borrowers owe the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System.
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, 2002, \$300.6 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 10.4%. 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, 2002 to support the value of shares in the pool.	income distributions by the securities issuers while the securities are on loan. Non cash collateral cannot be pledged or sold unless the borrower defaults. Either the Retirement System or the borrower can terminate all securities loans on demand, although the average term of the loans is thiny-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
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## VOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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 symenses. The City Charter and Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchases 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 freed 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, 2002 was approximately 303 flouceand. 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 agains or losses. At June 30, 2002, the fair value of total open contracts was \$0. Changes in market value of open contracts are immediately recognized as gains or losses. Investments in fixed income future contracts are used to hedge two fixed income portfolios as their assigned performance benchmark is the Lehman Brothers Global Aggregate Index-Hedged. As of June 3, 2002, the market value of open contracts was (\$195) thousand. Changes in the market value of open contracts are immediately recognized as gains or losses. Other funds – Non-pooled investments are also generally carried at fair value. However, money market acreatments (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 neglotable 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 carried an amortized oct which approximates market value. The fair value of non-pooled investments is mutual funds is determined 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 - San Francisco Redevelopment Agency - Investments are stated at fair value except for money market investments with maturities of one year or leas which have been stated at amoritized cost. The fair value of investments has been obtained by using market quotes as of June 30, 2002 and reflects the values as if the Agency were to liquidate the securities on that date.

#### Investment Income

Income from pooled investments is allocated at month end to the individual funds or external participants abade on the fund or participant's average daily cash balance in relation to total pooled investments. City management has determined that the investment income related to certain funds should be allocated to the General Fund. On a bugget basis, the interest income is recorded in the General Fund. On a generally accepted accounting principles (GAAP) basis, the income is recorded in the fund where the related investments reside. A transfer is then recorded to thar equal to the interest earnings to the General Fund. This is the case for certain other governmental funds, Internal Service Funds, and Tust and Agency Funds.

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

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

It is the City's policy to charge interest at month end to those funds that have a negative average daily scash balance. In certain instances, City management that as determined that the interest expense related to the fund should be allocated to the Ganeral Fund. On a budget basis, the interest expense is recorded in the General Fund. On a AAP basis, the interest expense is recorded in the General Fund on a the General Fund to the interest expense is recorded in the General Fund for an amount equal to the interest expense is made to the fund. This is the case for the General Fund for an amount equal to the interest expense is made to the fund. This is the case for experimental condict context, and the interest expense is made to the fund. This is the case for Hospital Medical Center, and the interest expense indext of the funds. Medical Centeral Hospital Medical Centeral Centers.

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.

#### (e) Loans Receivable

For the purposes of the fund financial statements, the other governmental funds expenditures relating to program 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 Mayor's Office of Housing administers several housing programs and issues loans to qualified applicants. Many of these loans may be forgiven if certain terms and conditions of the loans are met. They are accounted for in the other governmental funds as long-term loans receivable with an offsetting allowance for forgivable loans.

For purposes of the government-wide financial statements, long-term loans are not offset by deferred oredit accounts.

#### (f) Inventory

Inventory recorded in the proprietary funds primarily consists of construction materials and maintenance supplies as well as pharmaceutical supplies maintained by the hospitals. Concertaily, proprietary funds value inventory at cost or average ost 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 Program which accounts for materials and supplies using the purchase method. This method records items as expenses when they are acquired. The governmental fund types also use the purchase method to account for supply inventories.

## (g) 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.

#### (h) Capital Assets

Capital assets, which include land, facilities and improvement, machinery and equipment, and intracturdure assets, are reported in the applicable governmential 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 outspital outspital assets are stratements to the extent the City's capitalization threshold is met. Interest incurred during the construction

NOTES TO BASIC FINANCIAL STATEMENTS ( <i>Continued</i> ) phase of the capital assets of business-type activities is reflected in the capitalized value of the asset	
phase of the capital assets of business-type activities is reflected in the capitalized value of the asset	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
constructed, in a memore started on the invested process over use same perior. Annother advance assets accurate on the invested process over une same period and annother advance acquired under capital lease is included in depreciation and annotheration. Facilities and 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:	(k) Fund Equity Reservations of Fund Equity Reservations of fund balances of the governmental funds indicate that portion of fund equity which is available for appropriation for expenditure or is legally segregated for a specific future use. Following is build about the analysis condition secretion.
AssetsYearsFacilities and Improvements15 to 50Infrastructure15 to 70Machinery and Equipment3 to 40Easements20	priet description of the nature of certain reserves. Reserve for cash requirements - The City's Charter provides for a cash requirement reserve to m potential short-term working capital needs. The balance is calculated as 10% of either the current or last preceding tax levy.
Works of art, historical treasures and zoological animals held for public exhibition, education, or research in turtherance of public source, rather than rinaridi gain, are not capitalized. These items are protected, kept unnorumbered, 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.	Reserve for emergencies - The City's Charter howders for an emergency reserve tund for puposes meeting any emergency as defined in the City's Charter. The amount reserved for emergencies may 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 outs City Treasury and deferred charges, do not represent expendable available financial resourc
(i) 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.	Therefore, a portion of fund equity is reserved to offset the balance of these assets. <i>Reserve for debt service</i> - The fund balance of the debt service funds is reserved for the payment of a service in the subsequent year.
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.	Reserves for encumbrances - Encumbrances are recorded as reservations of fund balances because t do not constitute expenditures or liabilities. In certain other governmental funds, this accounting treatmresults in a deficit unreserved fund balance. This deficiency is carried forward to the next fiscal year while it is applied against estimated revenues in the year the commitments are expended.
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.	Reserve for appropriation carry-forward – At the end of the fiscal year, certain budgeted expenditures authorized to be carried over and expended in the ensuing year. A reserve of fund balance is establis in the amount of these budget authorizations.
(j) Bond Issuance Costs and Discounts In the government-wide financial statements and in the proprietary fund type financial statements, long- term deriv and other hono-term oblications are recorded as liabilities in the apolicable dovernmental	reserver for subsequent years ungress – A protein or inter equal ys reserver to subsequent, years budgets. This balance includes the reserver required by the Chys Administrative Code for the bur- incentive program for the purpose of making additional funds available for items and services that improve the efficient operations of departments.
activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and effective interest method. Bonds payable are preprident and amoritized over the fund premium or discount. Bond issuance costs are reported as deferred charges and amoritized over the term of the related debt.	Restricted Assets Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside their repayment, are classified as restricted assets on the balance sheets because the use of proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for
In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures.	principal and interest amounts accumulated to pay debt service, unspent bond proceeds, and amou restricted for future capital projects. In addition, certain grant proceeds are restricted by the gran agency.
service experimentes.	Designations of Fund Equity Designations of fund balances (note 4) indicate that portion of fund balance that is not available appropriation based on management's plans for future use of the funds. Following is a brief descriptio the nature of the designations so future 30, 2002.

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CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	<ol> <li>RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS</li> <li>Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets</li> <li>Total fund balances of the City's governmental funds, \$1,248,962, difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources from the governmental fund balance sheets.</li> </ol>	Balance Sheet/Statement of Net Assets (in thousands) Total Long-term Internal Reclassi- Statement of Governmental Assets. Service factors and NA-Sests Found relations(1) Finds(2) Effinitions Totals	67 \$ \$ 14,499 \$ \$ \$	22.887	Labilities         150,78         6,814         6,814         6,542         6,543         6,544         6,546         175,776         175,720         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716         175,716 <th< th=""><th>51</th></th<>	51
CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	<i>Designation for litigation and contingencies</i> – This designation represents management's estimate of antiopated legal settlements or contingencies to be paid in the subsequent fiscal year. <i>Deficit Fund Balances/Net Assets</i> The Telecommunications and Information Internal Service Fund had a \$4.5 million deficit total net assets as of June 30, 2002. Approximately \$2.2 million of this deficit is due to depreciation that is not funded and will result in continuing deficit. The remaining portion of this deficit of total net assets and will result in continuing deficits. The remaining portion of the deficit of total net assets and will result in continuing deficits. The remaining portion of the deficit of total net assets relates to operations and sourcess	The Central Shops Internal Service Fund had a \$781 thousand deficit total net assets as of June 30, 2002. 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.	<ol> <li>Interfund Transfers         Interfund transfers are generally recorded as 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.     </li> </ol>	(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.	<ul> <li>(m) Refunding of Debt</li> <li>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 for poth business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense for proprietary fund types. Cash and cash equivalents include all statements of cash flows are presented for proprietary fund types. Cash and cash equivalents include all unsesticted and investments with original purchase maturities of three months or large stooled cash and investments in the City's Treasury represent monies in a cash management pol and such accounts are similar in nature to demand deposits.</li> <li>(D) Estimate</li> <li>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.</li> <li>(D) Reclassifications</li> <li>Carain amounts presented as 2001 Summarized Comparative Financial Information in the basic financial statements.</li> </ul>	50

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

\$ 2,514,025 (476,171) (41,445) (1,498,860) (8,116) 36,289 193,260 (119,144) \$ 7,545 (175,765) \$ (1,835,214) \$ 229,549 \$ (205,559) \$ 2,037,854 ω ഗ (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, net of accumulated depreciation, among the assets of the City as a whole. 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 Long-term liabilities applicable to the City's governmental activities are not due and pagable 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: 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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, acuptionent maintennance, 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. Bonds, loans, capital leases, and other payables. Deferred tax, grant and subvention revenue... Deferred credits and other liabilities...... Accrued vacation and sick leave pay.. Accrued workers' compensation. Estimated claims payable...... Cost of capital assets....... Accumulated depreciation.. as an expenditure when paid. net assets. 6

### (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, (\$243,755) differs from the change in net assets for governmental activities, \$16,691, 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	Long-term	Capital-	Internal	Long-term	Statement of
	Eunds	шı	Items(4)	Funds(5)	Transactions(6)	Totals
Revenues						
Property taxes	\$ 687,150	\$ 10,553	, ,	•	•	\$ 697,703
Business taxes	274,848	•	•	'	•	274,848
Other local taxes.	444,590	•	'	'		444,590
Licenses, permits and franchises	25,762	•	'	•	•	25,762
Fines, forfeitures and penalties	12,045	•	'	'		12,045
Interest and investment income.	65,597	'	'	5,000		70,597
Rents and concessions.	63,623	•	•	'	•	63,623
Intergovernmental:						
Federal	307,943	'	'	'	•	307,943
State	608,804	•	'	•	•	608,804
Other	33,924		,	'	•	33,924
Charnes for services	225.547		'	'		225,547
Other revenues	26.405		'	'		26,405
Total revenues.	2,776,238	10,553	·	5,000	•	2,791,791
Expenditures/Expenses						
Current:						
Public protection	690,050	20,127	11,282	(3,907)	•	717,552
Public works transportation and commerce.	296.411	14.196	17.177	(10.006)	•	317.778
Himan welfare and neighborhood development	613,133	(27,282)	337		•	586,188
	484 876	8 420	248	362	•	493.856
	070'104		0000 000	200	1000 01	000 000
Culture and recreation	238,320		000,41	000'7	ġ,	740,020
General administration and finance	164,745	2	13,955	(677)	C155	1/// 961
General City responsibilities	54,628	(188)	'	1,111	•	55,551
Debt service:						
Principal retirement.	69,536	'	•	'	(69,536)	•
Interest and fiscal charges	68,111	•	'	8,189	1,035	77,335
Bond issuance costs.	2,987	•	'	'	(2,987)	
Capital outlay	276,662	•	(276,662)	'	•	•
Total expenditures/expenses	2,959,415	(8,442)	(219,333)	(1,914)	(78,076)	2,651,650
Other financing sources (uses)/changes in						
net assets						
Net transfers (to) from other funds	(269,573)	'	•	145,174	•	(124,399)
Issuance of bonds and loans					1000 0001	
Face value of bonds issued	249,995	•	•	'	(249,995)	
Premium on issuance of bonds	3,095	'	•	•	(3,095)	•
Discount on issuance of bonds	(238)		,	'	238	•
Payment to refunded bond escrow agent	(136,230)	•	'	'	136,230	•
Other Financing sources - capital leases	91,424	•		'	(91,424)	•
Other	949			•	•	949
Total other financing sources (uses)/changes						
in net assets.	(60,578)	1	1	145,174	(208,046)	(123, 450)
Net change for the year	C 1243 7551	18 005	\$ 219 333	\$ 152 088	1129 9701	S 16.691
		,	2001017 B	2221201		- 2010

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# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(3)	Because some property lawas will not be collected for several months after the City's fiscal year ands, they are not considered as available revenues in the governmental funds.	\$ 10,553	
	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 government funds. Cental note-the liables reported in the prior year. rathement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the mount by which the decease in long sum liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	\$ 10,280	
	Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on iong-term learns since the learns 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.	\$ (1,838)	
(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 expensions. 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. Depredicton expenses Less on disposit deptial assets. Difference	\$ 272,560 (51,952) (1,275) \$ 219,333	
(2)	Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, exoperation maintenance, printing and mailing services, and telecommunications. Io individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds costs for the year.	\$ 152,088	
(9)	Lease payments on the Moscone Convertion Center (note 8) are reported as a culture and recreation expenditure in the governmental fundi and thus, have the effect of redough that datance because current francial resources benet used. For the CDV as a whole, however, the principal payments reduce the liability in the statement of ratio assets and to not result in an openear in the statement of carbing. The CLV scattal lasse obligation was reduced benet principal governments were made to the leases, datafored to the statement of carbing. The CLV scattal lasse obligation was reduced are reported as culture and recreation expension the governmental thinds when paid. The CNV scattal lasse openness being reported in the statement of carbing as the statement of activations in the statement of activation expenses being reported in the statement of activations.		
	Principal payments made Increase in capital lease obligation	<pre>\$ 16,729 (9,796) \$ 6,933</pre>	
	Bond issuance costs are expended in governmental funds when paid, and are capitalized and amoritzed over the life of the corresponding bonds for purposes of the statement of activities. Bond issuance costs. Amoritzation of bond issuance costs.	\$ 2,987 (345) \$ 2,642	
	Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are comparized in the statement of net assets. The following premiums and discounts were capitalized during the comparison		
	Premiums. Decourts	\$ (3,095) 238 \$ (2,857)	

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Repayment of bond principal and the payment to escrow in conjunction with the advance refunding of debt are enototed as expenditures in the payment to escrow in conjunction with the advance refunding burners in financial records have been used. For the CUy as a whole, however, the principal payments and payment to escrow for refunded debt reduce the fabilities in the statement of the assets and to on treat in expenses in the tattement of activities. The CUY is conded debt was reduced because principal payments were made to bond to descrow for refunded to be the conder as relatement of the assets and do not result in expenses in the tattement of activities. The CUY is conded debt was reduced because principal payments were made to bond todes and payments were made to escow for refunded debt.	
Principal payments made	\$ 69,536 136,230 \$ 205,766
Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) relational accurated interpreter activation of notices and notice and amount reported in governmental funds because (1) relationed which is expressed in the governmental funds and capitalized and amortized in the statement of activities. (3) amortization of bond discounts, premiums enclorated and relating activation of the discharge. (3) and activation in the statement of the accurated of the activation of the additional interest expenses are recognized on the accurate accurate accurate accounts, premiums recognized on the accurate of the accurated of the governmental funds until the litbility is due and payable.	
Accrued interest. Returcting toss. Amortization of bond premiums, discounts and returiding losses. Architage rebate lability.	\$ (2,494) 3,666 (158) (2,049) \$ (1,035)
Bond proceeds and capital leases 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 and entering into capital lease arrangements increase long-term labilities in the statement of rect assets and does not affect the statement of childes. Proceeds were received from: General obligation bonds. Central of particulation: Central of participation. Certificate of participation. Certificate of participation bonds.	\$ 17,665 118,945 37,170 15,460 60,755 \$ 249,995
Capital leases.	\$ 91,424

## BUDGE (4

### 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

.... \$ (3,095) .... 238 .... \$ (2,857)

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

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## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### (b) Timing differences

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

The fund balances as of June 30, 2002 on a Budget basis are reconciled to the fund balances on a GAAP General basis as follows (in thousands)

	Fund
Fund balance - Budget basis	\$385,027
Unrealized gain on investments	8,214
Deferred charges and assets not available for appropriation	6,406
Cumulative excess property tax revenues recognized on a Budget basis	(19,256)
Fund balance - GAAP basis	\$380,391

General Fund Budget basis fund balance at June 30, 2002 is composed of the following (in thousands):

													\$237,321			147,706	\$385,027
\$93,293	4,198	52,735	61,716		2,300	5,090	350	11,400	1,100	956	3,500	683		17,506	130,200		
Reserved for cash requirements	Reserved for emergencies	Reserved for encumbrances	Reserved for appropriation carryforward	Reserved for subsequent years' budgets:	Reserved for budget incentive program	Reserved for investments	Reserved for on-line City access program	Reserved for salaries and benefits (MOU)	Reserved for nurses' childcare (MOU)	Reserved for litigation	Reserved for Recreation & Park savings	Reserved for one time expenditures	Total reserve	Designated for litigation and contingencies	Unreserved – available for appropriation	Total unreserved amounts	Fund Balance, June 30, 2002 - Budget basis

Of the \$130.2 million unreserved-available for appropriation, \$124.1 million has been subsequently appropriated as part of the General Fund budget for fiscal year 2003.

#### DEPOSITS AND INVESTMENTS 6

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 established under California Government Code Sections 27130 to 27137 is composed of

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

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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

- Public Time Deposits
- Public Demand Accounts
- Negotiable Certificates of Deposit
   U.S. Government Securities
  - Treasury Bills
    - Treasury Bonds
- Treasury Notes
- Federal Home Loan Bank Federal Agencies -
- Federal Farm Credit Bank
- Federal National Mortgage Association
  - Federal Mortgage Corporation
- Student Loan Marketing Association

  - Money Market Instruments
- 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 that seastablished percentage guidelines for types of investments to ensure the portfolio is diversified. As of June 30, 2002, 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 prededed for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

#### Component Units

The investment policy of the Redevelopment Agency is governed by Article 2 of the California overnment Code (Code). Investments are restricted to contain yteps 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 pericipate in severes repurchase agreements or other high-risk investments and the Agency to ese not instrument 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 Business-type Activities Activities	Business-type Activities	Fiduciary Funds	Total		
Deposits and investments with City Treasury	\$ 1,050,766 <sup>1</sup> \$ 754,778	\$ 754,778	\$ 475,500 <sup>2</sup>	\$ 475,500 <sup>2</sup> \$ 2,281,044	\$ 3,442	
Deposits and investments outside City Treasury	184.591 <sup>3</sup>	3.508	11,029,091	11.217.190	104.394	
Restricted assets:						
Deposits and investments with City Treasury		601 351		601351		
Deposits and investments outside						
City Treasury	•	390,938		390,938	•	
Invested securities lending collateral	'	1	1,461,506	1,461,506	219,060	
Total deposits and investments	\$ 1,235,357	\$ 1,750,575	\$ 12,966,097	\$ 15,952,029	\$ 326,896	
Deposits	\$ 39,084	\$ 10,055	\$ 4,228	\$ 53,367	\$ 5,221	
Investments	1,196,273	1,740,520	12,961,869	15,898,662	321,675	
Total deposits and investments	\$ 1,235,357	\$ 1,750,575	\$ 12,966,097	\$ 15,952,029	\$ 326,896	

Includes deposits and investments with the City Treasury of total governmental funds (\$1,036,267) and

internal service funds (\$14,489). <sup>2</sup> Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds (\$70,570), investment trust fund (\$300,837) and agency funds (\$103,989). <sup>3</sup> Interest deposits and investment and investment and internal service funds (\$132,859)

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

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### Cash and Deposits

The City had cash and deposits at June 30, 2002 as follows (in thousands);

Component Units

Primary Government

		Gove	Governmental Activities	ntal is	B	Isiness-tyl Activities	tusiness-type Activities	Fidt	Fiduciary Funds			
	04	Carrying Amount	ш	Bank Balance	Carrying Amount	ing ti	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	ju ju	Bank Balance
Cash on hand	69	174	÷	,	69	720	י א	\$ 2,930	' s	ŝ	-	י دە
Federally insured deposits		500		500	÷.	,283	1,283		'	-	158	163
Collateralized deposits *		38,410		160,890		170	50		'	5,0	5,062	6,170
Uninsured and												
uncollateralized.					1,7	7,882	7,734	1,298	1,298		•	
	ŝ	\$ 39,084	ω	161,390	\$ 10,055	58	\$ 9,067	\$ 4,228	\$ 1,298	\$ 5,221	5	\$ 6,333

•Under the City's cash management policy, investments are converted to cash as checks are presented for premer. At June 30, 2002, har carrying and under of collasted deposits has been related by the amount of outstanding checks of approximately \$12.56 million. Of the \$122.66 million of outstanding checks, \$34.86 million relates to the San Francisco Unified School District and Community College District which have been reflected in an investment trust from.

The California Government Code requires California banks and savings and loan associations to secure to the California government securities as collateral. The fair value of peledge 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 mortgage backed collateral. bank, acting as the pledging bank's agent, in the City's name. The \$9.2 million of uncollateralized cash outlined above consists of \$1.3 million of cash held on behalf of the Employees' Retirement System by a third party trustee, \$4.8 million, \$0.2 million, \$0.3 million, and \$2.6 million of cash held on behalf of Municipal Railway, Port Commission, Laguna Honda Hospital, and the Parking Garages respectively by third party trustees

#### Investments

specific identifiable investment securities are classified as to custodial risk by three categories. They are as Investments of the City are summarized below. The investments that are represented by follows: Category 1 - includes investments that are insured or registered or securities held by the City or its agent in the City's name;

ģ Category 2 - includes uninsured and unregistered investments, with the securities held

Category 3 - includes uninsured and unregistered investments, with the securities held by the counterparty, or by its trust department or agent that the the securities held by the counterparty, or by its trust department or agent but not in the City's name.

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At June 30. 2002. investments included the following (in thousands).	م محمده محلة بالمتلامط معامد محمد محلة معشياته ملممه مليه معلمه بالمعام محمدا محلالا
	The types of investments made during the year were substantially the same as the 2009 Eair value fluctuates with interest rates and increasion rates could cause fai
Tope of the second seco	original cost. City management believes the induction when our cost of the portfolio is sufficiency of the portfolio is sufficiency of the cost of the portfolio is sufficiency of the cost of the cost of the city from having to sell investments below origins
\$ \$	The interest and net investment loss is comprised of the following at June 30, 2002
Federal agencies	Interest and dividends, net of amounts capitalized \$ 400.273
100	
Total Investments in City Treasury	Total investment loss <u>\$(401,940)</u>
U.S. government securities	
48,826 - 21,211	The net decrease in the fair value of investments takes into account all changes
Debt securities	purchases and sales) that occurred during the year. The primary component of
5,030,859 - 105,749	
	The extrants cold which includes not asine on investments cold on all in
Mortgage backed securities	Traceriner for the fiscal vacar and ad line 30 2000 was 4 130%.
	and for dense for the manufactor of the second s
Venture captal	
* short-term	I reasurer S Pool as of June 30, 2002 (in mousainas).
Investment pool	
Investments lent to broker-dealers	
Total non-categorized investments	Net assets held in trust for all pool participants \$ 2,885,772
Total Employees' Retirement System	
	Equity of internal pool participants \$ 2,585,199
64,048 - 427,733	Equity of external pool participants
I rotal capagorized investments	Total equity \$2,885,272
Commercial paper. 24,533	
vunds.	
Total non-categorized investments	
Total Other Funds	67 67
	Net change in investments by pool participants (137,264)
Pension and investment Trust Funds	Net assets at June 30, 2002 \$ 2,885,772
component units - Redevelopment Agency	
U.S. government securities and Federal agencies	
- 3,608 -	The following provides a summary of key investment information for the Treasure
-	2002 (in thousands):
:	
estments	
Non-categorized investments: Currenthead investment contracts	Type of Investment Rates Maturities Par Vali
34912 Local adentivity investment fund. 63019	Curitico 1 66% 7 50% 7 /05/00 - 11/15/06 6
	CUCULT 20201 8/201 - 201011 - 20201 -
Total non-categorized investments	7/04/02
Total Redevelopment Agency	2.02 2000 c
Treasure Island Development Authority	
Investments in City Treasury.	\$ 2,844,
U.S. government securities	Carrving amount of deposits in Treasurer's Pool
Total Treasure Island Development Authority	Takh ang
\$ 14.771 \$ 21.155 \$ 144.795 \$ 3:	

CITY AND COUNTY OF SAN FRANCISCO

# (pə

is those held as of June 30, e fair value to decline below ufficient to meet cash flow iginal cost for that purpose. 2002 (in thousands):

\$ 400,273	<u>(802,213)</u> <u>\$(401,940)</u>	
Interest and dividends, net of amounts capitalized	Net decrease in the fair value of investments Total investment loss	

ges in fair value (including nt of this figure is the net

stments held by the City

jes in net assets for the

\$ 2,885,772	\$ 2,585,199 300,573 \$ 2,885,772	
Statement of Net Assets Net assets held in trust for all pool participants	Equity of internal pool participants Equity of external pool participants	

urer's Pool as of June 30,

Carrying	Value	\$ 2,397,319	442,736	10,001	100	2,850,156	35,616	3 2,885,772
	Par Value	\$ 2,386,005 \$	448,670	10,000	100	\$ 2,844,775		43
	Maturities	7/05/02 - 11/15/06	7/03/02 - 11/29/02	7/01/02	8/21/02			
	Rates	1.66% - 7.52%	1.72% - 2.35%	3.8%	3.39%		reasurer's Pool	easurer's Pool
	Type of Investment	US government securities	Federal agencies	Commercial paper	Public time deposits		Carrying amount of deposits in Treasurer's Pool	Total cash and investments in Treasurer's Pool

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## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

#### (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. Itaxes are levied on the fiscal year for which taxes are levied on the fiscal year for which taxes are levied on the first business day of September and are payable in two equal 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 breemer 10th; the delinquent and unpaid as of Juna 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 property taxes do not resents is remitted. The due on lanuary 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with construction are levied in two equal installments and have variable due dates based on the dates of the modelinquent with penalties after August 31st. Supplemental property tax assessments associated with 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 the lesser of 2% per year or inflation.

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 amened in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. These "vertide" taxes for debt service amounted to approximately \$109.9 million for the year ended June 30, 2002.

Taxable valuation for the year ended June 30, 2002 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately \$34, 5 billion, an increase of 12.8% from the previous year. The secured tax rate was \$1.124 per \$100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of \$0.65 for general government, \$0.124 for bond debt service, and \$0.350 for the San Francisco Unified \$0.65 for general government, \$0.124 for bond debt service, and \$0.350 for the San Francisco Unified \$0.65 for general government, \$0.124 for bond debt service, and \$0.350 for the San Francisco Unified \$0.65 for general government, \$0.124 for bond debt service, and \$0.350 for the San Francisco Unified \$0.65 for general government, \$0.124 for bond debt service, and \$0.350 for the San Francisco Unified \$0.656 for general government \$0.124 for bond debt service, and \$0.350 for the San Francisco Unified \$0.650 District. The Bay Area Rapid Transit District. Delinquencies in the current year on secured taxes and unsecured taxes amounted to \$2.0%, and \$1.5%, respectively, of the current year tax levy, for an average delinquency rate of 2.4% of the current year tax levy. As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the served property taxes billed but not yet collected by the County, in return, as the delinquent property taxes and associated penalties and interstate 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, 2002 mas \$3.1 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 interfund borrowing.

## 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, 2002 was as follows (in thousands):

### Governmental Activities:

/ernmental Activities:				
	Balance July 1,			Balance June 30,
	2001	Increases	Decreases	2002
Capital assets, not being depreciated:				
Land	\$ 131,539	\$ 7,995	۰ ج	\$ 139,534
Construction in progress	386,172	218,919	(28,601)	576,490
Total capital assets, not being depreciated	517,711	226,914	(28,601)	716,024
Capital assets, being depreciated:				
Facilities and improvements	1,533,928	37,393	'	1,571,321
Machinery and equipment.	217,117	16,819	(2,714)	231,222
Infrastructure	'	23,663	•	23,663
Property held under lease	4,816	'	'	4,816
Total capital assets, being depreciated	1,755,861	77,875	(2,714)	1,831,022
Less accumulated depreciation for:				
Facilities and improvements	319,432	28,270		347,702
Machinery and equipment.	128,745	26,307	(1,439)	153,613
Property held under lease	4,280		'	4,280
Total accumulated depreciation	452,457	54,577	(1,439)	505,595
Total capital assets, being depreciated, net	1,303,404	23,298	(1,275)	1,325,427
Governmental activities capital assets, net	\$ 1,821,115	\$ 250,212	\$ (29,876)	\$ 2,041,451

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### Business-type Activities:

### San Francisco International Airport

	Balance July 1,			Balance June 30,
Capital assets, not being depreciated:	2001	Increases	Decreases	2002
Land	\$ 2,316	' \$	' s	\$ 2,316
Construction in progress	679,644	268,646	(170,551)	777,739
Total capital assets, not being depreciated	681,960	268,646	(170,551)	780,055
Capital assets, being depreciated:				
Facilities and improvements	3,677,933	157,820	(8,553)	3,827,200
Machinery and equipment.	67,379	4,050	(848)	70,480
Easements	125,523	7,416		132,939
Total capital assets, being depreciated	3,870,835	169,286	(9,502)	4,030,619
Less accumulated depreciation for:				
Facilities and improvements	595,985	127,616	(8,380)	715,221
Machinery and equipment	43,464	7,100	(006)	49,664
Easements.	27,041	6,267		33,308
Total accumulated depreciation	666,490	140,983	(9,280)	798,193
Total capital assets, being depreciated, net	3,204,345	28,303	(222)	3,232,426
Capital assets, net	\$ 3,886,305	\$ 296,949	\$ (170,773)	\$ 4,012,481

#### Water Department

	Balance July 1,			m ∹	Balance June 30,
	2001	increases	Decreases		2002
Capital assets, not being depreciated: Land	\$ 17,436	\$ 650	\$ (3)	ŝ	18,083
Construction in progress	122,194	129,834	(148,643)		103,385
Total capital assets, not being depreciated	139,630	130,484	(148,646)		121,468
Capital assets, being depreciated:					
Facilities and improvements	657,269	133,548	'		790,817
Machinery and equipment.	62,020	5,143	(213)		66,950
Total capital assets, being depreciated	719,289	138,691	(213)		857,767
Less accumulated depreciation for:					
Facilities and improvements	285,635	21,351	'		306,986
Machinery and equipment	43,397	4,558	(201)		47,754
Total accumulated depreciation	329,032	25,909	(201)		354,740
Total capital assets, being depreciated, net	390,257	112,782	(12)		503,027
Capital assets, net.	\$ 529,887	\$ 243,266	\$ (148,658)	s	624,495

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

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### Hetch Hetchy Water and Power

	Balance July 1,				Balance June 30,
Capital assets, not being depreciated:	2001	Increases	Decreases		2002
and	\$ 4,215	' \$	۰ ه	\$	4,215
Construction in progress	9,157	14,517	(5,213)	~	18,461
Total capital assets, not being depreciated	13,372	14,517	(5,213)		22,676
Capital assets, being depreciated:					
Facilities and improvements	388,323	2,700			391,023
Machinery and equipment	34,465	1,480	(327)	_	35,618
Total capital assets, being depreciated	422,788	4,180	(327)		426,641
Less accumulated depreciation for:					
Facilities and improvements	209,715	8,018	'		217,733
Machinery and equipment	21,374	1,596	(44)	~	22,926
Total accumulated depreciation	231,089	9,614	(44)		240,659
Total capital assets, being depreciated, net	191,699	(5,434)	(283)	~	185,982
Capital assets, net	\$ 205,071	\$ 9,083	\$ (5,496)	\$	208,658

#### Municipal Railway

	Balance July 1,			Balance June 30,	ъó
Capital assets, not being depreciated:	2001	Increases	Decreases	2002	
Land	\$ 18,537	, &	\$ (56)	\$ 18,	18,481
Construction in progress	354,426	214,864	(277,645)	291,645	645
Total capital assets, not being depreciated	372,963	214,864	(277,701)	310,126	126
Capital assets, being depreciated:					
Facilities and improvements	234,944	22,631	(25,608)	231,967	967
Machinery and equipment	665,898	234,338	(86,236)	814,000	000
Infrastructure	593,562	52,714		646,276	276
Total capital assets, being depreciated	1,494,404	309,683	(111,844)	1,692,243	243
Less accumulated depreciation for:					
Facilities and improvements	78,272	3,141	'	81,	81,413
Machinery and equipment.	249,363	25,710	(79,129)	195,944	944
Infrastructure	138,663	26,485		165,148	148
Total accumulated depreciation	466,298	55,336	(79,129)	442,505	505
Total capital assets, being depreciated, net	1,028,106	254,347	(32,715)	1,249,738	738
Capital assets, net.	\$ 1,401,069	\$ 469,211	\$ (310,416)	\$ 1,559,864	864

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# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### General Hospital Medical Center

	Balance July 1,				Balance June 30,
Canital assets not heing denregiated:	2001	Increases	Decreases	<u>ases</u>	2002
Land	\$ 542	' \$	Ś	<del>ب</del>	542
Construction in progress	639	2,471		(192)	2,918
Total capital assets, not being depreciated	1,181	2,471		(192)	3,460
Capital assets, being depreciated:					
Facilities and improvements	122,414	1,020			123,434
Machinery and equipment	38,389	3,368		'	41,757
Total capital assets, being depreciated	160,803	4,388		'	165,191
Less accumulated depreciation for:					
Facilities and improvements	70,467	4,430		-	74,898
Machinery and equipment	30,176	1,854			32,030
Total accumulated depreciation.	100,643	6,284		-	106,928
Total capital assets, being depreciated, net	60,160	(1,896)		(1)	58,263
Capital assets, net.	\$ 61,341	\$ 575	s	(193) \$	61,723

#### Clean Water Program

Balance June 30,	2002	\$ 22,445	10,613	33,058		1,901,865	22,141	1,924,006		588,428	18,251	606,679	1,317,327	\$ 1,350,385
	Decreases	, s	(26,239)	(26,239)		1	-			,		1	'	\$ (26,239)
	Increases	, \$	21,997	21,997		24,158	1,731	25,889		37,034	1,272	38,306	(12,417)	\$ 9,580
Balance July 1,	2001	\$ 22,445	14,855	37,300		1,877,707	20,410	1,898,117		551,394	16,979	568,373	1,329,744	\$ 1,367,044
		Capital assets, not being depreciated: Land	Construction in progress.	Total capital assets, not being depreciated	Capital assets, being depreciated:	Facilities and improvements	Machinery and equipment.	Total capital assets, being depreciated	Less accumulated depreciation for:	Facilities and improvements	Machinery and equipment	Total accumulated depreciation	Total capital assets, being depreciated, net	Capital assets, net.

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

#### Port of San Francisco

		Balance July 1,						Balance June 30,	
		2001	lnc	ncreases	ă	Decreases		2002	
Capital assets, not being depreciated:									
Land	s	118,809	s	703	ю	'	ю	119,512	
Construction in progress		42,964		13,397		(37,577)		18,784	
Total capital assets, not being depreciated		161,773		14,100		(37,577)		138,296	
Capital assets, being depreciated:									
Facilities and improvements		216,149		34,523		(844)		249,828	
Machinery and equipment		9,965		1,802	1	(287)		11,480	
Total capital assets, being depreciated		226,114		36,325	I	(1,131)		261,308	
Less accumulated depreciation for:									
Facilities and improvements		143,808		6,888		(826)		149,870	
Machinery and equipment		5,143	1	1,231		(272)		6,102	
Total accumulated depreciation		148,951		8,119		(1,098)		155,972	
Total capital assets, being depreciated, net		77,163		28,206		(33)		105,336	
Capital assets, net.	ь	238,936	s	42,306	÷	(37,610)	ŝ	243,632	

#### Laguna Honda Hospital

Balance June 30,	ies 2002	- \$ 22,693	- 22,693		- 25,165	- 12,472	- 824	- 38,461		- 19,532	- 11,413	- 515	- 31,460	- 7,001	- \$ 29,694
	Decreases	s													\$
	Increases	13,974	13,974			71	'	71		725	284	206	1,215	(1,144)	12,830
	al	\$													s
Balance July 1,	2001	8,719	8,719		25,165	12,401	824	38,390		18,807	11,129	309	30,245	8,145	16,864
		\$	1									1			ŝ
	Capital assets, not being depreciated:	Construction in progress	Total capital assets, not being depreciated	Capital assets, being depreciated:	Facilities and improvements	Machinery and equipment.	Property held under lease	Total capital assets, being depreciated	Less accumulated depreciation for:	Facilities and improvements	Machinery and equipment	Property held under lease	Total accumulated depreciation	Total capital assets, being depreciated, net	Capital assets, net

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# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

#### Parking Garages

	Balance July 1,					ш З	Balance June 30,
Capital assets. not being depreciated:	2001	Increases	ses	Decreases	ses		2002
Construction in progress.	\$ 1,635	5 8	20,524	\$	1	ŝ	22,159
Total capital assets, not being depreciated	1,635	Ñ	20,524		'		22,159
Capital assets, being depreciated:							
Facilities and improvements	84,711		966	E	(1,705)		84,002
Machinery and equipment	4,625		200		(876)		3,949
Total capital assets, being depreciated	89,336		1,196	3	(2,581)		87,951
Less accumulated depreciation for:							
Facilities and improvements	14,086		1,028		•		15,114
Machinery and equipment	769		40		(705)		104
Total accumulated depreciation	14,855		1,068		(705)		15,218
Total capital assets, being depreciated, net	74,481		128	5	1,876)		72,733
Capital assets, net	\$ 76,116	\$ 2(	20,652	5	(1,876)	ь	94,892

### Total Business-type Activities

	Balance July 1,			Balance June 30,
Capital assets, not being depreciated:	2001	Increases	Decreases	2002
Land	\$ 184,300	\$ 1,353	\$ (59)	\$ 185,594
Construction in progress	1,234,233	700,224	(666,060)	1,268,397
Total capital assets, not being depreciated	1,418,533	701,577	(666,119)	1,453,991
Capital assets, being depreciated:				
Facilities and improvements	7,284,615	377,396	(36,710)	7,625,301
Machinery and equipment	915,552	252,183	(88,888)	1,078,847
Infrastructure	593,562	52,714	'	646,276
Property held under lease	824		'	824
Easements	125,523	7,416	'	132,939
Total capital assets, being depreciated	8,920,076	689,709	(125,598)	9,484,187
Less accumulated depreciation for:				
Facilities and improvements	1,968,169	210,231	(9,205)	2,169,195
Machinery and equipment	421,794	43,645	(81,251)	384,188
Infrastructure	138,663	26,485	'	165,148
Property held under lease	309	206	'	515
Easements	27,041	6,267		33,308
Total accumulated depreciation	2,555,976	286,834	(90,456)	2,752,354
Total capital assets, being depreciated, net	6,364,100	402,875	(35,142)	6,731,833
Business-type activities capital assets, net	\$ 7,782,633	\$ 1,104,452	\$ (701,261)	\$ 8,185,824

## 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):

	\$ 11,191	14,190	573	769	11,869	13,360			2,625	\$ 54,577		140,983	25,909	9,614	55,336	7,499	38,306	8,119	1,068	\$ 286,834
Governmental Activities:	Public protection	Public works transportation and commerce	Human welfare and neighborhood development	Community Health	Culture and recreation.	General administration and finance	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	Total depreciation expense - governmental activities	Business-type activities:	Airport	Water	Power	Transit	Hospitals	Sewer	Port.	Garages	Total depreciation expense - business-type activities

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 to have 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 year essets of the Water Department and Hetch Hetchy Water and Power (Hetch Hetchy), the Clean Water Program, the San Francisco Municipal Raiway (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, and equeducts, pumping stations of Hetch Hetchy, CaeBam facilities and structures of Muni, building and structures of LHH, and pier substructures of the Port and totaled 51.45 billion as of June 30, 2002. In addition, the Hetch had with whe watelul lives over 100 years with useful lives of June 30, 2002. In million at June 30, 2002.

During the fiscal year ended June 30, 2002 the City's Enterprise Funds incurred total interest expense and interest income of approximately \$288.4 million and 855 million, respectively. Ust have amounts, interest expense and interest income of approximately \$44.9 million respectively. Was applications as part of the cost of constructing proprietary capital assets. The net amount of approximately \$42.5 aspects as part of the cost of constructing proprietary capital assets. million was capitalized into capital assets During fiscal year 2002, Water, Hetch Hetchy, and Clean Water Program expensed \$12.9 million, \$2 million, \$2 million, \$1.3 million respectively, related to capitalized design and planning costs on certain projects which were discontinued. The amounts of the write-off were recognized as other operating expense in the accompanying financial statements.

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## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### Component Unit - Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2002 was as follows (in thousands):

Balance June 30,	2002	\$ 64,150	648	64,798		135,608	21,602	7,606	164,816		(25,492)	(6,490)	(6,266)	(38,248)	126,568	\$ 191,366
	Decreases	'	,	•		'	'	'	'		,	•	1	1		' چ
	Increases	14,734	333	15,067		297	'	510	807		(3,386)	(432)	(712)	(4,530)	(3,723)	\$ 11,344
Balance July 1,	2001	49,416	315	49,731		135,311	21,602	7,096	164,009		(22,106)	(6,058)	(5,554)	(33,718)	130,291	\$ 180,022
		Capital assets, not being depreciated: Property held under lease	Construction in progress	Total capital assets not being depreciated	Capital assets, being depreciated:	Facilities and improvements	Leasehold improvements	Machinery and equipment	Total capital assets being depreciated	Less accumulated depreciation and amortization for	Facilities and improvements.	Leasehold improvements	Machinery and equipment	Total accumulated depreciation and amortization	Total capital assets being depreciated, net	Redevelopment Agency capital assets, net

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### BONDS, LOANS, CAPITAL LEASES AND OTHER PAYABLES (8)

The following is a summary of long-term obligations of the City as of June 30, 2002 (in thousands):

GOVERNMENTAL ACTIVITIES	VITIES			
	Final	Remaining		
	Maturity	Interest		
Type of Obligation and Purpose	Date	Rates	Amount	
GENERAL OBLIGATION BONDS (a):				
Affordable housing	2021	4.0 to 7.625%	\$ 93,905	
City hall improvement project	2007	4.7 to 5.125%	14,105	
Fire protection	2006	5.1 to 7.0%	2,930	
Library	2021	4.0 to 7.0%	17,080	
Museums	2019	4.5 to 7.0%	19,485	
Parks and playgrounds		3.5 to 6.5%	66,150	
Public safety improvements	2014	5.0 to 7.0%	8,760	
Schools	2020	4.125 to 7.0%	128,060	
Seismic safety loan program	2014	6.95 to 7.65%	26,665	
Zoo facilities	2020	4.125 to 6.5%	31,655	
Refunding	2016	3.0 to 5.75%	508,425	
General obligation bonds - governmental activities			917,220	
LEASE REVENUE BONDS:				
San Francisco Finance Corporation (b) & (e)*	2024	3.0 to 5.5%	255,760	
San Francisco Parking Authority (c)	2022	4.0 to 6.0%	32,090	
San Francisco Social Services Corporation (d)	2003	6.25 to 7.75%	006	
Moscone Convention Center Garage (d)	2009	3.35 to 4.0%	5,060	
Lease revenue bonds - governmental activities			293,810	
OTHER LONG-TERM OBLIGATIONS:				
Certificates of participation (c)	2033	.25 to 5.875	259,360	
Loans (c) & (f)	2008	4.5 to 6.7%	13,007	
(J) & (D)	. 2018	3.5 to 8.5%	226,541	
Settlement Obligation Bonds (d)	2011	3.0 to 3.875%	54,820	
Accrued vacation and sick leave (d) & (f)			121,960	
Accrued workers' compensation (d) & (f)			176,777	
Estimated claims payable (d) & (f)			41,445	
Other long-term obligations - governmental activities			893,910	
DEFERRED AMOUNTS:				
Bond issuance premiums			3,805	
Bond issuance discounts			(2,840)	
Bond refunding			(6,670)	
Deferred amounts			(5,705)	
Governmental activities total long-term obligations			\$ 2,099,235	
rvice payments are made from the following sources:				

Debt service payments are made from the following sources:
(a) Property tax recorded in bobt Source Fund.
(b) Lesse revenues recorded in Special Revenue funds.
(c) Revenues recorded in Special Revenue Funds.
(d) Revenues recorded in Special Revenue Funds.
(e) Holt laxes and Mole revenues froorded in the General and Special Revenue Funds.
(i) User-charge reimbursements from General and Special Revenue Funds.
(i) User-charge reimbursements from General. Special Revenue and Enterprise Funds.
(i) User-charge reimbursements from General. Special Revenue and Enterprise Funds.

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

Includes the Moscone Center West Expansion Project which was financed with variable rate bonds that reset weekly. The average interest rate from issuance date of November 2, 2000 through June 30, 2002 was 2,07%.

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

BUSINESS-TYPE ACTIVITIES	VITIES		
	Final Maturity	Remaining Interest	
Entity and Type of Obligation	Date	Rates	Amount
San Francisco International Airport: Revenue bonds	2032	2.0 to 8.0%	\$ 4,323,005
Water Department: Revenue bonds	2031 2003	4.0 to 7.4% 1.15 to 1.65%	364,841 90,000
General Hospital Medical Center Capital lease	2007	3.0 to 3.8%	802
Clean Water Program: Revenue bonds	2026 2021	4.7 to 6.1% 2.8 to 3.5%	418,809 179,591
Port of San Francisco: General Obligation Bonds - City and County of San Francisco	2005	4.5 to 6.3%	2,000
Revenue bonds	2010	5.0 to 9.0%	34,095
Notes, loans and other payables	2005	Variable 6.31%	3,584 108
Laguna Honda Hospital: Capital lease	2003	5.40%	432
Nonprofit Parking Corporations (Garages): Downtown Parking - revenue bonds	2018	5.85 to 6.65%	12,785
Ellis-O'Farrell - revenue bonds	2017	6.9% to 7.125%	5,225
rousinouur rizza riotes, roans and outor payables	2003	9.00%	104
San Francisco Market Corporation - notes, loans and other pavables	2007	Prime plus 0.25%	388
Uptown Parking - revenue bonds.	2031	4.5 to 6.0%	19,000
Accrued vacation and sick leave			03,420 127,404
Estimated claims payable			45,286
Business-type activities total long-term obligations			\$ 5,696,887

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)

COMPONENT UNIT	

	Final Maturity	Remaining Interest	
Type of Obligation	Date	Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY: Lease Revenue Bonds:			
Moscone Convention Center (a)	2024	5.5 to 8.5%	\$ 188,350
Hotel Tax Revenue Bonds (b)	2025	4.0 to 6.75%	74,765
Tax Allocation Revenue Bonds (c)	2025	3.5 to 9.0%	306,362
Sub-total South Beach Hachor Variable Pate			569,477
Refunding Bonds (d)	2017	Variable (1.25 % at 6/30/02)	12.500
California Department of Boating and			Ī
Waterways Loan (e)	2037	4.50%	8,000
Accreted interest payable			154,859 1.870
Component unit total long-term obligations			\$ 746,706
service payments are made from the following sources:	:0		

Debt service payments are made from the following sources:
(a) Hold taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/sectors that funds.
(b) Hold taxes from holels located in the Redevelopment Project Areas.
(c) Propert taxes allocated to the Redevelopment Project Areas.
(d) South 12 and adxising debt service/sectors that funds.
(d) South Beach Harbor Project cash reserves, property tax increments and project revenues.
(e) 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, 2002, the City's debt limit (3% of valuation subject to taxation) was \$2.7 billion. The total amount of debt applicable to the debt limit was \$0.9 billion, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was \$1.8 billion.

#### Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond frillion as City has evaluated each general objilation bond and has recognized an arbitrage liability of \$2.0 million as of June 30, 2002. This arbitrage liability is reported in deferred credits and other liabilities in the

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

governmental activities of the statement of net assets. The Finance Corporation had an independent consultant perform a separate calculation on their lease revenue boards and all albility of 51, million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2002. Each Enterprise Fund has performed a similar analysis of its debt which is subject to arbitrage rebate equirements. 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 creatis and other liabilities.

#### Assessment District

During June 1996, the City issued \$1 million of Limited Obligation Improvement Bonds for the Bayshore Heater Assessment District No. 95-1. These bonds were issued pursuant to the improvement Bond Act of 1915. The proceeds were 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 to mature during the fiscal year ended June 30, 1999 and continue through 2026 bearing interest from 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 assessed within the Basic financial statements. Assessments concluded for repayment of this debt are received assessed within the Basic financial statements. Assessments constitute fixed on the lots and parcels 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 \$99.7 million as of June 30, 2002. These obligations are secured by the related mortgage indebtedness and 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 governmental activities for the year ended June 30, 2002 are as follows (in thousands):

	5	July 1, 2001	Ac Ac Ac Ac	Additional Obligations, Interest Accretion and Net Increases	D a Re R	Current Maturities, Retirements, and Net Decreases	- -	June 30, 2002	Pue P	Amounts Due Within One Year
Governmental activities: Bonds pavable:										
General obligation bonds	s	953,535	ŝ	136,610	ŝ	(172,925)	ŝ	917,220	ю	60,895
Lease revenue bonds		302,405		7,900		(16,495)		293,810		16,575
Certificates of participation		225,707		52,630		(18,977)		259,360		5,190
Settlement obligation bond		'		60,755		(5,935)		54,820		5,350
Less deferred amounts:										
For issuance premiums		784		3,123		(102)		3,805		•
For issuance discounts		(2,703)		(237)		100		(2,840)		•
On refunding		'		(6,829)		159		(6,670)		'
Total bonds payable	-	1,479,728		253,952		(214,175)		1,519,505		88,010
Loans.		15,816		•		(2,809)		13,007		2,728
Capital leases		232,485		13,337		(19,281)		226,541		23,888
Accrued vacation and sick leave pay		113,513		8,447		•		121,960		59,132
Accrued workers' compensation		151,199		57,634		(32,056)		176,777		38,926
Estimated claims payable		149,967		'		(108,522)		41,445		9,224
Governmental activity long-term obligations	\$ 2	\$ 2,142,708	s	333,370	ŝ	(376,843)	ŝ	\$ 2,099,235	ъ	221,908

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ending June 30, 2002, \$255.8 million of lease revenue boots, \$3.6 million of capital leases, \$0.8 million of cleans, \$2.8 million of accured vecation and sick leave pay and \$1 million of accured worker's 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.

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		Additional Obligations,	Current	Ŧ			
		Interest Accretion	Maturities, Retirements,	as, nts,		Am	Amounts
	July 1, 2001	and Net Increases	and Net Decreases	es t	June 30, 2002	o Due	Due Within One Year
San Francisco International Airport							
Revenue bonds	\$ 3.743.605	\$ 853,525	\$ (274	(274.125)	\$ 4.323.005	ŝ	52.260
Less deferred amounts:							
For issuance premiums	•	7,836		•	7,836		'
For issuance discounts	(22,284)		- 1	1,747	(20,537)		
On retunding.	(24,683)	(8/2'/L)	N	2,816	(39,246)		1
Total bonds payable	3,696,638	843,982	(269	(269,562)	4,271,058		52,260
Commercial paper	397,541	160,847	(558	(558,388)	•		1
Accrued vacation and sick leave pay	10,255	690			10,945		5,709
Accrued workers' compensation	7,800	- 200	- (3	(2,397)	5,403		1,275 209
l onctern lisbilities	C 4 117 603	c 1 006 010	(200 A2) S		300 LOC M 3		E0 4E2
Water Department							
Bonds payable:							
Revenue bonds	\$ 232,042	\$ 140,149	\$	(7,350) \$	\$ 364,841	÷	9,715
Less deferred amounts:							
For issuance premiums	•	772		(17)	755		1
For issuance discounts	(4,755)	'		62	(4,693)		'
On refunding.	(4,490)			328	(4,162)		1
Total bonds payable	222,797	140,921	9	(6,977)	356,741		9,715
Commercial paper	75,000	100,000	(85,	(85,000)	90,000		90,000
Accrued vacation and sick leave pay	6,280	804			7,084		3,475
Accrued workers' compensation	3,975	5,311	Ę	(1,979)	7,307		1,731
Estimated claims payable	7,023	366	3	(2,421)	4,968		1,574
Long-term liabilities	\$ 315,075	\$ 247,402	\$ (96)	(96,377)	\$ 466,100	\$	106,495
Hetch Hetchy Water and Power							
Accrued vacation and sick leave pay	\$ 1,805	' \$	ŝ		\$ 1,744	ŝ	917
Accrued workers' compensation	1,056	854	,	(285)	1,625		385
Esumated claims payable					3,620		19/
Long-term liabilities.	\$ 9,463	\$ 3,854	\$ (6,	(6,328)	\$ 6,989	ŝ	1,499
Municipal Railway							
Accrued vacation and sick leave pay	\$ 20,115	\$ 868	\$		\$ 20,983	ф	12,025
Accrued workers' compensation Estimated claims navable	56.014	33,956 11 838	(19 (19	(19,004)	82,342		19,852 13 197

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2002 are as follows (in thousands) – continued:

		1	Acc	Obligations, Interest Accretion	Reti	Current Maturities, Retirements,	-	our OC	An A	Amounts Due Within
	,	2001	비	Increases	å	Decreases	5	2002	ξō	One Year
General Hospital Medical Center										
Capital leases	ŝ	'	ŝ	802	\$	1	ŝ	802	ω	78
Accrued vacation and sick leave pay		14,533		1,394		•		15,927		9,317
Accrued workers' compensation		12,521		6,074		(3,920)		14,675	1	3,385
Long-term liabilities	ŝ	27,054	φ	8,270	ŝ	(3,920)	ф	31,404	ŝ	12,780
Bonds payable:										
Revenue bonds	s	469,883	s	926	Ś	(52,000) \$	69	418,809	ŝ	24,930
Less deferred amounts:										
For issuance discounts		(5,037)		,		692		(4,345)		1
On refunding		(9,689)				764		(8,925)		'
Total bonds payable		455,157		926		(50,544)		405,539		24,930
State of California - Revolving fund loans		193,597		'		(14,006)		179,591		14,461
Accrued vacation and sick leave pay		3,475		'		(20)		3,455		1,885
Accrued workers' compensation		1,923		1,420		(648)		2,695		641
Estimated claims payable		1,086		4,049		(407)		4,728		291
Long-term liabilities	ф	655,238	69	6,395	s	(65,625)	ŝ	596,008	ø	42,208

Bonds payable:         Constrained         S         3,200         S         1,200         1,200         1,200 </th <th>Port of San Francisco</th> <th></th>	Port of San Francisco										
S         3.200         S         -         S         (1200)         S         2000         S           37,330         -         -         (3.235)         34,095         303         (1200)         303         (1200)         303         (1200)         303         (1200)         303         (1200)         303         (1102)         303         (11102)         303         (11102)         315         111,186         11,186         108         (8,700)         3,564         -         174         125         1108         1100	Bonds payable:										
37,330         -         (3,235)         34,085           347         -         (4,4)         303           347         -         (44)         303           3616         -         (4321)         35,285           11,166         1,098         (6,700)         3,584           11,166         1,098         (6,700)         3,584           1,720         75         -         1,795           1,720         75         -         1,795           1,145         1,995         (640)         2,470           35         54,526         (100)         1,600	General obligation bonds	s	3,200	s	'	ŝ	(1,200)	69	2,000	69	1,200
347         -         (44)         303           39616         -         -         168         (1,103)           39616         -         -         168         (1,103)           39616         -         -         168         (1,103)           39616         -         -         168         (1,103)           11,165         1,098         (6,700)         35,44           1,720         7         -         (39)         3,544           1,720         7         -         (39)         3,544           1,720         7         -         (39)         3,544           1,720         7         -         (39)         3,544           1,720         7         -         (39)         3,544           1,720         7         -         (39)         1,600           1,145         1,965         (640)         2,470         2,470           5         5         4,528         5         5         5	Revenue bonds		37,330		'		(3,235)		34,095		3,405
137         -         (44)         203           13616         -         158         (1,103)           39616         -         (4,21)         35,245           11,186         1,088         (8,700)         3,546           1770         75         -         (39)           1720         75         -         (39)           1720         75         -         (39)           1720         75         -         (39)           1720         75         -         (39)           1720         75         -         (39)           1720         75         -         (39)           1720         75         -         (39)           1720         75         -         (39)           1720         75         -         (39)           1730         7470         -         100           5         4,528         5         1200	Less deferred amounts:										
(1281)         158         (1,103)           39,616         -         (4,221)         35,285           39,616         -         (4,321)         35,285           11,166         1,098         (8,700)         3,564           1,720         75         -         1,796           1,145         1,965         (8,700)         3,564           1,720         75         -         1,796           1,145         1,965         (940)         2,647           1,145         1,390         (100)         1,600           5         4,528         5         1,500         3	For issuance premiums		347		•		(44)		303		1
39616         -         (4,321)         35,295         -           11,166         1,098         (3,70)         3,544         -           11,166         1,098         (3,70)         3,544         -           11,720         75         (39)         108         -           1,145         1,965         (640)         2,470         3,544           1,145         1,996         (100)         2,470         3,544           5         4,528         5         4,528         5         3,53	On refunding		(1,261)		'		158		(1,103)		
11.165         1.086         (8.700)         3.584           147         -         (39)         108           1720         75         -         108           1720         75         -         109           1445         1366         (40)         2.470           145         1390         (101)         1.600           5         4.228         5         1.800	Total bonds payable		39,616		'		(4,321)		35,295		4,605
147         -         (39)         108           1,220         75         -         1,795           1,145         1,965         (640)         2,470           31,1         1,390         (101)         1,660           35         54,125         5         4,528         5         1,800	Notes, loans, and other payables		11,186		1,098		(8,700)		3,584		74
1,720         75         -         1,795           1,145         1,965         640)         2,470           1,145         1,360         (101)         1,600           311         1,380         (101)         1,600           5         5,4,125         5         4,528         5	Capital leases		147		'		(6E)		108		4
1,145         1,965         (640)         2,470           311         1,390         (101)         1,600         -           \$ 54,125         \$ 4,528         \$ (13,801)         \$ 4,852         \$ 13	Accrued vacation and sick leave pay		1,720		75		'		1,795		951
311         1,390         (101)         1,600           \$ 54,125         \$ 4,528         \$ (13,801)         \$ 44,852         \$ 1	Accrued workers' compensation		1,145		1,965		(640)		2,470		613
\$ 54,125 \$ 4,528 \$ (13,801) \$ 44,852 \$	Estimated claims payable		311		1,390		(101)		1,600		1,200
	Long-term liabilities	ŵ	54,125	69	4,528	s	(13,801)	ŝ	44,852	s	7,484

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## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2002 are as follows (in thousands) – continued:

			Ad Obli Ac Ac	Additional Obligations, Interest Accretion	⊼e ⊼	Current Maturities, Retirements,			A	Amounts
	7	July 1, 2001	In a	and Net Increases		and Net Decreases	3 ~	June 30, 2002	Ξŏ	Due Within One Year
Laguna Honda Hospital										
Capital leases	ŝ	632	φ	'	ŝ	(200)	ŝ	432	s	210
Accrued vacation and sick leave pay		7,163		332		1		7,495		4,532
Accrued workers' compensation		9,783		3,988		(2,884)		10,887		2,594
Long-term liabilities	s	17,578	ŝ	4,320	\$	(3,084)	\$	18,814	\$	7,336
Parking Garages										
Bonds payable:										
Revenue bonds	ŝ	18,655	s	19,000	ф	(645)	÷	37,010	÷	685
Less deferred amounts:										
For issuance premiums		1		640		(20)		620		·
For issuance discounts		(138)		'		8		(130)		Ì
Total bonds payable		18,517		19,640		(657)		37,500		685
Notes, loans, and other payables		1,081		•		(589)		492		241
Long-term liabilities.	ŝ	19,598	ŝ	19,640	s	(1,246)	s	37,992	ŝ	926
F					l					

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases		Current Maturities, Retirements, and Net Decreases	June 30, 2002	o Di A	Amounts Due Within One Year
Total Business-type Activities: Bonds pavable:							
General obligation bonds	3,200	s	,	(1,200)	\$ 2,000	s	1,200
Revenue bonds	4,501,515	1,013,600	8	(337,355)	5,177,760		90,995
Less deferred amounts:							
For issuance premiums	347	9,248	48	(81)	9,514		•
For issuance discounts	(32,214)			2,509	(29,705)		•
On refunding	(40,123)	(17,379)	(62	4,066	(53,436)		
Total bonds payable	4,432,725	1,005,469	69	(332,061)	5,106,133		92,195
Commercial paper	472,541	260,847	47	(643,388)	90,000		90,000
State of California - Revolving fund loans	193,597		,	(14,006)	179,591		14,461
Notes, loans, and other payables.	12,267	1,0	1,098	(9,289)	4,076		315
Capital leases	617	80	802	(239)	1,342		329
Accrued vacation and sick leave pay	65,346	4,163	83	(81)	69,428		38,811
Accrued workers' compensation	105,593	53,568	68	(31,757)	127,404		30,476
Estimated claims payable	41,495	21,143	4	(17,352)	45,286		16,668
Business-type activity long term obligations	\$ 5,324,343	\$ 1,347,090		\$ (1,048,173)	\$ 5,623,260	\$	283,255
							In statement of the second second

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The changes in long term obligations for the component unit for the year ended June 30, 2002 are as follows (in thousands):

			E	
Amounts Due Within One Year		20,081	20,081 10,850 <sup>(1)</sup> 859	31,790
ō h A		ŝ		ŝ
June 30, 2002		569,477 12,500	581,977 154,859 8,000 1.870	\$ 746.706
		s o		
Current Maturities, Retirements, and Net Decreases		(19,686) (1,500)	(21,186) (10,849) -	(32,035)
Deater		\$		S
Additional Dbligations, Interest Accretion and Net Increases			- 20,517 - 196	s 20.713
Ac In Ac		\$		s
July 1, 2001		\$ 589,163 14,000	603,163 145,191 8,000 1.674	\$ 758.028
				· .
	Component unit: Redevelopment Agency Bonds avvable:	Revenue bonds	Total bonds payable	Component unit - long term obligations

Amnual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for governmental activities are as follows (in thousands): (1) This amount is included in accrued interest payable in the accompanying Statement of Net Assets.

Fiscal Year	General	General Obligation		Lease Revenue	Rever	ane	Other Long-Term	-buo-	Term				
Ending	B	Bonds		Bo	Bonds		Obli	Obligations	us		Total	tal	
June 30	Principal	Interest	E	Principal	ㅋ	Interest	Principal		Interest	Prin	Principal	크	Interest
2003.	\$ 60,895	\$ 48,160	s	16,575	s	13,960	\$ 13,269	s	16,538	ŝ	90,739	s	78,658
2004	64,610	44,200		16,520		13,269	12,834		15,111		93,964		72,580
2005	60,665	41,246		16,060		12,584	15,554		14,520		92,279		68,350
2006	63,610	38,330		14,120		11,903	15,060		13,887		92,790		64,120
2007	66,785	34,952		12,930		11,319	14,657		13,244		94,372		59,515
2008-2012	344,360	121,328		52,580		48,499	70,538		56,687	4	467,478		226,514
2013-2017	192,160	45,665		44,785		37,270	47,365		42,616	(N	284,310		125,551
2018-2022	64,135	7,345		47,485		25,468	37,485		31,106	-	149,105		63,919
2023-2027	•	•		43,355		13,922	37,250	_	21,373		80,605		35,295
2028-2032	•			29,400		2,997	46,035		10,724		75,435		13,721
2033-2037	•	•		•		'	17,139	_	912		17,139		912
Total	\$ 917.220	\$ 381.226	6	293.810	6	191.191	\$ 327.187	6	236 718	s 1.5	\$ 1 538 217	÷.	809.135

<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.

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# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for each enterprise fund are as follows (in thousands):

				Sai	n Francis	8	Internation	San Francisco International Airport <sup>(1)</sup>	1				
Fiscal Year General Obligation	Genera	I Oblig	gation		Revenue	and a		Other Long-Term	ng-Term				
Ending	-	Bonds			Bo	Bonds		Oblig	Obligations		To	Total	
June 30	Principal		Interest	2	Principal	-	nterest	Principal	Interest	E	Principal	멱	nterest
2003.	' \$	s	•	\$	52,260	ŝ	227,639	\$	د	ŝ	52,260	ŝ	227,639
2004	,		'		78,245		225,089	•			78,245		225,089
2005.			1		97,685		221,346	•			97,685		221,346
2006.	,		'		101,015		216,509	•			101,015		216,509
2007.	'		,		105,960		211,358	'			105,960		211,358
2008-2012	•		•		627,410		968,131		,		627,410		968,131
2013-2017	•		•		779,250		788,385		'		779,250		788,385
2018-2022	Ì		'		988,915		553,601	'	•		988,915		553,601
2023-2027	'		'	-	,061,640		267,500		'	÷	,061,640		267,500
2028-2032	1		'		430,625		46,888		•		430,625		46,888
Total.	s -	s	•	\$ 4	\$ 4,323,005	\$	\$ 3,726,446	, \$	· s	\$ 4	4,323,005	\$3	\$ 3,726,446

Fiscal Year	Genera	al O	General Obligation		Revenue	nue	8	Other Long-Term	ng-Term				
Ending		Bonds	spi		Boi	Bonds		Obligations	ations		ц Ч	Total	
June 30	Principal		Interest	H	Principal	-	Interest	Principal	Interest		Principal	-	Interest
2003.	' \$		'	ŝ	9,715	ŝ	19,183	' s	, s	69	9,715	ŝ	19,183
2004					10,350		18,596		'		10,350		18,596
2005.			•		11,030		17,957				11,030		17,957
2006.	'		•		11,735		17,298		'		11,735		17,298
2007	'		•		12,420		16,590				12,420		16,590
2008-2012	,		•		73,945		70,791	1	,		73,945		70,791
2013-2017	•		•		86,440		47,781	,			86,440		47,781
2018-2022	'		•		60,435		30,071		,		60,435		30,071
2023-2027	'		•		53,095		17,043	'	,		53,095		17,043
2028-2032			•		35,676		5,282	•	'		35,676		5,282
Total	\$	l ^		ŝ	364,841	ŝ	260,592	s	' s	ŝ	364,841	ø	260,592

<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>33</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.

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for each enterprise fund are as follows (in thousands) - continued:

Fiscal Year	General	General Obligation	œ	Revenue	0	othe	er Lon	Other Long-Term				
Ending	ă	Bonds		Bonds		0	Obligations	tions		To	Total	
une 30	Principal	Interest	Principal		Interest	Principal	ipal	Interest	2	Principal	Э	nterest
2003	' \$	' \$	\$ 24,930	30 \$	22,575	\$ 14	14,461	\$ 5,672	s	39,391	69	28,247
2004	'		20,415	15	21,392	14	14,930	5,203		35,345		26,595
2005.			16,010	10	20,473	15	15,414	4,718		31,424		25,191
2006	•	1		,	20,106	15	15,915	4,218		15,915		24,324
2007			28,990	90	19,295	16	16,431	3,702		45,421		22,997
2008-2012	'		131,488	88	74,674	65	65,541	11,464		197,029		86,138
2013-2017			100,090	06	44,654	30	30,373	3,264		130,463		47,918
2018-2022	'	•	10,380	80	25,789	9	6,526	484		16,906		26,273
2023-2027			86,506	90	4,821		•	'		86,506		4,821
Total	ہ د	69	\$ 418,809	\$ 60	253.779	\$ 179,591	591	\$ 38.725	s	598.400	ŝ	292,504

				Port	of San	Port of San Francisco <sup>(1)</sup>	000	-						
Fiscal Year		General Obligation		Reve	Revenue		g	Other Long-Term	g-Ten	E				
Ending	ă	Bonds		Bo	Bonds			Obligations	tions			To	Total	
June 30	Principal	Interest	<b>–</b>	Principal	Inte	nterest	Prin	Principal	Interest	est	Prin	Principal	크	Interest
2003	\$ 1,200	\$ 112	69	3,405	ŝ	1,976	s	74	s	158	ŝ	4,679	\$	2,246
2004	400	50		3,595		1,719		74		158		4,069		1,927
2005	400	25		3,920		1,449		77		155		4,397		1,629
2006.				4,135		1,226		81		151		4,216		1,377
2007		'		4,370		985		84		148		4,454		1,133
2008-2012		'		14,670		1,329		481		677		15,151		2,006
2013-2017	'					'		600		559		600		559
2018-2022	'	'		'		'		748		410		748		410
2023-2027	1					'		932		227		932		227
2028-2032	'	'						433		30		433		30
Total	\$ 2,000	\$ 187	ŝ	34,095	ω	8,684	ŝ	3,584	\$ 2,	2,673	s	39,679	s	11,544
			ļ							İ				

<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.

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## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for each enterprise fund are as follows (in thousands) – continued:

Fiscal Year General Obligation	General	Obligation		Revenue	ann		Other Long-Term	aT-nuc	E				
Ending	ă	Bonds	•	Bonds	sp		Oblig	Obligations			Total	-	
June 30	Principal	Interest	Principal	a l	E	nterest	Principal		Interest	Principal	ladi	đ	Interest
2003	' s	' s	\$	685	ŝ	3,554	\$ 241	ŝ	29	\$	926	ŝ	3,583
2004	'	'	2	062		2,256	137		16		927		2,272
2005.	•	'	7	295		2,210	114		4		409		2,214
2006.	•	'	0	310		2,194	•		•		310		2,194
2007.	'	."		325		2,180					325		2,180
2008-2012	•		6,5	6,520		10,619	,		ľ	-	6,520		10,619
2013-2017	'	'	7.7	7,740		8,230			1		7,740		8,230
2018-2022	'		9'4	9,425		3,893	'		'		9,425		3,893
2023-2027	•	•		,		2,402	•		1		,		2,402
2028-2032	•		10,920	120		740			'	÷	10,920		740
Total.	' ج	۰ چ	\$ 37,010	5	ь	38,278	\$ 492	s	4	9 9	37,502	\$	38,327

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2002 for business type activities follows (in thousands):

Fiscal Year	۱°	eneral	General Obligation		Revenue	enu	9		Revenue Other Long-Term	- Bu	erm			
Ending		ă	Bonds		Bo	Bonds			Obligations	atior	s	10	Total	
June 30	E	Principal	Interest		Principal		nterest	희	Principal	트	nterest	Principal	=	nterest
2003	s	1,200	\$ 112	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	\$ 90,995	\$	274,927	\$	\$ 14,776	s	5,859	\$ 106,971	69	280,898
2004		400	50		113,395		269,052		15,141		5,377	128,936		274,479
2005		400	5	\$	128,940		263,435		15,605		4,877	144,945		268,337
2006		•			117,195		257,333		15,996		4,369	133,191		261,702
2007		•			152,065		250,408		16,515		3,850	168,580		254,258
2008-2012		•			854,033		1,125,544		66,022		12,141	920,055		1,137,685
2013-2017		•			973,520		889,050		30,973		3,823	1,004,493		892,873
2018-2022		•			1,069,155		613,354		7,274		894	1,076,429		614,248
2023-2027		•			1,201,241		291,766		932		227	1,202,173		291,993
2028-2032		•			477,221		52,910		433		30	477,654		52,940
Total	6	2.000	\$ 187		\$ 5.177.760	6	\$ 4.287.779	5	\$ 183.667		41 447	\$ 5363427	6	\$ 4329413

<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>c0</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.

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for the component unit are as follows (in thousands):

					Compon	entl	Component Unit: Redevelopment Agency <sup>(1)</sup>	evelo	pment ,	Agen	cy (1)				
Fiscal Year	Lease Revenue	Rev	enue		Tax Revenue	even	en		Other Long-Term	ng-Te	m				
Ending	ä	Bonds			B	Bonds			Obligations	ations			ŕ	Total	
June 30	Principal	=	Interest	티	Principal	1	nterest	튑	Principal	In te	Interest	비	Principal	-	Interest
2003.	\$ 5,570	s	21,167	ŝ	14,511	\$	18,662	s	'	ŝ	691	\$	20,081	\$	40,520
2004	10,734		39,777		15,449		19,496		•		691		26,183		59,964
2005.	33,661		84,458		16,101		20,016		•		691		49,762		105,165
2006.	5,550		13,670		15,032		19,273		•		691		20,582		33,634
2007	5,271		14,018		15,545		18,512		675		691		21,491		33,221
2008-2012	23,635		73,927		76,984		79,216		5,247		2,977		105,866		156,120
2013-2017	48,698		49,950		102,285		49,836		7,948		1,908		158,931		101,694
2018-2022	43,955		8,008		93,587		23,950		1,300		1,380		138,842		33,338
2023-2027	11,276		1,175		31,633		32,702		1,620		1,060		44,529		34,937
2028-2032	•		'		•		•		2,019		661		2,019		661
2033-2037	•		•		•		'		1,691		183		1,691		183
Total	\$ 188,350	ŝ	306,150	ŝ	381,127	ø	281,663	ŝ	20,500	\$	11,624	s	589,977	ŝ	599,437

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

### Governmental Activities Long-term Liabilities

### General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both opermemental and business-type activities howver, preneral obligation bonds have not been issued for business-type activities. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2002 follows (in thousands):

#### Governmental Activities - General Obligation Bonds (in thousands)

\$ 969,510		(17,665)	\$ 951,845
Authorized and unissued as of June 30, 2001	Bonds issued:	Series 2001E, Branch Library Bonds	Net authorized and unissued as of June 30, 2002

There were no new authorizations on general obligation bonds in fiscal year ended June 30, 2002.

In the November 2000 election, \$105.9 million was authorized for the improvement of various library branches. Of this, \$17.7 million Branch Library Facilities Improvement Bonds, Series 2001E was issued in July 2001. Interest rates range from 4% to 7%. The bonds mature from June 2002 through June 2021. The bonds were issued to finance the acquisition of sites to be used for the construction of new branch

CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	payment of \$0.48 million in underwriting fees, insurance, and other issuance costs) plus an additional \$1.8 million of unspent tunds from the refunded certificates and an additional \$0.95 million of other City funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Series 1991A and B certificates of participation. As a result, the refunded certificates of participation and the flability for those certificates of participation has been removed to be defeased and the itability for those certificates of participation has been removed from the governmental advivities of the attended for all sectificates of participation has been removed for the advected sectificates of participation has been removed from the governmental advivities of the attended for all sectificates of participation has been removed from the	Although the refunding resulted in the recognition of an accounting loss of \$1 million for the year ended June 30, 2002, the City in effect reduced its aggregate debt service payments by \$1.4 million over the next 15 years, and obtained an economic gain (difference between present value of the old and new debt service payments) of \$1 million.	<u>Lease Revenue Bonds</u> The changes in governmental activities - lease revenue bonds for the year ended June 30, 2002 are as follows:	Governmental Activities - Lease Revenue Bonds (in thousands)	Authorized and unissued as of June 30, 2001       \$ 133,738         Increase in authorization in this flecal year:       1 629         Annual increase in Finance Corporation's equipment program       1 628         Current year maturities in Finance Corporation's equipment program       6,485         Bonds issued:       5.33,738         Series 2002A, San Francisco Finance Corporation       (7.900)         Net authorized and unissued as of June 30, 2002       \$ 133,952	Finance Corporation	The San Francisco Finance Corporation ("Finance Corporation") was formed in 1991. The purpose of the Finance Corporation is to provide a means to publicly 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. The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of Indenture and Equipment Lease	Agreements. These assets are then recorded in the asset marked settimations are units units units units units units are available purpose of the bond proceeds is to provide lease financing to the City, any amounts that are not applied towards the caquisition of rocal and personal property, such as unapplied acquisition funds, bond issue costs, amounts withheld pursuant to reserve fund requirements, and amounts designated for capitalized interest are recorded as deferred credits until such time as they are used for their intended purpose.	(a) Equipment Lease Program 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	85
CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	libraries to replace currently leased facilities, the renovation and rehabilitation of branch libraries, and acquisition and construction of a new branch library in the Mission Bay neighborhood. 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 \$2 million as of June 30, 2002. The bonds were issued in 1971 for the improvement of the San Francisco harbor area. The final maturity is in fiscal year 2004-2005. Debt service	payments are tunded from Port's revenues. <u>Advance Refundings</u> In April 2002, the City issued \$118.9 million of general obligation refunding bonds, Series 2002-R1 with interest restanging from 3.0% to 5.0% (maturing from June 2003 through June 2013) to advance refund	a portion of the City's outstaining General Obligation portes as follows: General Obligation Refunding Bonds (in thousands)	Amount Refunded Int \$ 10,505	Series 1933 B - Public Safety Improvement Projects, 1990.         44,055         5.323%           Series 1933 C - Golden Gate Park Improvements, 1992.         5,400         5.323%           Series 1935 A - Public Safety Improvements, 1992.         10,800         5.323%           Series 1935 A - Public Safety Improvements, 1992.         10,800         5.323%           Series 1935 A - Public Safety Improvement Projects, 1992.         10,800         5.323%           Series 1935 A - Public Safety Improvement Projects, 1992.         11,335         5.457%           Series 1935 A - Public Safety Improvements, 1992.         11,335         5.457%           Series 1936 B - Colden Gate Park Improvements, 1992.         11,133         5.400%           Series 1995 C - Fire Department Fracilities Improvements, 1992.         11,133         5.000%           Series 1996 C - Fire Department Fracilities Improvements, 1994.         6,530         5.000%           Series 1996 D - School District Facilities Improvements, 1994.         6,530         5.000%	11	The net proceeds of \$1212 million (including original issue premium of \$2.8 million, and after payment of \$0.58 million in underwriting fees, insurance, and other issuance costs) plus an additonal \$3.2 million of unspert prior bond funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an eacow agent to provide for all future debt service payments on the refunded \$118.5 million of governance. As a result, the refunded bonds are considered to the refunded \$118.5 million of governance. As a result, the refunded bonds are considered to	be determined and the reduing for index bonds has been removed from the governmental activities of the statement of het assets. Although the recognition of an accounting loss of \$5.9 million for the year ended June 30, 2002, the City in effect reduced its aggregate debt service payments by \$7.7 million over the next 11 years, and obtained an economic gain (difference between present value of the old and new debt service payments) of \$6.7 million of \$2.9 million and new debt service payments of \$6.8 7 million for \$6.9 million and new debt service payments of \$6.8 7 million for the old and new debt service payments of \$6.8 7 million for \$6.9 million for the service payments by the old and new debt service payments of \$6.8 7 million for \$6.9 million for the service payments by \$6.8 million for the old and new debt service payments of \$6.8 7 million for \$6.9 million for the service payments by \$6.8 million for \$6.8	In July 2001, the City issued \$15.5 million of refunding certificates of participation, Series 2001-1 with interest rates ranging from 4.0% to 5.0% (maturing from April 2003 through April 2017) to advance refund \$16.7 million of outstanding Series 1991A and B certificates of participation with an average interest rate of 6.25%. The net proceeds of \$15.1 million (including original issue premium of \$0.07 million, and after	84

CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	Certificates of Participation	In September 2001, the City issued \$37.2 million in Centificates of Participation to finance the acquisition of an office building at 30 Van Ness. 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 ranging from 3.6% to 5.0% and mature in 2031. The Taxable Series 2001B Certificates have interest rates ranging from 3.25% to 4.625% and mature in 2006.	Settlement Obligation Bonds	In August 2001, the City issued \$60.8 million in Settlement Obligation Bonds, Series 2001. The bonds have interest rates ranging from 3% to 4% and mature from March 2002 through March 2011. The bonds were issued to refund certain obligations resulting from the settlement of business tax litigation against the City.	Solar Power and Energy Conservation Revenue Bond	In November 2001, the voters approved Proposition H which is a Charter amendment that added another exception to the repproval requirement for issuing areaule bonds. Under the proposed exception, the Roard of Sumaniscens can anthrorize the issuince and reasons bonds to hur huild or immerve reasonable	energy facilities or energy conservation facilities without voter approval.	On the same election date, the voters also approved Proposition B, Solar Energy Revenue Bond. Proposition B authorizes the City to issue revenue bonds and other forms of revenue financing in a principal amount not to exceed \$100 million to build solar and other remeavable arenergy facilities to supply electricity to City agencies. The morey also would fund energy conservation facilities and equipment. The City would repay the principal and interest on the bonds from energy cost reductions as a result of the proposed facilities.	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.		
CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	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.	Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to \$20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2002, the total authorized amount is \$34.2 million. The total accumulated amual authorization since 1990 is \$14.2 million of which \$1.6 million is new annual authorization for the fiscal year ending June 30, 2002.	In May 2002, the Finance Corporation issued its tenth Series of equipment lease revenue bonds in the amount of \$7.9 million with interest rates ranging from 3.0 to 3.6%. The bonds mature from April 2003	through October 2007. The equipment lease program functions as a revolving bond authorization fund. That is, for each dollar in bond principal that is repaid, a new dollar can be issued. The Finance Corporation has issued \$33.5	million in equipment lease revenue bonds since 1990. As of June 30, 2002, \$64.7 million has been repaid leaving \$18.9 million in equipment lease revenue bonds outstanding and \$15.3 million available for new issuance.	(b) City-wide Communication System	In 1993, the Finance Corporation was authorized to issue lease revenue bonds of up to \$50 million for		(c) Moscone Center West Expansion Project	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. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling \$17.5 million were issued. Each Series of Bonds. Funds deposited to the cash with fixed agent accounts on this listue de were calculated to be sufficient to pay interest at a cash with fixed agent accounts on this listue device accluided to be sufficient to pay interest on the Bonds based on an assumed interest rate of 5.02% through August 1, 2003. The average actual rate of interest through June 30, 2002, was 2.07%. The final maturity date is April 2030.	Parking Authority	As approved by the voters in November 1989, Proposition F authorized the City and the Parking Authority to finance the construction of parking lots or garages in eight of the City's neighborhoods, using lease financing. There is no limitation on the amount of bonds that can be issued. On July 12, 2000, 58.2 million lease revenue bonds, Series 2000A, were sold to finance the design and construction of an approximately 200-space, four level 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 leases the garage to the City and the City matures lease payments from the City's general fund. The garage opened in February 2002.

CITY AND COUNTY OF SAN FRANCISCO	CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
<u>Airbort</u> On 1414 2004 the San Emancional Nimort (SECN) ionurd Scond Scond Scond Barran Band	The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2003 to May 1, 2013 and a call date of May 1, 2002.
results of the second metal removal metal and input (or 10) results used used users revenue out Issue 27 (issue 27) in the amount of \$488.5 million with interest rates ranging for 4% to 5.5%. A portion of the proceeds from Issue 27 were deposited into an irrevocable trust with an escrow agent for the repayment of SFO's then outstanding commercial paper, and a portion of the proceeds were used to advance refund certain of the Airport's Second Series Revenue Bonds as follows (in thousands):	The net proceeds of \$97.5 million (including original issue premium of \$4.3 million, and after depositing \$241 million in an irrevocable trust for the repayment of commercial paper, \$17.6 million with a fiscal agent to provide for future debt service, and \$1.1 million in a construction account to provide frunding for future construction activity, and the payment \$4.8 million in underwriting fees. insurance. and other
San Francisco International Airport Refunding Bonds (in thousands)	issuance costs) were used to purchase U.S. Treasury Securities – State and Local Series. Those securities were deposited in irrevocable trusts with an escrow agent to provide debt service payments of the refunded portion of Issue 1 until the bonds were called and repaid on May 1, 2002.
Amount Average Second Series Revenue Bond Issuance: Retunded Interest Rate Issue 98	The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the accompanying statement of net assets.
78,950 5.7 26,975 5.7 10,750 5.2 6,760 5.2 2,885 5.2	Although the advance refunding resulted in the recognition of a deferred accounting loss of \$5.4 million for the year ended June 30, 2002, the Airport in effect reduced its aggregate debt service payments by approximately \$11.5 million over the next 11 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$11 million.
	Upon the terms and conditions set forth in a letter of credit dated May 1, 1997, SFO obtained a \$300 million standby letter of credit that may be increased to \$400 million and commenced itsuing commercial paper as a means of interim financing. The tates on this letter of credit vary from 2.9% to 3.9%. During the fiscal year 2002, SFO refinanced the commercial paper outstanding with Second Series Revenue Bonds
The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2006 to May 1, 2026 and call dates ranging from May 1, 2004 to May 1, 2008.	(discussed above). Moreover, SFO obtained a \$200 million standby letter of credit in current fiscal year that may be increased to \$400 million upon the terms and conditions set forth in the letter of credit dated as of May 1, 2002. As at June 30, 2002, there is no commercial paper balance outstanding.
The net proceeds of \$156.6 million (including original issue premium of \$3.5 million, and after depositing \$309 million in an irrevocable trust for the repayment of commercial paper, \$20.9 million with a fiscal agent to provide for future debt service, and \$0.7 million in a construction account to provide funding for future construction activity, and the payment \$4.8 million in underwriting fees, insurance, and other issuance costs were used to purchase U.5. Treasury Securities - State and Local Series. Those securities were deposited in irrevocable trusts with an escrow agent to provide debt service payments of the refunded portion of the bonds identified above until the bonds are called beginning May 1, 2004 and ending May 1, 2008.	<u>Water Department</u> 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 Commercial neuron Supervisors respectively approved a commercial apper program to provide short-term financing for capital improvement projects funded under the \$304 million Water Revenue Bond Program. Under the enabling ontinance approved by the Board of Supervisors, the maximum amount of commercial neurer that may be initiand and any day of Andilion As of
The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the accompanying statement of net assets.	June 30, 2002, the amount of outstanding commercial paper was \$90 million. During fiscal year 2002, Water Department issued \$140 million of Water Revenue Bonds, Series 2001A. The Revenue Bonds include current interest serial and term bonds with interest rates varying from 4.0 to
Although the advance refunding resulted in the recognition of a deferred accounting loss of \$12 million for the year ended June 30, 2002, SFO in effect reduced its aggregate debt service payments by approximately \$13 million over the next 25 years and obtained an accondic gain (difference between the ordent accounced processent values of the old and new det service next.822 million or present values of the old and new det service next.822 million	o up, the current interest serial points mature from November 1, 2002 through November 1, 2021 and the current interest term bonds mature from November 1, 2002 through November 1, 2031. General Hospital Medical Center
On March 14, 2002, the Airport issued Second Series Revenue Bond Issue 28 (Issue 28) in the amount of S365 million with interest rationing for 2% to 5.5%. A portion of the proceeds from Issue 28 were deposited into an irrevocate trust with an escrow agent for the repayment of the Airport's then outstanding commercial paper, and a portion of the proceeds were used to advance refund \$99.4 million of the Airport's Second Series Revenue Bonds Issue 1.	In June 2002, the General Hospital entered into a five-year capital lease with the Finance Corporation for various equipment. The principal amount of the capital lease is \$0.8 million. The interest rates range from 3% to 3.8% and the lease matures from 2003 through 2007.

CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	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.	<u>Funding Policy</u> - 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 2001-02 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 city is actuarial report, there were no required employer contributions for fiscal year 2001-02 vearced contributed of City employees on their behalf and for their account. The City is required to contribute at an actuarially vear 2001-02 because the City is funded at 129.0% of fiability.	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, 2001. 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) initiation element in wage increase of 4.5%, and (3) salary metit 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.	is as follows (amounts in thousands): Annual Percentage	Fiscal Year Pension of APC Pension Ended Cost (APC) Contributed <u>Obligation</u>	6/30/2000 \$0 N/A \$0 6/30/2001 \$0 N/A \$0 6/30/2002 \$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.	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-chiving adjustments, and death benefits to plan members and beneficiaries. PERS acts as a conconcentence and christerize accont for participation multile arritines within the State of California	Denefit provisions and all during active section by particular provision of continuous of the provisions and all during the restabilished 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.	<b>Miscellaneous Plan</b> <u>Eunding Policy - Miscellaneous plan</u> – Participants are required to contribute 7% 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. For the miscellaneous plan, the fiscal year 2001-02 contribution rate is 0% of annual covered payroll because the City is funded at 144.3%. The contribution requirements of plan members and the City are established and may be amended by PERS.	
CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	Parking Garages In May 2004 the Universe Darking Composition issued \$10 million of bonds for the number of financing	In way cond, the prown removes comportation, second so the mount of a more party party of a manuary improvements to the Union Square Garage facility. The bonds mature starting in 2003 and are to be fully retired by 2031. The bonds bear interest at rates from 4.5% to 6.0%. The Corporation has pledged its gross revenues and all funds and amounts held under the trust indenture as security for payment of the bonds. Additionally, the trust indenture requires the Corporation to maintain of the bonds. Additionally, the trust indenture requires the Corporation to maintain certain ratios and levels of cash and cash and cash and cash and cash and cash and secure the corporation to maintain certain ratios and levels of	Component Unit Debt - Redevelopment Agency The current year debt activities of the Redevelopment Agency are discussed in note 12.	<ul> <li>EMPLOYEE BENEFIT PROGRAMS</li> <li>(a) Retirement Plans</li> <li>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 United 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</li> </ul>	California Public Employees Retirement System (PERS), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, SFO 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-pliving 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 amonds the annex the benefit provisions and Administrative Code is the authority which establishes and amonds the Definitions and the Administrative Code is the authority which establishes and amonds the Administrative Code is the authority which establishes and amonds the Definitions and the Administrative Code is the authority which establishes and amonds the Definitions and the Administrative Code is the authority which establishes and amonds the Administrative Code is the authority which establishes and amonds the Administrative Code is the authority which establishes and amonds the Definitions and	empoye courdences of the Flah. The returnent related payon for entropyees covered by the returnent System for the year ended June 30, 2002 was \$1,858 million. The Retirement System issues a publicly available financial report that includes themacks 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.	<u>Membership</u> Membership of the Retirement System at July 1, 2001, the date of the latest actuarial valuation is:	Police         Fire         Others         Total           Retirees and beneficiaries         1.32         13.951         17.608	Active members:         1,669         1,211         16,852         19,732           Vested         512         592         9.688         10,792           Nonvested         5.181         1.803         26,540         30,524           Subtotal         2.161         3.525         40,491         48,132           Total         4.116         3.525         40,491         48,132	8

G301499         C         NA         S0         NA         S0         NA         S0         S044Y Image         Second Selection Frances an function of an evaluation requirements of plant metablacer request does of present and second selection evaluation requirements of plant metablacer request does of present and second selection evaluation requirements of plant metablacer presents planta frances of planta f
Net Pension <u>Obligation</u> \$0 \$0
100% \$0 100% \$0 N/A \$0

CITY AND COUNTY OF SAN FRANCISCO

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## VOTES TO BASIC FINANCIAL STATEMENTS (Continued)

research and study and the preliminary design for the Doyle Drive Replacement Project for which Calitrans was awarded \$5 million in federal grant funds.

Following is a summary of the Authority's financial position and results of operations as of and for the year ended June 30, 2002 (in thousands)

ASSETS		OPERATIONS	
Deposits and investments \$ 12	\$ 128,709	Revenues:	
Receivables.	26,305	Sales tax.	\$ 62,861
Total assets. \$15	\$ 155,014	Interest and investment income	8,856
		Intergovernmental	3,846
LIABILITES AND FUND BALANCE	щ		75,563
		Expenditures and other financing uses:	
Due to other funds. \$ 1	\$ 10,445	Public works, transportation, and commerce	78,027
Other liabilities.	1,829	Transfer to other funds.	16,833
Total liabilities.	12,274		94,860
Fund balance:			
Reserved for encumbrances	134,730	Deficiency of revenues under expenditures	
Unreserved	8,010	and other financing uses	(19,297)
Total fund balance	142,740	Fund balance at beginning of year	162,037
Total liabilities and fund balance \$ 15	\$ 155,014	Fund balance at end of year	\$ 142,740

### **DETAIL INFORMATION FOR ENTERPRISE FUNDS** (11)

#### San Francisco International Airport e

Francisco in an unincorportated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and San Francisco Bay. According to final data for calendar year 2001 from the Airports Council International (the "ACI"), SFO is one of the largest airports in the United States both in terms of passengers (9th) and air cargo (12th). SFO is also a major origin and destination point and one of the San Francisco International Airport (SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of the Airport. The Airport is located 14 miles south of downtown San nation's principal gateways for Pacific traffic.

SFO's Near Term Master Plan (NTMP) projects. NTMP projects include the new ITC, the AirTrain System, inbound/outbound ramps and elevated circulation roadways to connect the TIC to U.S. Hajbway 101', and individual projects generally consisting of other terminal, parking, cargo, general arviation, erregency response, security and hother facilities and improvements. With the exception of the AirTrain system, most of the NTMP projects have been substantially completed. The Commission has issued \$4.6 billion in aggregate principal amount of Second Series Revenue Bonds (exclusive of the Issue 28 Bonds), of which The new International Terminal Complex (ITC), which opened December 10, 2000, was the centerpiece of \$2.85 billion was issued to fund costs related to the NTMP projects. In addition to Bonds issued for NTMP purposes, the Commission has issued \$503 million in Bonds to refund previously outstanding senior lien revenue bonds of the Commission, \$432.9 million in Bonds for noise mitigation and other capital projects.

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

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

\$60 million in Bonds to finance a portion of the construction costs of a Bay Area Rapid Transit (BART) extension to the Airport and \$756.5 million to refund certain Second Series Revenue Bonds and commercial paper notes of the Commission. The Commission developed a five-year capital plan (the terrorist attacks, current economic conditions, and the resulting decrease in Airport revenues, the Commission has put its Capital Plan on hold indefinitely and has cancelled or postponed most capital "Capital Plan") to meet the future needs of the Airport. However, as a result of the September 11, 2001 projects that are not already in progress or related to safety and security of the Airport.

commercial paper secured by a pledge of the Net Revenues of the Airport, and through interest earnings. Aport operating revenues, and Federal grants. On July 27, 2001, the FAA approved the Airports collection and use of a \$4.50 Passenger Facility Charge ("PFC") per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for eligible project development activities and studies relating to a potential runway reconfiguration. The FAA authorized the Airport to collect approximately \$112.7 million in PFC revenue through June 2003 under this first PFC application ("PFC Application Number 1"). On March 21, 2002, the FAA approved PFC Application Number 2 for the period June 2, 2003 through April 1, 2008, The Airport has financed its capital program primarily through the issuance of revenue bonds and to pay debt service on the bonds issued to finance eligible projects. The amount of PFC revenues to be collected under PFC Application Number 2 is estimated to be \$224 million

included in other non operating revenues in the accompanying basic financial statements. The commission intends to designate \$18.8 million of PFC revenue collected during fiscal year ended June 30. 2002 as revenues under the 1991 Master Resolution. The PFC funds received by the Airport are subject to audit and final acceptance by the FAA and costs reimbursed with PFC revenues are subject to For the year ended June 30, 2002, the Airport has reported \$40.6 million of PFC revenue which is adjustment upon audit. The Commission has three outstanding issues of Special Facility Bonds, which were issued to finance the construction of jet fuel distribution and related facilities at the Airport for the benefit of the arinios: \$93.4 million of San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Starcisco 1997A; \$12.3 million of San Francisco International Airport Special Facilities Francisco International Airport, 1997 Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2000A (collectively, the "SFO FUEL Bonds"). SFO FUEL Bonds are payable from and secured by payments made by a special purpose limited liability company (the "LLC") pursuant to a lease The LLC was formed by certain airlines operating at the Airport, including United Airlines, which were its intell members. The lease payments, and therefore the SFO FUEL Bonds, are payable from charges imposed by the LLC for into-plane fueling at the Airport, and are not payable from or secured by Net Revenues. The SFO FUEL Bonds are further secured by an interline Agreement among the participating airlines, including United Airlines, under which the participating airlines are obligated to make payments to the LLC equal to its total net costs, including the lease payments due to the Commission with respect to the SFO FUEL Bonds. All airlines operating at the Airport are required to have aviation fuel delivered to Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997B (Taxable); and \$19.3 million of San agreement between the Commission and the company with respect to the jet fuel distribution facilities. heir aircraft through the LLC's jet fuel distribution facilities.

Due to the Commission's noise mitigation efforts, significant progress has been made in reducing the noise abatement flight procedures, (2) an aircraft noise insulation program, (3) community outreach through the Airport Community Roundtable, and (4) requests that certain surrounding communities adopt impact of aircraft noise on the communities surrounding the Airport through the implementation of (1) ordinances to protect new purchasers of homes within their community

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	(c) Water Department The San Francisco Water Denartment Mater) was established in 1930. Water which consists of a	system of reactory water beganning (react) may be accumulated in yoor mater, minimizent constant of system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. Water	delivers water, approximately 93,194 million gallons annually, to a total population of approximately 2.4 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).	The Public Utilities Commission (the Commission), established in 1932 provides the operational oversight for the Water Department, Hetch Hetchy Water and Power, and the Clean Water Program. The	Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.	Water purchases water from Hetch Hetchy. This amount, totaling approximately \$19 million, is included in the charges for services provided by other departments in the accompanying financial statements.	During fiscal year 2002, water sales to suburban resale customers were \$70.4 million. As of June 30, 2002, Water owed suburban resale customers approximately \$10.9 million under the Suburban Water Rate Agreement.	As of June 30, 2002, Water had outstanding commitments with third parties of \$82.4 million for various capital projects and for materials and supplies.	In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Department to develop a remedial action plan (plan) that addresses environmental contamination at certain real property womed 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	CRWGCB to execute the plan by middle of 2004. The Commission appropriated funding for pre-work and the award of Phase I of the plan during fiscal year 2002. The cost of cleanup associated with this plan is estimated to be \$22.7 million and was accured in fiscal year 2001. During fiscal year 2002, Water expended \$2 million in accordance with the plan.	(d) Hetch Hetchy Water and Power Hetch Hetchy Water and Power Hetch Hetchy Water and Power (Hetch Hetchy) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolume River in Yossemin Bark to the City, Hetch Hetchy is engaged in the eoliection and conveyance of approximately 85% of the City's to the city Hetch Hetchy is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, the Pot of San Francisco San Francisco Cunty Railway, the Recreation and Parks Department, the Pot of San Francisco San Francisco Cunty Railway.	nospirals, street lighting, moscore Center, and the water and sewer utilities). The valance of the power generated is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts. Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.	Charges for services for the year ended June 30, 2002 include \$64.8 million in sales of power by Hetch Hetchy to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	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 the fiscal year ending June 30, 2002 was \$17.8 million.	(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 1959, 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 lexislation 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 Chy's collection of parking the revenues from Port property. Amonto their thinns. DPT arread to next the Dort a runarantead amontal neuroset of 45.5 million for knowly.	version of the second s	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 Sheat A and B on the pier. On July 14, 1989, a fire damaged the historic ferry sip arch structure at Pier 20, and the construction of the	4- and une our-evolvational production to our earch west (wer, insurance was in more to cover fire damage to the Port's properly at 10 January 2002, the Port and its insurers reached a settlement to complete the required construction repairs at Pier Apr The Port has received insurance commented for a provided the required construction repairs at Pier Apr 0.1. The Port has received insurance	Programs. or yoor minuon ton peproved and completed repairs and sour minuon in an escrow account to fund certain seismic retrofit work. Through June 30, 2002, the Port received interim insurance payments \$0.9 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 for the repair of the Pier 43 arch.	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 outstanding balance of \$8.7 million was paid off on July 2, 2001. The loan obligation was subordinate to all bonds payable by the Port. The loan interest rate, which adjusts with the LIBOR rate, at the payment date was 5.68%.	In September 2002, the Port received a notice of violation from the California Department of Toxic Substance Control (DTSC) in connection with the presence of approximately 15,000 cubic yards of soil contaminated with soluble lead in concentrations that classify it as haractious waste in California. A former contaminated with solubie service and bandoned the contaminated soil after declaring bankrupty in 1995 and ceasing service and bandoned the contaminated soil after declaring bankrupty in 1995 and ceasing operations. The soil has been tested to identify potential disposal and re-use options for which the Port has obtained current cost estimates ranging from \$0.8 to \$1.2 million. The Port has recorded a provision of \$0.8 million for the remediation of the contaminated soils as of June 30, 2002.	The Port is presently planning various development projects which involve a commitment to expend significant funds. Purchase commitments at June 30, 2002 were \$9.2 million for capital projects and \$1.7 million for general operating costs. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCCD), 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. As of June 30, 2002 \$1.5 million has been appropriated and \$0.9 million hab been expended for projects under the	agreement.

CITY AND COUNTY OF SAN FRANCISCO

CITY AND COUNTY OF SAN FRANCISCO	CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
As of June 30, 2002, Hetch Hetchy had outstanding commitments with third parties of \$6.3 million for various capital projects and other purchase agreements for materials and services.	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 2001-2002 General Fund Subsidy to MUNI was \$94 million.
Hetch Hetchy is party to a fixed price, forward contract (the Contract) to purchase electricity from a third party energy provider with scheduled future delivery over a five-year period that began July 1, 2001. Hetch Hetcy antered into the Contract on May 9, 2001 to purchase 2.19 million mWhrs of electric energy. Under this take or pay contract, Hetch Hetcy site and a mount of electric energy. Under this is not required for operations. Commitments related to this contract to the operations. Commitments related to this contract to state of 533.0 million anount of electricity seen if the electricity is not required for operations. Zoomitiments related to this contract total \$33.0 million anount), for a cital of \$131.8 million through June 30, 2006. Expenditures under this contract totaled	MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2002, MUNI had approved capital grants with unused balances amounting to \$294.6 million. Capital grants receivable as of June 30, 2002 totaled \$41.2 million. MUNI also receives operating assistance from various federal, state, and local sources, including Transit Develooment Act fundes and sales tax allocations. As of June 30, 2002, MUNI had various orerating crants
Hetch Hetchy serves as an intermediary agency between Pacific Gas & Electric Company (PG&E) and all Hetch Hetchy serves as an intermediary agency between Pacific Gas & Electric Company (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, 2002 various City Departments were indebted to Hetch Hetchy for construction costs of approximately \$0.21 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 crantia complexed projects on behalf of the City and assumes resconsibility for their maintenance.	receivable of \$5.7 million. These capital grants and operating assistance include funds from the Authority. During the year ended June 30, 2002, the Authority approved \$79 million in new capital grants and \$17.2 million in new operating grants for MUNI. During the same period, MUNI received total payments of \$68.7 million for capital grants and \$18.4 million in operating grants from the Authority. As of June 30, 2002, MUNI had \$10.4 million due from the Authority for capital grants and had no funds due from the Authority for operating grants.
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 Hetchty's power to its customers. In addition, the PG&E agreement	The State Public Utilities Code requires that fare revenues must equal or exceed 33% of operating costs in order to quality 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.
provides backing power and onther support services to herch herch. The Mode agreement allows Proket to review pasts billings paid by Herch Herchy and to retroactively adjust these paraments to actual backup power, trasmission, and other charges as finally determined by PG&E. During fiscal year 2002, Hetch Hetchy purchased \$14.4 million of transmission services, backup power, and other support services from PG&E under the terms of the agreement.	MUNI has outstanding contract commitments of approximately \$88.1 million with third parties for various capital projects. Grant functing is available for a majority of this amount. WINI also has outstanding commitments of approximately \$10.6 million for non-capital expenditures. Various local funding sources are used to finance these expanditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SMFRIC's Board of
To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turiota functional transferse (the Districts) in which the Districts would be	Directors has authorized SWI-NIC to extend tinancial guarantees to MUNI for certain projects totaling \$2.1 million.
response of on intrucease in materia whereases notil the reservoir in extrainage of animal 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 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.	In March 2001, MUNI and the Port entered in to a Memorandum of Understanding (MOU) under which MUNI may use the Metro East site in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of \$25.7 million. This amount was 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 the Authority for ites. As part of this MOU, MUNI paid the Port an additional \$4 million in fiscal year 2002 to construct the Illinois Street Bridge over Islais Creek.
In April 1998, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy provide, as generated, an amount equivalent to the difference between 260 megawatts and the amount required to meet the City's demand. For fiscal year 2002, power sales to the Districts totaled 871,807 mWhrs or \$22.6 million. (e) Municipal Railway	In April 2001, the Municipal Transportation Agency Board of Directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback financing involving up to 150 Breda light rail vehicles. The transaction would not involve financing or procurement of any new vehicles. Rather, MUNI's intention was to obtain economic benefit in return for transferring the tax benefit of depreciation on the vehicles to another party, without impairing the day-to-day operations of the transitensity system.
The San Francisco Municipal Railway (MUNI) is the City's public transit agency. MUNI was established in 1312. During the faceI 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 repeaced the San Francisco Public Transportation Commission. The 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 of MUNI by acquiring.	In April 2002, after obtaining final approval from the Municipal Transportation Agency Board of Directors. MUNI simultaneously entered into two transactions, a lease of 118 Breda light rail vehicles to a group of equity investors and a sublease of the vehicles back from the investors over a period of 27 years. MUNI maintains custody of the light rail vehicles and is obligated to insure and maintain the vehicles throughout the life of the lease.
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CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	During fiscal year ended June 30, 2002, LHH received approximately \$12.3 million payment as a result of matching Federal funds to Local funds which provided a Medi-Cal supplemental in the form of quarterly payments effective August 1, 2001.	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 \$100 million of tobacco settlement funds received by the City, excluding \$1 million set aside deach veed for smoking education and prevention programs, may be used to pay for	construction of a replacement facility for LHH. (g) 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 on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the fiscal year ended June 30, 2002, the subsidy for SFGH was \$72.3 million.			Reimbursement to City General Fund for SB 855 matching program (10,523)		aith Kenabilitation Facility	Other Program Support (6.1)		ing but are not GAAP basis expenses:	Capitalized services and other asset functionses (6,666)	rrvforwards	AP basis expenses:	Depreciation expense 6,284	Other expenses (101)	Net loss of SFGH requiring General Fund subsidy on a Budget basis	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 1555 and the Short-Doyle mental health program, the federal Medi-Cal Medical Education Program and Administrative Claiming System, and a managed care agreement signed with a health maintenance organization (HMO).	101
CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	MUNI received \$388.2 million from the equity investors as full payment of the cost to lease the vehicles based on fair value of the vehicles. MUNI paid \$352.7 million to an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principle of the sublease to the equity investors. The trust assets are invested in U.S. government bonds with maturity dates thrm match the completion tate of the trust assets are invested as the investor of the fund and solver trust assets the investor.	The sublesset. While these payments to the trust of not represent a regar deteasance of movies obligations under the sublease, management believes that the possibility that MUNI will be required to make future payments to the future is remote based on the stability of the investment and the limited risks to the physical assets. Therefore, the trust assets and the sublease obligation are not recorded on the financial statements of MUNI as of June 30, 2002.	As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2002 of \$35.5 million, for the difference between the amount received of \$388.2 and the amount paid to the trust for the future sublease payments of \$352.7, which will be amortized over the life of the sublease.	(f) 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, dependent amount of operating subsidy accrued expanses are not funded resultion in continuin deficits on a cluthaet basis. In those	For the fi	ended June 30, 2002, the subsidy for LHH was \$28 million.	Net income of LHH on a GAAP basis \$21,025	sstricted funds	Operating subsidy from City General Fund (27,047)	Operating subsidy from General Hospital Medical Center (1,100)	Net loss on LHH on a GAAP basis before operating subsidy (29,670)	ot GAAP basis expenses:		Change in encumbrances and appropriation carry forwards (10,338)	Expenses which do not require budgetary funding but are GAAP basis expenses. Devreciation and other evenees	d subsidy on a budget basis	I	*During the fiscal year ended June 30, 2002, LHH received approximately \$21 million of the tobacco settlement funds and \$1.6 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 established. During the facal year ended June 30, 2020. Medicare and Medi-Cal charges for services amounted to approximately \$3.6 million and \$102 million, respectively. As of June 30, 2002, LHH had net patient receivables from Medicare of \$1.8 million and net patient receivables from Medi-Cal of \$22.1 million.	100

CITY AND COUNTY OF SAN FRANCISCO	CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
During the year ended June 30, 2002, Medicare and Medi-Cal revenue accounted for \$50 million and \$61 million of net patient service revenue respectively. As of June 30, 2002, SFGH had net patient receivables from Medicare of \$8.3 million and net patient receivables from Medi-Cal of \$17.2 million.	(h) Clean Water Program The Clean Water Program (CWP) was established in 1977 pursuant to bond resolutions to account for th City's municipal seaves treatment and disposal system.
State of Catifornia 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	CWP's revenue, which consists mainly of sewer service charges, is pledged for the payment of princip and interest on various outstanding Sewer Revenue Bonds.
funds may be matched by federal funds. Gross patient revenue recorded by SFGH for SB-855 totaled \$106.2 million for the fiscal year ended June 30, 2002. This revenue was offset by a reduction in the General Fund operating subsidy of \$70.5 million for net SB 855 revenues of \$35.7 million for the year ended June 30, 2002.	CWP has entered into several loan contracts with the California State Water Resources Control Boar under which CWP borrowed monies to finance the construction of certain facilities. As of June 30, 200 CWP had \$179.6 million of loan principal outstanding.
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, 2002, SFGH recognized gross patient revenue in the amount of \$46 million offset by a reduction in the contribution provided by the City of \$26 million for net SB 1255 revenues of \$20 million.	On December 1, 2001, the CWP defeased (in-substance) \$28.4 million of outstanding sewer revent bonds. The CWP did not issue additional bonds to defease the outstanding issues, but used func received from the State of California Water Resources Control Revolving Fund Loan Program. Th defeased bonds include \$21 million of 1992 sewer revenue refunding bonds with interest rates rangin from 5.7% to 5.8%, \$5.4 million of 1994 sewer revenue refunding bonds with interest rates of 4.7%, at from 5.7% to 5.8%, \$5.4 million of 1994 sewer revenue refunding bonds with interest rates of 4.7%, at from 5.7% to 5.8%.
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, 2002, SFGH recognized net patient service revenue in the amount of \$1.3 million pertaining to this program.	5.10 million or 1955A sewer revenue bords with medest rates or 0.3-X, rulus of 0.9-X0.7 million we deposited in an irrevocable trust with an escrow agent and invested in a U.S. Treasury Money Mark Fund to provide for all future debt service payments on the refunded sewer revenue bonds. As a resu the refunded sewer revenue bonds are considered to be defeased in substance and the liability for thros bonds has hean removed from the accompanying hasic financial statements. The difference between th
As of June 30, 2002, SFGH had Medi-Cal supplemental reimbursement receivables for SB-855, SB-1255, and other federal and state settlement payments of approximately \$46.6 million.	\$30.2 million deposited with the sectow agent and the carrying amount of the refunded sewer revent bonds of \$27.6 million (net of \$0.8 million in unamorized bond sestance costs, original issue discourt and refunding here accordiant with these bonds) has been reported as a component of interest expense
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, 2002 from realignment funding.	the accompanying basic financial statements. In 1995, CWP entered into a forward purchase and sale agreement with a financial institution. Under th acreances CWP received annu front fee of \$8 0 million from the financial institution. In exchance CMP
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, 2002, reimbursement under the Short-Doyle program amounted to approximately \$5.1 million and is included in transfers in.	agreement over recorder an event of the converting more more more measurement U.S. Treasury bills will use its debt service payment on ver due to bondholders to purchase short-term U.S. Treasury bills face value. Revenue is being recognized over the life of the agreement based on the present value of th future earnings. The fee was recorded as deferred revenue, and the unamortized balance as of June 3 2002 was \$1.4 million.
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, 2002 amounted to \$3.5 million and are included in non-operating state revenue.	As of June 30, 2002, the CWP had purchase commitments for construction and for materials and service totaling \$9.5 million.
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 \$155 million and estimated costs and expenses to provide charity care were \$115 million in fiscal year 2001- 2002.	
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 interms who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2002 was approximately \$46.0 million.	

CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	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 \$59.4 million.	Outstanding bond issues had interest accretion of approximately \$154.9 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 7701 million at June 30, 2002, 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 the 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 \$223 million for such expenditures. The Agency has expended \$147 million for low and moderate income housing since its	inception. The Agency had commitments under contracts for capital improvements of approximately \$27.4 million at June 30, 2002.		The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the TiPA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the TiPA is passure Island Conversion Act of 1997 and designated as a redevelopment agenty pursuant to Community Redevelopment Law of the State of California. The TIDA is governed by seven commissiones 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).
CITY AND COUNTY OF SAN FRANCISCO	NOTES TO BASIC FINANCIAL STATEMENTS (Continued)	(i) Parking Garages/Other The data reflects the operations of five parking garages operated by separate nonprofit corporations organized by the City. This data also includes the San Francisco Market Corporation, a nonprofit corporation organized to acquire, construct, finance and operate a produce market. This information about these nonprofit corporations for the year ended June 30, 2002 follows (in thousands):	Japan         Ellis.         Portsmouth         San           Downtown         Uptown         Center         Center         Plaza         Farcisco           Parking         Parking         Parking         Garage         Parking         Parking         Total           Operating revenues         \$11461         \$13,982         \$2,144         \$3,141         \$3,004         \$1,274           Depreciation         \$1,527         2,013         \$(120)         \$687         \$1344         \$1,018           Operating income (loss)         \$1,527         2,013         \$(120)         \$687         \$144         \$1,018	Interest and other non-operating revenues (expenses)	870         1705         -         -         -         -         -         -         -         6         6         1         -         -         -         -         -         6         6         1         0         -         -         -         -         6         6         1         0         0         1         0         0         1         0         0         1         0         0         1         0         0         0         1         0         0         0         1         0         0         0         0         0         1         0 <td>2) SAN FRANCISCO REDEVELOPMENT AGENCY</td> <td>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 1946, the Agency has completed four redevelopment project areas and twelve redevelopment project areas are now underway. In addition, the Agency is undertaking fassibility studies for three new redevelopment survey areas designated by the Board of Supervisors of the Ctity and County of San Francisco.</td> <td>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 Neval Shinvard.</td> <td>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 65 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 3000 housing units. 20% of which will be affordable units, 350,000 square feet of neighborhood-serving retail space, 100,000 square feet of City-serving retail space, 55,000 square feet of neighborhood-serving retail space and six acres 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 and neighborhood- (UCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving and neighborhood- UUCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving and neighborhood-</td>	2) 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 1946, the Agency has completed four redevelopment project areas and twelve redevelopment project areas are now underway. In addition, the Agency is undertaking fassibility studies for three new redevelopment survey areas designated by the Board of Supervisors of the Ctity 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 Neval Shinvard.	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 65 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 3000 housing units. 20% of which will be affordable units, 350,000 square feet of neighborhood-serving retail space, 100,000 square feet of City-serving retail space, 55,000 square feet of neighborhood-serving retail space and six acres 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 and neighborhood- (UCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving and neighborhood- UUCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving and neighborhood-

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## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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-bailto of the citizents of San Francisco. 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 fulficies leased from the U.S. Navy togenerate 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 hose for special events; filth 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 2002, TIDA's primary sources of revenues included facility rents and federal grant diming 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 2002, TIDA initiated negotiations with the Navy based on TIDA's application for the economic conveyance of the former naval station; issued a Request for Proposals for a Primary beveloper to complete the primary developer selection process; worked on preparing a CEQA-compliant Environmental Impact Report based on the Navy's administrative draft Environmental Impact Statement; and selected a contractor to draft the Treasure Island Redevelopment Plan.

## 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, 2002 is as follows (in thousands).

#### Due to / from other funds:

		Amount
General	Nonmajor governmental fund	\$ 22,516
	General Hospital Medical Center	31,694
	Laguna Honda Hospital	10,414
	Internal Service Funds	2,027
		66,651
Nonmajor Governmental Fund	Nonmajor Governmental Fund	54
Municipal Railway	Nonmajor governmental fund	10,445
	Hetch Hetchy Water and Power	1,200
	Clean Water Program	800
		12,445
Hetchy Hetchy Water and Power	San Francisco International Airport	206
General Hospital Medical Center	Nonmajor governmental fund	802
Laguna Honda Hospital	Nonmajor governmental fund	76
Total		\$ 80,234

Payable Entity Amount	nit - SF Redevelopment Agency \$ 22,587
Receivable Entity	Primary government - governmental Component un

#### Interfund transfers:

						Tran	Transfers In:						
•		ž	Nonmajor	Internal	nal			San F	San Francisco Laguna	Ľ	guna		
Transfers Out:	General	Gov	Governmental Service	Serv	ice	Mur	Municipal		General	Ĭ	Honda		
	Fund		Funds	Funds	sp	Ra	Railway	뵈	Hospital	ΗÖ	Hospital	1	Total
General fund	۔ s	ф	120,670	\$ 512	512	69	\$ 94,305	ŝ	73,646	69	\$ 27,558	\$	\$ 316,691
Nonmajor governmental													
funds.	21,441		180,776		•		16,833		938		-	~	219,989
Internal Service funds	'		.)		÷		ľ		•		1		,
San Francisco													
International Airport	17,784		'		•		'		•		1		17,784
General Hospital Medical													
Center	70,523		,		•		'		•		1,100		71,623
Hetch Hetchy Water and Power	1		382		,		•		•		'		382
Municipal Railway.	193		'		÷		'		•		1		193
Less amount transferred													
to internal service funds	'		(144,662)		1		'		'		'	티	(144,662)
Total transfers out \$ 109,941	\$ 109,941	\$	157,166	\$ 512	512	÷	\$ 111,138	φ.	74,584	Ş	28,659	S.	\$ 482,000

The \$317 million General Fund transfer out includes a total of \$195.5 million in operating subsidies to Municipal Railway, General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

of \$120.7 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 \$70.5 million from General Hospital Medical Center as reimbursement for the SB 855 matching program (note 11(g)), \$17.8 million from the San Francisco International Airport, representing a portion of concession revenue (note 11(a)). Included with the \$180.8 million transferred out of nonmajor governmental funds is approximately \$144.7 million which was transferred to a newly created internal service fund to report the operations of the finance Coprotation. Because internal service funds to report carbin long-lemm assets and libities that are not reported to a overmental funds, there is no corresponding transfers in reported within internal service funds related to the correated over corresponding transfers in reported within internal service funds related to the correation of the \$1, Also, \$168, million was transferred out of nonmajor governmental funds to Municipal Railway for transportation projects.

## (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):

### Primary Government

**Governmental Activities** 

\$ 24,439	16,227	15,427	13,021	8,356	10,691	\$ 88,161
Fiscal Years 2003	2004	2005.	2006.	2007	2008-2012	Total

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

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### **Business-type Activities**

Ð											
Total Business-type	Activities	\$ 14,109	10,917	8,299	6,480	5,895	10,439	121	121	26	\$ 56,478
General Hospital Medical	Center	69			168	28	•	•	,	'	\$ 6,793
Municipal	Railway	\$ 4,267	3,931	2,440	803	153	121	121	121	67	\$ 12,054
San Francisco International	Airport	÷			5,509	5,714	10,318	•	,	,	\$ 37,631
Fiscal	Years	2003.	2004.	2005.	2006.	2007.	2008-2012	2013-2017	2018-2022	2023-2027	Total

## Component Unit - Redevelopment Agency

The Redevelopment Agency (Agency) has operating leases for its offices sites which require the following minimum annual payments (in thousands):

\$ 2,109	2,160	2, 130 1, 115	757	3,785	3,785	3,785	3,785	3,785	3,785	3,785	3,786	2,271
Fiscal Years 2003	2004.	2006.	2007	2008-2012.	2013-2017	2018-2022	2023-2027	2028-2032	2033-2037	2038-2042	2043-2047	2048-2052

\$ 40,891

Total..

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CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments (in thousands):

### Primary Government

### **Governmental Activities**

\$ 3,349	2,042 1 299	898	2,256	683 883	250 40	۲	\$ 14,033
	2004.	2006.	2008-2012	2013-2017	2023-2027 2028-2032	2033-2037	Total.
Fiscal Years 2003	2005	2006	2008	2013 2018	2023 2028	2033	Ĕ

### **Business-type Activities**

			General		
	San Francisco	Port	Hospital		Total
Fiscal	International	of San	Medical	Parking	Business-type
Years	Airport	Francisco	Center	Garages	Activities
2003	\$ 62,196		\$ 1,601	\$ 2,515	\$ 93,170
2004	47,483	23,851	1,730	2,606	75,670
2005	40,409		1,775	2,425	66,632
2006	34,481	19,302	1,802	2,155	57,740
2007	28,667	18,263	1,832	1,952	50,714
2008-2012		81,720	1,874	7,585	183,047
2013-2017	•	71,966	•	857	72,823
2018-2022	•	61,945	•	'	61,945
2023-2027	•	47,074			47,074
2028-2032	•	42,279	•	'	42,279
2033-2037		37,500	•	'	37,500
2038-2042		24,787	•	•	24,787
2043-2047	•	17,875		•	17,875
2048-2052	,	12,122	•	'	12,122
2053-2057	•	7,023	•	'	7,023
2058-2062		7,023	•	'	7,023
2063-2067	•	6,709	•	•	6,709
2068-2072	•	209	'	'	209
Total.	\$ 305,104	\$ 528,529	\$ 10,614	\$ 20,095	\$ 864,342

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

## Component Unit - Redevelopment Agency

The Agency leases various facilities within the Yerba Buena Center, Western Addition and Hunters Point areas. The minimum annual payments are as follows (in thousands):

\$ 2,642	2,607	2,685	2,687	2,688	12,872	13,473	13,810	14,456	15,432	16,518	17,739	16,085	444	\$ 134,138
Fiscal Years 2003	2004.	2005	2006.	2007	2008-2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2037	2038-2042	2043-2047	2048-2052	Total

## (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. The City is also making lease payments to outside lessors for various telecommunication and information equipment through an internal service fund.

# Amounts to be provided from capital leases are as follows:

Fiscal	Moscone Convention		
Years	Center	Other	Total
2003	\$ 24,999	\$ 2,102	\$ 27,101
2004	19,953	1,651	21,604
2005.	17,524	81	17,605
2006	20,090	'	20,090
2007	20,160	'	20,160
2008-2012	101,912	'	101,912
2013-2017	102,999	'	102,999
2018-2022	52,833	•	52,833
2023-2027	12,450	•	12,450
Total minimum lease payments.	\$ 372,920	\$ 3,834	\$ 376,754
Less amounts representing interest	(150,010)	(203)	(150,213)
Present value of maximum lease payments	\$222,910	\$3,631	\$226,541

## (d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$1.29 billion at June 30, 2002.

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# **VOTES TO BASIC FINANCIAL STATEMENTS** (Continued)

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, 2002, the City contributed approximately \$8.7 to approximately the contributed approximately \$8.7 to approximately approximately \$8.7 to approximately the contributed approximately \$8.7 to approximately million to the PCJPB.

### **RISK MANAGEMENT** (16)

## **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 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 provider care (collectively referred to herein as estimated claims payable); and injuries to employees unfavorable judgments through annual appropriations and supplemental appropriations.

coverage of \$750 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. The City maintains limited excess coverage for certain facilities. The Airport carries liability insurance

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. The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which

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.

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 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 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 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, 2002 has been actuarially determined and includes an estimate of incurred

## CITY AND COUNTY OF SAN FRANCISCO

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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. 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.

Changes in the reported estimated claims payable since June 30, 2000, resulted from the following activity (in thousands):

	Ending	Fiscal Year	Liability	\$ 191,462	86,731	-
		щ		÷	\$	3
		Claim	Payments	(33,184)	(88,426)	-
				÷	\$	
Current	Year Claims	and Changes	in Estimates	35,219	(16,305)	-
	í	Ø		÷	\$	
	Beginning	Fiscal Year	Liability	189,427	191,462	
				69	\$	-
				2000-2001	2001-2002	
						-

Breakdown of the estimated claims payable at June 30, 2002 is as follows (in thousands):

### 10.00 -

Governmental activities: Current portion of estimated claims payables	\$ 9,224 32,221	
Business-type activities:		
Current portion of estimated claims payables	16,668	
Long-term portion of estimated claims payable	28,618	

\$ 86,731

Total

The Retirement System is involved in two class action type lawsuits which are collectively referred to as time 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 "pay types" in pension calculations. The most significant pay types common to all members of the Retirement System are lung sum payments after termination of employment for six leave and vacation. The police, fire, and transit employees have additional claims for special pay types specific to those employee groups. There is also a new lawsuit against the Retinement System by the Veteran Police Officers Association (VPO) that alleges that the Retinement System should include POST pay in pension calculations for those police officers who retired prior to the creation of the POST rans. These cases are bound groups yontested. The City Attorney has sought uside coursel to hep default to estimate, could program yontested. The City Attorney has sough uside coursel to hep default the estimate, could range between \$500 million and \$1 billion. The actual loss could exceed this range. No lability has been accrued by the City relating to these lawsuits as of June 30, 2002.

### Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2002 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, 2002 was \$ 304.2 million which is reported in the appropriet individual funds in accordance with the City's accounting policies (note 2).

CITY AND COUNTY OF SAN FRANCISCO NOTES TO BASIC FINANCIAL STATEMENTS / <i>Continued</i> )		In October 2002, the City issued an aggregate amount of \$29.3 million in General Obligation Bonds that consist of the Zoo Facilities Bonds, Series 2002A for \$5.2 Million and \$23.1 million for Branch Library Facilities Improvement Bonds, Series 2002B. The 2002b bonds will finance the acquisition, construction or san Francisco Zoo facilities and properties. The 2002B bonds will finance the acquisition, renovation and construction of branch library facilities, incoverned from 2.5% to 5.0%. The bonds mature from 2003 through June 2002.	In October 2002, the Ellis-OFarrell Parking Corporation issued \$5.5 million in Parking Revenue Refunding Bonds, Series 2002, The Series 2002 bonds were being sold to provide funds, together with other available moneys, to returd \$5.2 million aggregate outstanding principal amount of the Corporation's Parking Revenue Bonds, Series 1992. The proceeds of the 1992 Bonds were used to fund seismic upgrading and remoteling of the garage, and construction of two and on-half additional levels of parking, increasing parking reapacity by approximately 350 spaces. The Series 2002 bonds have interest rates ranging from 3.5% to 4.7% and mature from April 2005 through April 2017. The bonds are secured by the revenues of the Corporation derived from the operation of the garage and the Corporation's leasehold interest in the garage.	Also in October 2002, Department of Parking and Traffic lease purchase financed the acquisition and installation of new electronic meters in the amount of \$26 million. Interest rate on the lease purchase financing is 3.62% and the maturity dates are from April 2003 through October 2009.	In 1994, the City issued \$35 million in Taxable General Obligation Bonds (Seismic Safety Loan Program) to provide loans for the seismic strengthening of privately owned unreinforced masonry buildings in the City. In October 2002, from proceeds of the bonds loan repayment and other sources, the City paid in full the \$26.7 million outstanding principal, accrued interest from June 2002, and the redemption premiums.	The Redevelopment Agency of the City and County of San Francisco has its Commission and the Board of Supervisor's approval to issue up to \$72 million in Lease Revenue Refunding Bonds to refund a portion of the 1992 Lease Revenue Bonds maturing on July 1, 2018. It is anticipated that such bonds would be issued in December 2002 of January 2003. As a result of the issuance of the lease revenue refunding	uponts, in expensy would reduce total each service appriment and realize up-promit assings, winch will be applied to the construction of the Mosscone West project. However, the issuance of the lease revenue refunding bonds may result in an increase in principal amount of outstanding lease revenue bonds by approximately \$8.8 million.	Revenue Bonds Redemption In October 2002, the General Purpose Sewer Revenue Bonds Series 1991 were completely redeemed and has the effect of reducing revenue bonds as reported as of June 30, 2002 by \$3.6 million. Elections	On November 5, 2002, the San Francisco voters approved the following propositions that will have fiscal impact on the City: <b>Proposition A - Water Bonds</b> This authorizes the City to issue up to \$1.62 billion in Revenue Bonds to finance improvements to its water system. Innovements and strengthen the system's continuous of anonomic and other system.	ppennes, runnets and orner facilities against earthquakes, upgrade the water storage and ppe transport system to the Bay Area; upgrade the water distribution system in San Francisco; meet future water quality standards and increase water system capacity.
CITY AND COUNTY OF SAN FRANCISCO	NOIES IO BASIC FINANCIAL STATENENTS (CONUMER)	Changes in the reported accrued workers' compensation since June 30, 2000, resulted from the following activity (in thousands): Current Eleginning Year Claims Ending	and changes channes (55,636) \$ 6 \$ 77,812 \$ (55,636) \$ 2 109,671 (52,282) \$ mpensation liability at June 30, 2002 is	Governmental activities: Current portion of accrued workers' compensation liability	Business-type activities:         30,476           Current portion of accrued workers' compensation liability	1	Long-term Debt In July 2002, the Downtown Parking Corporation issued \$13.6 million in Parking Revenue Refunding Bonds, Steeries 2002. The Series 2002 bonds were sold to provide funds, together with other available	Imoleys, to return effective the supersection of the 1933 Bonds were used to fund seismic upgrading and Revenue Bonds, Steins 1993. The proceeds of the 1933 Bonds were used to fund seismic upgrading and remodeling of the garage, and construction of two additional levels of parking, increasing parking capacity by approximately 840 spaces. The Series 2002 bonds have interest rates ranging from 3.0% to 5.375% and mature from April 2003 through April 2018. The bonds are secured by the revenues of the Corporation derived from the operation of the garage and the Corporation's leasehold interest in the darage.	Description of the Water Department issued \$164 million of Water Revenue Bonds, Series 2002A. Of the proceeds from the issuance, \$30 million was used to refund all of Water's outstanding commercial paper. In addition, Water Issued \$68 million Water Revenue Bonds, Series 2002B for the purpose of refunding all outstanding Water Revenue Refunding Bonds Series 1992A.	In September 2002, the Finance Corporation redeemed \$0.8 million of the Combined Emergency Communications Center, lease revenue bonds, Series 1997. The redemption resulted in a decrease in total debt service by \$0.8 million on a net present value basis.

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

# NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Proposition E - Control of Operational Activities of Water Department, Clean Water Program, and Hetch Hetchy Water and Power This establishes provisions for exclusive control of various operational activities of the Water Department, Clean Water Program and Hetch Hetchy Water and Power enterprises. Such activities include rate-setting standards and methods, planning and reporting requirements, transfer of surplus funds between enterprises, contracting independence of revenue bonds, or other financing sources. Proposition E establishes a Rate Fairness Board consisting of seven members that will participate in rate setting. Proposition E also repeals the rate freeze enacted in 1998 for sever rates. Proposition E is effective July 2, 2006 for water rates. Proposition H - Police and Firefighter Retirement Benefits This amends the City's Charter to change the formula for retirement benefits for police and firefighters. The City estimates that retirement benefits would increase, as estimated by the Retirement System Actuary. by 238 million per year for the next 20 years, dropping after 20 years to an ongoing cost of approximately \$8.2 million per year. However, no cash would be required since the City's Retirement System currently million per year. However, no cash would be required since the City's Retirement System currently for at least the next for years to have to make a contribution to the Retirement System for at least the next end the City does not expect to have to make a contribution to the Retirement System

Proposition 1 - Paid Parental Leave This amends the City's Charter to provide up to twelve weeks of paid leave for City employees who take time off after the birth, adoption, or foster care acceptance of a child. It also provides up to sixteen weeks of paid leave to City employees who give birth or suffer a pregnancy-related disability. The City estimates the increased cost of this amendment will be \$6.3 million per year. Proposition P - Public Utilities Revenue Bond Oversight Committee This proposition creates a committee to oversee the City's use of utility revenue-bond funds. The committee will report to the Mayor, Board of Supervisors and Public Utilities Commission (PUC) on whether these bond funds are being used for authorized purposes. The oversight committee can hold public hearings, review the expenditure of utility revenue-bond funds; review the PUC's capital improvement plans and proposals and other financial records, inspect utility facilities; and hire independent auditor, inspectors and other expendits to basis in their oversight activities.

### Wellness Program

Effective July 1, 2002, the City established a pilot "wellness incentive program" (the Program) to promote workforce attendance. The Program was negotiated as part of the July 1, 2001 to June 30, 2003 labor contract between the City and forty-one labor organizations, representing 48% of the City's workforce. It is effected labor organizations. Inder the row of MOU) dated July 1, 2001, between the City and the effected labor organizations. Under the terms of this MOU and the labor contracts, the Wellness Program will be in effect from July 1, 2002 to June 30, 2003.

### This Program provides:

Effective July 1, 2002, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment for a portion of sick leave earned but unusued at the time of separation. The amount of this payment shall be equal to 2.5% of sick leave balances earned but unused at the time of separation times the number of whole years of continuous employment times an employeet's salary rate, exclusive of permiums of supplements, at the time of separation. Vested sick leave hours as described by Civil Service Commission rules, shall not be included in this computation.

The City estimates that the total cost of this will be \$1.6 million during Fiscal Year ending June 30, 2003. The General City portion of this estimate is \$1.3 million and the Enterprise Funds portion is \$0.3 million. (THIS PAGE INTENTIONALLY LEFT BLANK)

### **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 \$\_ aggregate principal amount of City and County of San Francisco General Obligation Bonds, consisting of aggregate principal amount of General Obligation Bonds (Neighborhood Recreation and \$ Park Facilities Improvement Bonds, 2000), Series 2003A (the "2003A Bonds") and \$\_ aggregate principal amount of General Obligation Bonds (Educational Facilities Bonds, 1997-San Francisco Unified School District) Series 2003B (the "2003B Bonds" and, together with the Series 2003A Bonds, the "Bonds"). The 2003A Bonds are issued pursuant to Resolution No. 378-00, adopted by the Board of Supervisors of the City (the "Board") on May 6, 2000, and approved by the Mayor of the City (the "Mayor") on May 12, 2000, and Resolution No. 360-03, adopted by the Board on June 10, 2003, and signed by the Mayor on June 12, 2003 (collectively, the "Park Resolutions"). The 2003B Bonds are issued pursuant to Resolution No. 1018-97, adopted by the Board on November 10, 1997, and approved by the Mayor on November 18, 1997, and Resolution No. 13-02, adopted by the Board on January 7, 2002, and approved by the Mayor on January 18, 2002 (collectively, the "School Resolutions"). The Bonds are issued pursuant to the Government Code of the State of California and the Charter of the City. The Park Resolutions and the School Resolutions are collectively referred to herein as the "Resolution." The City covenants and agrees as follows:

SECTION 1. <u>Purpose of the Disclosure Certificate</u>. 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. <u>Definitions</u>. 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) including, but not limited to, the power to vote or consent with respect to any Bonds or to dispose of ownership of any Bonds; or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system. "Listed Events" shall mean any of the events listed in Section 5(a) 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  $15c_{2-12}(b)(5)$  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. The current status should be checked on the S.E.C. website, <u>http://www.sec.gov/info/municipal.shtml</u>.

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 2002-03 Fiscal Year (which is due not later than March 26, 2004), 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. <u>Content of Annual Reports</u>. 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.

(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. <u>Termination of Reporting Obligation</u>. 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. <u>Dissemination Agent</u>. 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. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted:

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a

Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. <u>Additional Information</u>. 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. <u>Default</u>. 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. <u>Beneficiaries</u>. 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.

SECTION 12. <u>Duties of Dissemination Agent.</u> The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

Date: \_\_\_\_\_, 2003

### 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 (NEIGHBORHOOD RECREATION AND PARK FACILITIES IMPROVEMENT BONDS, 2000), SERIES 2003A AND GENERAL OBLIGATION BONDS (EDUCATIONAL FACILITIES BONDS, 1997—SAN FRANCISCO UNIFIED SCHOOL DISTRICT) SERIES 2003B

Date of Issuance: \_\_\_\_\_, 2003

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 \_\_\_\_\_, 2003. 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.

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 bookentry 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 DTC.

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 FORM OF OPINION OF CO-BOND COUNSEL

[Date of Issue]

Board of Supervisors City and County of San Francisco San Francisco, California

> City and County of San Francisco General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000) Series 2003A

City and County of San Francisco General Obligation Bonds (Educational Facilities Bonds, 1997 – San Francisco Unified School District) Series 2003B

(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the City and County of San Francisco (the "City") of \$ aggregate principal amount of General Obligation Bonds, consisting of \$ \_ aggregate principal amount of "City and County of San Francisco General Obligation Bonds (Neighborhood Recreation and Park Facilities Improvement Bonds, 2000), Series 2003A" (the "Series 2003A Bonds"), representing part of an issue in the aggregate principal amount of \$110,000,000 authorized at an election held in the City on March 7, 2000, and \$\_ aggregate principal amount of "City and County of San Francisco General Obligation Bonds (Educational Facilities Bonds, 1997 - San Francisco Unified School District) Series 2003B" (the "Series 2003B Bonds"), representing part of an issue in the aggregate principal amount of \$140,000,000 authorized at an election held in the City on June 3, 1997 (collectively with the Series 2003A Bonds, the "Bonds"). The Bonds are issued under and pursuant to the Charter of the City, and, with respect to the Series 2003A Bonds, pursuant to Resolution No. 378-00, adopted by the Board of Supervisors of the City (the "Board") on May 12, 2000, and Resolution No. 360-03, adopted by the Board on June 10, 2003, and with respect to the Series 2003B Bonds, pursuant to Resolution No. 1018-97, adopted by the Board on November 10, 1997, and Resolution No. 13-02, adopted by the Board on January 7, 2002 (collectively, the "Resolutions").

In such connection, we have reviewed the Resolutions, the Tax Certificate of the City dated the date hereof (the "Tax Certificate"), certificates of the City, the San Francisco Unified School District, and others, the opinion of the City Attorney of the City, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Resolutions, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolutions, and the Tax Certificate, and their enforceability, may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities, counties, or cities and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents described in the second paragraph hereof. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the City.

2. The Resolutions have been duly and legally adopted and constitute the valid and binding obligations of the City.

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

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

### ORRICK, HERRINGTON & SUTCLIFFE LLP

### MINAMI, LEW & TAMAKI LLP

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