

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and Lofton & Jennings, San Francisco, California, 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, 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 it is included in adjusted current earnings in 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" herein.

**\$10,975,000**

**CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION  
LEASE REVENUE BONDS, SERIES 2003A**

**Dated: Date of Delivery**

**Due: April 1 and October 1, as shown below**

The City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2003A (the "Bonds") are being issued pursuant to an Indenture, dated as of January 1, 1991, as amended and restated as of October 15, 1998, and as supplemented by the Eleventh Supplemental Indenture, dated as of April 1, 2003, (collectively, the "Indenture"), by and between the City and County of San Francisco Finance Corporation (the "Corporation") and U.S. Bank National Association, San Francisco, California (the "Trustee"). The Bonds are being sold to provide funds to finance the acquisition and installation of certain equipment (the "Project," as more fully described herein) to be leased to the City and County of San Francisco (the "City") pursuant to an Equipment Lease, dated as of January 1, 1991, by and between the Corporation and the City, as amended and restated as of October 15, 1998, and as supplemented by Equipment Lease Supplement No. 10, dated as of April 1, 2003 (collectively, the "Lease"). The City has covenanted in the Lease to take such action as may be necessary to include and maintain all Base Rental and Additional Rental payments (collectively, the "Rental Payments") for the Project in its annual budget, and to make necessary annual appropriations therefor. (The terms "Base Rental" and "Additional Rental" are defined herein.) Principal of and interest on the Bonds are payable from the Base Rental payments and from certain funds held under the Indenture.

**The Bonds are subject to special redemption prior to maturity as described herein. The Bonds are not subject to optional redemption. See "THE BONDS—Special Redemption."**

Interest on the Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2003. The Bonds will be delivered only in fully registered form and, when executed and delivered, 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 the principal amount of \$5,000 and integral multiples thereof. Principal and interest with respect to the Bonds will be paid by the Trustee to DTC (as described herein), which will in turn remit such principal and interest to the participants in DTC for subsequent disbursement to the Beneficial Owners of the Bonds. See "APPENDIX FDTC AND THE BOOK-ENTRY ONLY SYSTEM."

**THE BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY PURSUANT TO THE LEASE AND OTHER AMOUNTS (INCLUDING THE PROCEEDS OF THE SALE OF THE BONDS) HELD IN ANY FUND OR ACCOUNT ESTABLISHED PURSUANT TO THE INDENTURE, OTHER THAN THE REBATE FUND, SUBJECT TO THE PROVISIONS OF THE INDENTURE PERMITTING THE APPLICATION OF SUCH AMOUNTS FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH IN THE INDENTURE. THE CORPORATION SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS ONLY FROM THE FUNDS DESCRIBED IN THE INDENTURE AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE ISSUANCE OF THE BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.**

*This cover page contains certain information for general reference only. It is **not** intended to be a summary of the security for or the terms of the Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**MATURITY SCHEDULE**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP</u>
April 1, 2004	\$1,225,000	2.00%	1.20%	79765XJR8	October 1, 2006	\$1,600,000	2.10%	1.70%	79765XJW7
October 1, 2004	1,235,000	2.00	1.25	79765XJS6	April 1, 2007	580,000	2.20	2.15	79765XJX5
April 1, 2005	1,530,000	2.00	1.50	79765XJT4	October 1, 2007	575,000	2.20	2.15	79765XJY3
October 1, 2005	1,560,000	2.00	1.50	79765XJU1	April 1, 2008	575,000	2.40	2.50	79765XJZ0
April 1, 2006	1,585,000	2.10	1.70	79765XJV9	October 1, 2008	510,000	2.40	2.50	79765XKA3

*The Bonds are offered when, as and if issued by the Corporation and received by the initial purchasers, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and Lofton & Jennings, San Francisco, California, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney and for the Corporation by its counsel, Miller Brown & Dannis, San Diego, California. It is expected that the Bonds in book-entry form will be available for delivery in New York, New York, on or about April 1, 2003.*

Dated: March 18, 2003

No dealer, broker, salesperson or other person has been authorized by the Corporation 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 Corporation. 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 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 fact.

The information set forth herein provided by parties other than the City and the Corporation, 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 Corporation or 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.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

**CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION**

Tom Hsieh  
*President*

Robert Gamble  
*Chief Financial Officer*

Donna Ficarrotta  
*Secretary*

**CITY AND COUNTY OF SAN FRANCISCO**

Willie L. Brown, Jr., *Mayor*

**BOARD OF SUPERVISORS**

Matt Gonzalez, *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*

William L. Lee, *City Administrator*

Dennis J. Herrera, *City Attorney*

**PROFESSIONAL SERVICES**

Orrick, Herrington & Sutcliffe LLP

San Francisco, California

Lofton & Jennings

San Francisco, California

*Co-Bond Counsel*

Miller Brown & Dannis

San Diego, California

*Corporate Counsel*

Kitahata & Company

San Francisco, California

*Financial Advisor*

U.S. Bank National Association

San Francisco, California

*Trustee*

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**\$10,975,000**

**CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION  
LEASE REVENUE BONDS, SERIES 2003A**

**INTRODUCTION**

This Official Statement, which includes the cover page and appendices hereto (this “Official Statement”), provides certain information concerning the issuance of \$10,975,000 aggregate principal amount of the City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2003A (the “Bonds”). Any capitalized term not defined herein shall have the meaning given to such term in “APPENDIX D–SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LEASE–THE INDENTURE–Certain Defined Terms.” The Bonds are being issued pursuant to an Indenture, dated as of January 1, 1991, as amended and restated as of October 15, 1998, and as supplemented by the Eleventh Supplemental Indenture, dated as of April 1, 2003 (collectively, the “Indenture”), by and between the City and County of San Francisco Finance Corporation (the “Corporation”) and U.S. Bank National Association, San Francisco, California, as trustee (the “Trustee”). The Bonds are being sold to provide funds to finance the acquisition and installation of certain equipment (as more fully described herein, the “Equipment” or the “Project”) to be leased to the City and County of San Francisco (the “City”) under an Equipment Lease, dated as of January 1, 1991, as amended and restated as of October 15, 1998, and as supplemented by Equipment Lease Supplement No. 10, dated as of April 1, 2003, between the City and the Corporation (collectively, the “Lease”).

Prior to June 1990, the City Charter prohibited the City from engaging in the lease-purchase of equipment or real property through public entities or non-profit corporations using tax-exempt obligations without a vote of the electorate. On June 5, 1990, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to \$20 million of equipment through a non-profit corporation using tax-exempt obligations without an additional vote of the electorate. The principal amount of the obligations with respect to lease financings under Proposition C may not exceed in the aggregate at any time the amount of \$20 million, such amount to be increased by five percent each year, commencing July 1, 1991. As of March 1, 2003, the authorized amount under the Indenture was \$35,917,127 and \$15,790,000 principal amount of lease revenue bonds remained outstanding.

The City is required to pay to the Corporation specified Base Rental payments in amounts sufficient to pay, when due, the principal of and interest on the Bonds, and to pay certain Additional Rental payments (collectively, the “Rental Payments”) for use and possession of the Equipment. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein. Under the Lease, the City has covenanted to take such action as may be necessary to include all Rental Payments in its annual budgets and to make the necessary annual appropriations therefor. The Lease provides that such covenants of the City are deemed by the City to be and shall be construed to be ministerial duties imposed by law.

Pursuant to the Indenture, the Corporation has assigned to the Trustee, for the benefit of the Owners, substantially all of its rights (excluding certain rights as set forth herein) under the Lease, including its right to receive and collect the Base Rental payments from the City under such Lease and its right as may be necessary to enforce payment of the Base Rental payments. The Corporation has entered into an Agency Agreement, dated as of January 1, 1991 (the “Agency Agreement”), with the City pursuant to which the City is appointed as agent of the Corporation in connection with the acquisition and installation of the Equipment.

**THE BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY PURSUANT TO THE LEASE AND OTHER AMOUNTS (INCLUDING THE PROCEEDS OF THE SALE OF THE BONDS) HELD IN ANY FUND OR ACCOUNT ESTABLISHED PURSUANT TO THE INDENTURE, OTHER THAN THE REBATE FUND, SUBJECT TO THE PROVISIONS OF THE INDENTURE PERMITTING THE APPLICATION OF SUCH AMOUNTS FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH IN THE INDENTURE. THE CORPORATION SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS ONLY FROM THE FUNDS DESCRIBED IN THE INDENTURE AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE ISSUANCE OF THE BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.**

For certain financial information with respect to the City, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–City Budget and Finances” and “APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–Organization and Finances.”

For a discussion of constitutional and statutory limitations on the ability of the City to raise revenues and spend proceeds of taxes, see “CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS” herein. For a discussion of demographic and economic information with respect to the City, see “APPENDIX B–CITY AND COUNTY OF SAN FRANCISCO–Economy and General Information.”

## **THE BONDS**

### **General Terms**

The Bonds are being sold in the aggregate principal amount of \$10,975,000 and will be dated as of their date of delivery to the initial purchasers thereof. Interest on the Bonds, until the maturity or earlier redemption thereof, is payable on April 1 and October 1 of each year, commencing on October 1, 2003 (each a “Payment Date”). Bonds authenticated and registered on any date prior to the close of business on the first Record Date (as defined below) shall bear interest from the date of the Bonds. Bonds authenticated during the period between any Record Date and the close of business on its corresponding Interest Payment Date shall bear interest from such Interest Payment Date. Any other Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication; provided, however, that if, at the time of authentication of any Bond, interest is then in default on outstanding Bonds, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. The interest represented by the Bonds is payable by check mailed to the Owners at the addresses appearing on the Bond registration books as of the close of business on the 15th day of the calendar month immediately preceding such Interest Payment Date (the “Record Date”). The principal payable upon maturity or redemption with respect to the Bonds is payable upon surrender of such Bonds at the principal corporate trust office of the Trustee in San Francisco, California. The Bonds will be delivered in registered form, without coupons, registered in the name of Cede & Co., as nominee of The Depository Trust Company, (“DTC”) New York, New York. Individual purchases of

the Bonds will be made in book-entry form only in the principal amount of \$5,000 or any integral multiple thereof. See “APPENDIX F–DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

### **No Optional Redemption**

The Bonds are **not** subject to optional redemption.

### **Special Redemption**

The Bonds are subject to special redemption on any date prior to their maturity, as a whole, or in part, from prepaid Base Rental payments made by the City from the net proceeds of any commercial insurance, self-insurance or condemnation award with respect to the Equipment (the “Net Proceeds”), if such Net Proceeds are not used to repair, replace or restore the Equipment in accordance with the provisions of the Lease. The Bonds are also subject to redemption, in part, on the first practicable date for which notice of redemption can be given following receipt by the Trustee of a Certificate of Completion from moneys remaining in the Acquisition Fund and transferred to the Redemption Fund, if any. In the event the Equipment is acquired for less than the amount on deposit in the Acquisition Fund, the City may elect to purchase additional items of Equipment rather than redeem Bonds. See “THE PROJECT—Description of Equipment Acquisition Program” herein.

In the event of such a redemption, Bonds will be redeemed at a redemption price equal to the sum of the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium. Whenever Bonds are redeemed in part, the Trustee shall select the Bonds of each maturity to be redeemed so that the amounts of the Bonds due in each year which shall remain outstanding after such redemption shall be as nearly proportional as practicable to the aggregate annual amounts of Base Rental payments designated as the principal component to be thereafter payable pursuant to the Lease. Whenever less than all the outstanding Bonds of any maturity are to be redeemed on any one date, the Trustee shall select the bonds of such maturity to be redeemed by lot in any manner that the Trustee deems fair, and the Trustee shall promptly notify the Corporation and the City in writing of the numbers of the Bonds so selected for redemption.

The Trustee must give to the Owners notice of the redemption of Bonds. Such notice shall specify: (a) the Bonds or designated portions thereof which are to be redeemed, including the series designations of such Bonds, (b) the date of redemption, (c) the place where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) the CUSIP numbers assigned to the Bonds to be redeemed, (f) the numbers of the Bonds to be redeemed, and (g) the interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, and that from and after such date interest represented thereby shall cease to accrue and be payable. Such notice of redemption shall be given by first class mail, postage prepaid, to the Owners of the Bonds designated for redemption at their addresses appearing on the Bond register, at least 30 days but not more than 60 days prior to the redemption date, and as may be required by the Continuing Disclosure Certificate. See “APPENDIX E–FORM OF CONTINUING DISCLOSURE CERTIFICATE.” Neither the failure to receive such notice nor any defect in such notice shall affect the validity of the proceedings for the redemption of Bonds, nor prevent the interest on such Bonds from ceasing to accrue upon the stated redemption date.

### **The Book-Entry Only System**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such

maturity, and will be deposited with DTC. So long as all outstanding Bonds are registered in the name of Cede & Co., or its registered assigns, neither the Corporation nor the Trustee will have any responsibility for transmitting payments to, or notifying, any holder or Beneficial Owner of the Bonds. For further information concerning DTC's book-entry only system, see "APPENDIX F—DTC AND THE BOOK-ENTRY ONLY SYSTEM."

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

The Bonds are secured by and payable from Base Rental payments made to the Corporation under the Lease so long as the City has use and possession of the Equipment. To further secure Base Rental payments, the Corporation will grant all rights, title and interest in the Equipment to the Trustee for the benefit of the Bondholders.

### **Base Rental Payments**

The City has agreed under the Lease that so long as the City has the right to use and possess the Equipment it will make Base Rental payments which are calculated to be at least sufficient, in both time and amount, to equal debt service requirements on the Bonds. The Trustee shall collect and receive all of the Base Rental payments, and any Base Rental payments collected or received by the Corporation must immediately be paid by the Corporation to the Trustee. All Base Rental payments shall be held in trust by the Trustee in the Base Rental Payment Fund to be used: first, for payment of interest on the Bonds; second, for payment of the principal of the Bonds as it becomes payable; and third, for replenishment of the Reserve Fund. After making any deposits necessary for the foregoing purposes, the Trustee will transfer any amounts remaining in the Base Rental Payment Fund to the Surplus Fund. Any amounts in the Surplus Fund not required for payment of principal of and interest on the Bonds, upon request by the Corporation, may be used for redemption or purchase of Bonds or transferred to the Working Capital Fund or to the City.

The Base Rental payments will be abated proportionately during any period in which, by reason of any damage, theft or destruction, there is substantial interference with the use and possession of the Equipment, or any portion thereof, by the City. Such abatement shall continue for the period commencing on the date of such damage, theft or destruction and ending on the date of completion by the Corporation of the work of repair or replacement of the damaged, stolen or destroyed Equipment or portion thereof. Any abatement of Base Rental payments could affect the Corporation's ability to pay debt service on the Bonds, although the Lease requires the City to maintain rental interruption insurance for at least a 12-month period and the Indenture requires that a Reserve Fund be established. See "CERTAIN RISK FACTORS—Abatement" herein.

### **Base Rental Payment Schedule**

The Lease requires the City to make Base Rental payments on each March 15 and September 15, commencing September 15, 2003, in payment for the use and possession of the Equipment during the term of the Lease. A portion of Base Rental payments will be funded from the proceeds of the Bonds through September 15, 2004.

The Indenture requires that Base Rental payments be deposited in the Base Rental Payment Fund maintained by the Trustee. Pursuant to the Indenture, on April 1 and October 1 of each year, commencing on October 1, 2003, the Trustee will apply amounts on deposit in the Base Rental Payment Fund as necessary to make principal and interest payments with respect to the Bonds as the same shall become due and payable, as shown in the following table.

SERIES 2003A DEBT SERVICE SCHEDULE

<u>Payment Date</u> <sup>(1)</sup>	<u>Principal</u>	<u>Interest</u> <sup>(2)</sup>	<u>Total</u>	<u>Fiscal Year Total</u>
October 1, 2003		\$114,667.50	\$ 114,667.50	
April 1, 2004	\$1,225,000.00	114,667.50	1,339,667.50	\$ 1,454,335.00
October 1, 2004	1,235,000.00	102,417.50	1,337,417.50	
April 1, 2005	1,530,000.00	90,067.50	1,620,067.50	2,957,485.00
October 1, 2005	1,560,000.00	74,767.50	1,634,767.50	
April 1, 2006	1,585,000.00	59,167.50	1,644,167.50	3,278,935.00
October 1, 2006	1,600,000.00	42,525.00	1,642,525.00	
April 1, 2007	580,000.00	25,725.00	605,725.00	2,248,250.00
October 1, 2007	575,000.00	19,345.00	594,345.00	
April 1, 2008	575,000.00	13,020.00	588,020.00	1,182,365.00
October 1, 2008	510,000.00	6,120.00	516,120.00	
				516,120.00
<b>TOTAL</b>	<u>\$10,975,000.00</u>	<u>\$662,490.00</u>	<u>\$11,637,490.00</u>	<u>\$11,637,490.00</u>

<sup>(1)</sup> Under the Lease, the City's Rental Payments are required to be deposited into the Base Rental Payment Fund at least 15 days prior to the respective Payment Dates on the Bonds.

<sup>(2)</sup> A portion of Base Rental payments will be funded from the proceeds of the Bonds through September 15, 2004.

**Reserve Fund**

The Indenture establishes a Reserve Fund which will be initially funded from proceeds of the Bonds in an amount equal to the Reserve Requirement, initially \$1,097,500. Such moneys will be held in trust as a reserve for the payment when due of all debt service payments on the Bonds. To reflect the declining debt service structure of the Bonds, the Reserve Requirement will be reduced to the following amounts on the following dates unless the Trustee determines, as of the date of any such reduction, that insufficient funds will be on deposit in the Interest Fund and the Principal Fund to pay any interest or principal due (or past due) on the Bonds on such dates:

<u>Date</u>	<u>Amount</u>
October 1, 2004	\$851,500
October 1, 2005	542,500
October 1, 2006	224,000
October 1, 2007	108,500

Any amounts on deposit in the Reserve Fund in excess of the Reserve Requirement will be transferred to the Base Rental Payment Fund for deposit in the Interest Account and Principal Account.

## **Covenant to Budget**

The City has covenanted in the Lease to take such action as may be necessary to include the Base Rental payments and Additional Rental payments in its annual budgets and to make the necessary annual appropriations for such payments. The Lease provides that such covenants on the part of the City are deemed and construed to be ministerial duties imposed by law, and it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease.

**IF THE CITY DEFAULTS ON ITS COVENANTS IN THE LEASE TO INCLUDE ALL RENTAL PAYMENTS IN THE APPLICABLE ANNUAL BUDGETS, THE TRUSTEE MAY EITHER TERMINATE THE LEASE AND RELET OR SELL THE EQUIPMENT OR ANY COMPONENT THEREOF OR MAY RETAIN THE LEASE AND HOLD THE CITY LIABLE FOR ALL RENTAL PAYMENTS ON AN ANNUAL BASIS. THE OBLIGATION TO BUDGET AND MAKE SUCH RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION, AND THE CITY IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION NOR HAS THE CITY LEVIED OR PLEDGED ANY FORM OF TAXATION FOR PAYMENT OF BASE RENTAL.**

## **City Budget and Finances**

For a discussion of the budget and finances of the City, see “APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–Organization and Finances–City Budget and Finances” and “APPENDIX C–EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2002.” In addition, the annual financial reports of the City are available on the internet at <http://www.ci.sf.ca.us/controller/>.

## **Investment Policy**

For a discussion of the City’s investment policy and a description of the City’s investment portfolio regarding surplus cash, See “APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–Organization and Finances–Investment Policy.”

# **THE PROJECT**

## **Description of the Equipment Acquisition Program**

Under the Lease, the City will lease various pieces of equipment from the Corporation (each piece individually a “Component”, and collectively the “Equipment”) for the general governmental purposes of the City. Under the Agency Agreement, the City will act as the agent of the Corporation in acquiring the Equipment. At the expiration of the Lease Term relating to a specific Component, title to such Component will vest in the City. The estimated cost of the various Components the City expects to acquire is as follows:

## 2003A EQUIPMENT LIST

Equipment	Units	Estimated Total Cost	Lease Term (Years)
Fully-Equipped Van	1	\$ 36,000	3
Local Area Network	1	349,903	5
Computer Hardware	1	43,025	5
Unit Dose Packaging Machine	1	20,775	5
Transport Monitor	1	21,306	5
Automatic Refractor/Keratometer	1	21,491	5
Ultrasound System -	1	26,662	5
Sterilizer	1	31,258	5
Total Care Intensive Care Unit Bed	3	51,686	5
Operating Room Surgical Table	1	36,000	5
Adult/Pediatric Ventilator	1	38,324	5
Portable Bronchoscope	1	50,000	5
Digital Video wndoscopy/Straboscopy	1	55,480	5
Incubator Uhmedi Giraffe	1	68,042	5
Dishwashing Machine	1	74,055	5
Surgical Microscope System	1	90,272	5
Anesthesia Machines	2	93,182	5
Mobile Digital Imaging System	1	158,443	5
Portable X-ray	4	180,112	5
Video Tower/Camera	4	233,458	5
ADA Exam Table	5	31,500	5
Defibrillator (with biphasic waveform)	9	80,892	5
Defibrillator	11	135,113	5
Mac-Lab Cath Lab 7000 System Upgrade	1	30,699	5
Novus Omni Laser Console	1	83,450	5
Dump Truck	1	40,500	3
Loader	1	157,500	3
3/4 Ton Pick-up Truck w/dump	4	112,000	3
Crew Cab 1 Ton Pick-up Truck w/dump	2	66,000	3
Front Loader Truck (Flusher)	1	150,000	3
Air Sweeper	2	295,337	3
Packers	1	150,000	3
Mini Dump Truck	1	35,000	3
Knuckle Boom Dump	1	150,000	3
Computer Hardware	1	29,000	5
Pickup, 1/2 ton, full size	2	44,000	3
Computers	26	68,900	5
Monitors	26	23,400	5
Van	1	23,000	3
Sedan, CNG	5	107,500	3
Heavy Rescue Truck	1	425,000	3
Ambulance	4	426,188	3
Aerial Ladder Truck	1	530,000	5
Triple Combination Pumper	4	1,256,000	5
EMS/HQ Local Area Network Upgrade	1	184,785	5
Chevy Silverado	1	21,247	3

(2003A Equipment List continued on next page)

Equipment	Units	Estimated Total Cost	Lease Term (Years)
Honda Civic CNG	1	20,788	3
Ford F-150 XLT, 4WD	1	20,788	3
Server	1	56,472	5
Senior Escort Van	1	45,000	3
Unmarked Cars	29	783,000	3
Marked Cars	36	1,332,000	3
1/4 Ton Pickup w/ 6' bed	2	35,806	3
3/4 Ton Pickup 4WD	1	31,500	3
3/4 Ton Pickup w/dump bed	2	61,600	3
3/4 Ton Pickup w/ 8' bed Utility body	1	31,500	3
3/4 Ton Superduty pickup 8' bed	5	169,500	3
72' Rotary Mower	1	22,193	3
Brush Bandit Chipper 1890 HD	1	39,654	5
F650 Truck	1	52,500	3
Forklift	1	25,725	3
Greensmower	1	22,586	3
Mini Van, 12 passenger	1	31,500	3
Dial in System - Citrix Server	1	100,000	5
Toro Workman	3	53,550	3
Turf Truckster	2	37,800	3
Server Replacement	1	50,000	5
Full Size Cargo Van	1	28,000	3
Full Size Passenger Van	1	29,000	3
Administrative Computers & Network	1	70,395	5
Institutional Washer	1	37,243	5
<b>TOTAL</b>	<b>240</b>	<b>\$9,524,585</b>	

To the extent items of Equipment are acquired for amounts less than the estimated cost shown, the City will either purchase additional items of Equipment that will be subject to and automatically be incorporated within the Lease or will redeem Bonds at par. See "THE BONDS—Special Redemption" herein. To the extent that the items of Equipment cost more than estimated, the City may elect to purchase fewer items of Equipment than shown above. The City may, at any time during the lease term, substitute items of Equipment if such substituted equipment shall have, in the aggregate, the same or longer useful life and the same or greater value than the original Equipment for which it is substituted. All substituted Equipment shall be subject to the Lease.

### **Additional Rental**

The City shall also pay, as Additional Rental under the Lease, certain amounts required by the Corporation for payment of its administrative costs, insurance premiums and taxes in connection with the Project, and Rebate Fund deficiencies, if any. All amounts received by the Corporation as Additional Rental under the Lease will be deposited in the Working Capital Fund. Upon the Written Request of the Corporation, the Trustee will disburse amounts in the Working Capital Fund for the payment of taxes and assessments, insurance premiums, and any administrative cost of the Corporation or charges required to be paid by the Corporation in order to maintain its existence or to comply with the terms of the Bonds or of the Indenture.

## Acquisition Fund

All moneys in the Acquisition Fund are required by the Indenture to be applied by the Trustee to the payment of any Project Costs (or for making reimbursements to the Corporation, the City or any other person for such costs). The Trustee will establish a Project Account within the Acquisition Fund for the Bonds. Amounts in the Project Account may be distributed by the Trustee only to pay costs related to the Project. Upon receipt by the Trustee of a Certificate of Completion for the Project, all amounts remaining in the Project Account are required to be transferred by the Trustee to the Rebate Fund as needed, or to the Redemption Fund to be applied to redeem Bonds.

## Repair and Maintenance

The Lease requires the City, at its own expense, to maintain the Equipment in good working order and to make or cause to be made all necessary and proper repairs, replacements and renewals of the Equipment. In addition, the City is required to purchase and maintain rental interruption insurance as well as fire, theft, vandalism, flood and extended coverage insurance on the Equipment. The City has also agreed to insure or self-insure against claims based on comprehensive general liability, automobile liability and physical property damage which result from its operations, including but not limited to its use of the Equipment. See "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LEASE-The Lease-Insurance."

## SOURCES AND USES OF FUNDS

### Sources and Uses of Funds

The estimated sources and uses of funds are as follows:

#### Sources of Funds:

Par Amount	\$10,975,000.00
Original Issue Premium	94,638.25
Underwriter's Discount	(94,638.25)
	<hr/>
	\$10,975,000.00

#### Use of Funds:

Acquisition Fund	\$ 9,524,585.00
Capitalized Interest <sup>(1)</sup>	145,640.82
Reserve Fund	1,097,500.00
Costs of Issuance Fund <sup>(2)</sup>	202,274.18
Working Capital Fund	5,000.00
	<hr/>
Total Uses	\$10,975,000.00

<sup>(1)</sup> A portion of Base Rental payments will be funded from the proceeds of the Bonds through September 15, 2004.

<sup>(2)</sup> Includes amounts for legal fees, Trustee fees, financial advisory fees, rating agency fees, printing costs and other costs of issuing the Bonds.

## **CERTAIN RISK FACTORS**

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Bonds. This section is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Bonds and additional risk factors may become evident in the future. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the liquidity of the Bonds. The order in which this information is presented does not necessarily reflect the relative importance of various risks.

### **Lease Payments Not a Debt of the City**

The obligation of the City to pay the Rental Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Rental Payments does not constitute an indebtedness of the City and County of San Francisco, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Subject to certain City Charter restrictions, the City may incur other obligations which may constitute additional charges against its revenues. To the extent that the City incurs additional obligations, the funds available to make Rental Payments may be decreased. The City is currently liable on other obligations payable from general revenues. See “APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–Organization and Finances–Statement of Direct and Overlapping Debt and Long-Term Obligations,” “–Direct Tax Supported Debt Service” and “–Lease Payments and Other Long-Term Obligations.” See also “APPENDIX C–EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2002.”

### **Abatement**

The obligation of the City under the Lease to make Base Rental payments is in consideration for the use and right of possession of the Equipment. The obligation of the City to make Base Rental payments may be abated in whole or in part if the City does not have full use and right of possession of any portion of the Equipment, and if the portion of the Equipment then available for beneficial use and possession by the City has an aggregate fair rental value below the amount of the applicable Base Rental payments. If all of the Equipment is not acquired, delivered, installed and accepted, the City may not be obligated to make any, or all, of the applicable Base Rental payments. However, the City has covenanted under the Lease and the Agency Agreement to acquire, deliver, and install the Equipment, and to cause such acquisition, delivery and installation to be completed on or prior to October 1, 2004.

In the event Base Rental payments are abated, no assurances can be given that moneys on deposit in the Base Rental Payment Fund and Reserve Fund or proceeds of rental interruption insurance will be sufficient to pay the debt service on the Bonds. In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Reserve Fund after such payments may be less than the Reserve Requirement.

The amount of Base Rental payments due under the Lease will be abated during any period in which by reason of damage, destruction, condemnation or title defect there is substantial interference with the use and right of possession of the Equipment. Such abatement shall continue for the period commencing with the date of such damage, destruction, condemnation or title defect and shall end with the restoration of the Equipment or any portion thereof to useable condition or correction of the title defect. Reserve Fund moneys and the proceeds of rental interruption insurance may be used by the Trustee to make payments with respect to the Bonds in the event Base Rental payments received by the Trustee are insufficient to

pay principal or interest on the Bonds as such amounts become due. **If damage, destruction, condemnation or title defect with respect to the Equipment or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with moneys in the Reserve Fund and any proceeds of rental interruption insurance, are insufficient to make all payments with respect to the Bonds during the period that the Equipment, or portion thereof, is being restored, then such payments may not be made and no remedy is available to the Trustee or the Owners and Beneficial Owners under the Lease or Indenture for nonpayment under such circumstances.**

Notwithstanding the provisions of the Lease and the Indenture specifying the extent of abatement in the event of the City's failure to have use and possession of the Equipment, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental payments of the City may not be sufficient to pay all of that portion of the remaining principal and interest with respect to the Bonds.

### **Limited Recourse on Default**

The Lease and Indenture provide that, if there is a default by the City, the Trustee may take possession of and relet the Equipment (except with respect to any computer software Component other than Integrated Software as described below). The amounts received from such reletting may be insufficient to pay the scheduled principal and interest on the Bonds when due. Due to the essential nature of the governmental function of some of the Equipment, it is not certain whether a court would permit the exercise of the remedies of repossession, reletting, or sale with respect thereto. Furthermore, the enforcement of any remedies provided in the Lease and in the Indenture could prove to be both expensive and time-consuming.

The Lease provides that any remedies on default shall be exercised by the Trustee, as assignee of the Corporation. The Trustee is required to exercise the rights and remedies under the Indenture with the same care and skill that a prudent person would exercise under the circumstances in the conduct of his or her own affairs. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental and/or Additional Rental when due, or in the event that the City breaches any other terms, covenants, conditions or agreements contained in the Lease (and does not remedy such breach within 30 days of notice thereof or, if such breach cannot be remedied within such 30-day period, the City fails to take corrective action within such 30-day period and diligently pursue the same to completion), the Trustee may proceed (and upon written request of the Owners and Beneficial Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, shall proceed) without any further notice (i) to demand that the City return, at its expense, the Components of Equipment promptly to the Trustee, or the Trustee may enter upon the premises where such Components of Equipment are located and take possession of or remove the same by summary proceedings or otherwise, all without liability of the Trustee for damage to property or otherwise; (ii) to terminate the Lease and sell the Equipment or any Component thereof, at public or private sale, without notice to the City or other advertisement, or otherwise dispose of, hold, use, operate, lease to others or keep idle such Components as the Trustee may determine, all free and clear of any rights of the City and without duty to account to the City for any proceeds with respect thereto; (iii) with the consent of the City and as its agent, to retake possession of the Equipment or any Component thereof and lease the same or any portion thereof for the account of the City, holding the City liable for any difference between the amounts thereby received and the amounts payable under the Lease; and (iv) to exercise any other right or remedy which may be available to it under applicable law or proceed by appropriate court action to enforce the terms of the Lease or to recover damages for the breach thereof or to rescind the Lease. Additionally, unless and until the Lease has been terminated pursuant to the terms thereof, the City is liable for all unpaid Base Rental and Additional Rental and any other governmental charges, costs or fees, or expenses incurred by reason of the occurrence of any event of default or the exercise of the remedies.

In addition to the limitations on remedies contained in the Lease and the Indenture, the rights and remedies provided in those documents may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights.

### **Remedies Limited as to Software**

Certain Components of the Equipment scheduled to be acquired with the proceeds of the Bonds include the acquisition of software, which will not be owned by the Corporation, but will instead be licensed to the Corporation and sublicensed to the City. Additional or substitute items of Equipment may also include the acquisition of software. In general, the software licenses give the Corporation and the City the right to use the software on the Components of the Equipment for which the software was acquired. The licenses do not permit the City or the Corporation to transfer, sell or assign the rights to the software not constituting Integrated Software to any third party. Because of this restriction, the Indenture prohibits the exercise of any termination and/or reletting remedy with respect to software (other than Integrated Software). However, in the event of default under the Lease with respect to any Component (including software) the Trustee would have the right to exercise such remedies with respect to all Integrated Software and non-software Components.

### **No Acceleration on Default**

In the event of default, there is no remedy of acceleration of the total Base Rental payments for the term of the Lease. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

### **Change in Law**

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature or the City's Board of Supervisors will not enact legislation, to amend the laws of the State, the State Constitution or the City's Charter, respectively, in a manner that could result in a reduction of the City's general fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS—Article XIII C and XIII D of the California Constitution."

### **Bankruptcy**

In addition to the limitations on remedies contained in the Lease and the Indenture, the rights and remedies provided in the Indenture and the Lease may be limited by and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies, there are no involuntary petitions in bankruptcy. It is not clear that the Corporation would be protected by Chapter 9 from an involuntary bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Trustee and the Corporation could be prohibited or severely restricted from taking any steps to enforce their rights under the Lease, and from taking any steps to collect amounts due from the City under the Lease.

Although the Corporation's activities are limited and it generally does not have any assets or engage in activities that could give rise to debts and obligations, the City does not control the activities of the Corporation. The Corporation has entered into financing leases with the City and other agencies, and has

issued bonds amounting in the aggregate to \$251.9 million in outstanding principal (including \$15,790,000 outstanding under the Indenture). See “APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–Organization and Finances–Lease Payments and Other Long-Term Obligations”; “APPENDIX C–EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2002”, Note 8. In the event the Corporation declared bankruptcy or were declared a bankrupt, the bankruptcy court would have the power to review and abrogate lease arrangements entered into by the Corporation involving the assignment of revenues to other parties, including the Lease and the Indenture. The court could order, at least for some period of time, that the Corporation not allow any of its revenues received from the City under the Lease to be paid over to the Trustee.

## **CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS**

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

Article XIII A of the State Constitution, known as Proposition 13, was approved by California voters in June 1978. Section 1(a) of Article XIII A limits the maximum ad valorem tax on real property to one percent of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one percent 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 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the 1975-76 fiscal year tax bill or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any additional ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of taxable value.

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.

On December 27, 2001, the Orange County Superior Court, in the case of *County of Orange v. Orange County Assessment Appeals Board No. 3*, case no. 00CC03385, ruled that where a home’s market value did not increase for two years, the Orange County assessor violated the provision of Article XIII A limiting the annual inflation adjustment to two percent when the assessor tried to “recapture” the tax value

of the property by increasing its assessed value by approximately four percent in a single year, following a year in which the assessed value had declined. State law requires all counties, including the City, to use a similar methodology, which may result in raising the taxable values of property beyond two percent in a single year. The case has been certified as a class action and is now pending before the Court of Appeals, where a decision could have the effect of extending this ruling to other similar cases. A similar lawsuit has also been filed in the Los Angeles County Superior Court by the same plaintiffs in a matter entitled *David Bezaire, Trustee, et al., vs. County of Los Angeles, et al.*, (case No. BC263013 in files of that court). The City is unable to predict the outcome of this litigation and what effect, if any, it might have on assessed values in the City and on the City's property tax revenues.

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

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

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIII B of the State Constitution, which limits the amount of revenues that government entities are permitted to spend. Article XIII B, approved by California voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each governmental entity's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to such entity's taxpayers through tax rate or fee reductions over the following two years.

The City Controller has estimated that for the 2002-03 Fiscal Year, permitted appropriations of "proceeds of taxes" are limited to \$1,751,554,849, with budgeted appropriations from proceeds of taxes for the 2002-03 Fiscal Year at a level of \$1,544,346,831.

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

On November 5, 1996, the voters of the State approved Proposition 218 – the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996, although application of some of its provisions was deferred until July 1, 1997.

Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes becomes effective. General taxes imposed for general governmental purposes of the City require a majority vote and special taxes imposed for specific purposes (even if deposited in the general fund) require a two-thirds vote. The voter approval requirements of Article XIII C reduce the Board of Supervisors’ flexibility to deal with fiscal problems by raising revenue through new, extended or increased taxes and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if they were approved by voters by November 6, 1998. Each local tax subject to such approval has been either reauthorized in accordance with Proposition 218 or discontinued.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by initiative, repeal or reduce any existing local tax, assessment, fee or charge, or limit the future imposition or increase of any local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations discussed below with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which could be reduced by initiative under Article XIII C. “Assessment,” “fee” and “charge” are not defined in Article XIII C and it is not clear whether the definitions of these terms in Article XIII D (which are generally property-related, as described below) would be applied to 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.”

With respect to the City’s general obligation bonds, the State Constitution and the laws of the State impose a duty on the Board of Supervisors to levy a property tax sufficient to pay debt service coming due in each year; the 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.

Legislation adopted by the State Legislature in 1997 provides that Article XIII C shall not be construed to mean that any owner or Beneficial Owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the Contracts Clause of the United States Constitution.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain “assessments” for local services and programs. “Assessment” is defined to mean any levy or charge upon real property for a special benefit conferred upon real property, and expressly includes standby charges. Article XIII D also includes new provisions affecting “fees” and “charges,” defined for purposes of Article XIII D to mean “any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a county upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” All new and existing

property related fees and charges must conform to specific requirements and prohibitions set forth in Article XIII D. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge, or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

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. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

### **Statutory Limitations**

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which, among other matters, requires (i) that any tax for general governmental purposes imposed by local governmental entities be approved by a majority vote of the voters voting in an election on the issue, (ii) that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters voting in an election on the issue, and (iii) that the revenues from a special tax be used for the purposes or for the services for which the special tax was imposed.

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the “*Santa Clara* decision”), which upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a “special tax” as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

The *Santa Clara* decision also did not decide the question of the applicability of Proposition 62 to charter cities. The City is a charter city. Two cases decided by the California Court of Appeals in 1993, *Fielder v. City of Los Angeles*, (1993) 14 Cal. App. 4th 137 (rev. den. May 27, 1993), and *Fisher v. County of Alameda*, (1993) 20 Cal. App. 4th 120 (rev. den. Feb. 24, 1994), held that Proposition 62’s restriction on property transfer taxes did not apply to charter cities because charter cities derive their power to enact such taxes under Article XI, Section 5 of the California Constitution, relating to municipal affairs. This general conclusion has been affirmed in subsequent cases.

Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State’s electorate. Since the passage of Proposition 218, however, certain provisions of Proposition 62 (e.g., voter approval of taxes) are governed by the State Constitution. For a discussion of taxes affected by Proposition 218 see “Articles XIII C and XIII D of the California Constitution” above.

The City estimates that approximately \$633.3 million has been collected as a result of tax increases imposed without voter approval between November 5, 1986 (the effective date of Proposition 62) and July 1, 2002. Increased or new taxes include taxes imposed on business, hotel occupancy, utility use,

parking, property transfer, stadium admissions and vehicle rental taxes. The hotel tax and stadium admissions tax were ratified by the voters on November 3, 1998. The annual amount of taxes collected as a result of these post-Proposition 62 increases is approximately \$44.2 million. With the exception of the vehicle rental tax, the City continues to collect these taxes. If a court determined that a jurisdiction imposed a tax in violation of Proposition 62, Proposition 62 would require that the portion of the 1% general ad valorem property tax levy allocated to that jurisdiction be reduced by \$1 for every \$1 in revenue attributable to the tax for each year that the tax had been collected.

## **THE CORPORATION**

The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 *et seq.* of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City pursuant to a resolution of the Board of Supervisors of the City. The purpose of the Corporation is to provide a means to finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

### **Governance and Administration**

The Corporation is governed by a three-member Board of Directors. The initial Board of Directors was appointed by the Chief Administrative Officer of the City. Members of the Board of Directors are appointed by the existing Board of Directors to indefinite terms and serve without compensation. The current members of the Board of Directors are as follows:

Name	Date of Appointment
Tom Hsieh, President	May 23, 1997
Robert Gamble, Chief Financial Officer	May 23, 1997
Donna Ficarrota, Secretary	September 18, 2000

Mr. Hsieh is a former member of the Board of Supervisors of the City, former Chairman of the Budget Committee of the Board, former Chairman of the San Francisco Transportation Authority and former director of Renaissance Hotel Group, N.V., a New York Stock Exchange listed corporation, where he served on both the Audit Committee and the Compensation Committee. Mr. Hsieh is a former director of The Bank of Canton of California where he served as the Audit Committee chairman.

Mr. Gamble is the Director of the Goldman Environmental Foundation of the Richard & Rhoda Goldman Fund and formerly served as the Deputy Executive Director, Finance and Project Development of the Redevelopment Agency of the City and County of San Francisco.

Ms. Ficarrota is the Managing Director of the Union Square Association and formerly served as the Executive Director of the Municipal Fiscal Advisory Committee to the Mayor and as Program Director of the San Francisco Planning and Urban Research Association.

The Corporation has no employees. Pursuant to an Administrative Services Agreement dated May 23, 1997, between the City and the Corporation, the City provides administrative services to the Corporation.

## **Outstanding Debt**

In addition to the Bonds and the other lease revenue bonds outstanding under its equipment lease program (as of March 1, 2003, in the aggregate principal amount of \$15,790,000), the Corporation has issued other bonds secured by separate leases with the City. Additional bonds secured by separate leases with the City may be issued by the Corporation from time to time. See “APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES—Statement of Direct and Overlapping Debt and Long-Term Obligations” and “—Lease Payments and Other Long-Term Obligations.” No amount received by or on behalf of the Corporation with respect to any other bonds issued by the Corporation is available to secure payment of the Bonds.

## **Limited Obligation**

**THE BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS (INCLUDING THE PROCEEDS OF THE SALE OF THE BONDS) HELD IN ANY FUND OR ACCOUNT ESTABLISHED PURSUANT TO THE INDENTURE, OTHER THAN THE REBATE FUND, SUBJECT TO THE PROVISIONS OF THE INDENTURE PERMITTING THE APPLICATION OF SUCH AMOUNTS FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH IN THE INDENTURE. THE CORPORATION SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON, THE BONDS ONLY FROM THE FUNDS DESCRIBED IN THE INDENTURE AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION IN RESPECT OF THE ISSUANCE OF THE BONDS.**

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and Lofton & Jennings, San Francisco, California, 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 G.

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 Corporation 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 Lease, the Indenture, 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 themselves.

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 official 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 advisors 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 (“IRS”), 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 Lofton & Jennings, San Francisco, California, Co-Bond Counsel. A complete copy of the proposed form of Co-Bond Counsel opinion is contained in APPENDIX G 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 and for the Corporation by Miller Brown & Dannis, San Diego, California, Counsel to the Corporation.

## **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the Owners 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 the 2002-03 Fiscal Year, which is due no 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 Information Depository or with the Municipal Securities Rulemaking Board and with the State Repository, if any. The specific nature of information to be contained in the Annual Report and the notices of material events is summarized in "APPENDIX E-FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(5)(b). The City has never failed to comply in all material respects with any previous undertakings pursuant to said Rule to provide annual reports or notices of material events.

## **NO LITIGATION**

No litigation is pending or, to the knowledge of Corporate Counsel, threatened, concerning the validity of the Bonds or the Indenture, and Corporate Counsel will issue an opinion to that effect. In addition, no litigation is pending with service of process having been accomplished or, to the knowledge of the City Attorney, threatened, concerning the validity of the Lease, and the City Attorney will issue an opinion to that effect. The opinions of the City Attorney and Corporate Counsel will be furnished to the initial purchaser at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to appropriate or make Base Rental payments.

## **RATINGS**

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services, A Division of The McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "A2 (con.)", "AA-p", and "A+", 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 25 Broadway, New York, NY 10004, telephone: (212) 438-2074; 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 the rating agencies will

be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agencies, if in their 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.

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

Kitahata & Company has acted as Financial Advisor to the Corporation in connection with the issuance, sale and delivery of the Bonds. Kitahata & Company is an independent advisory firm not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. Kitahata & Company will receive compensation from the City contingent upon the sale and delivery of the Bonds. Orrick, Herrington & Sutcliffe, LLP, and Lofton & Jennings, have acted as Co-Bond Counsel in connection with the issuance, sale and delivery of the Bonds. Co-Bond Counsel will receive compensation from the City contingent upon the sale and delivery of the Bonds. U.S. Bank National Association is acting as trustee and registrar with respect to the Bonds.

### **SALE OF THE BONDS**

The Bonds were sold at competitive bid on March 18, 2003. The Bonds were awarded to Salomon Smith Barney Inc. at a purchase price of \$10,975,000. 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 Underwriter has represented to the City that the Bonds were reoffered to the public at the prices or yields set forth on the cover page hereof producing net original issuance premium of \$94,638.25, which the underwriter has retained as its compensation. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices shown on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

### **MISCELLANEOUS**

References made herein to certain documents and reports are brief summaries thereof that do not purport to be complete or definitive, and the reader is referred to the complete contents of each such document and report.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City or the Corporation and the purchasers or Owners and Beneficial Owners of any of the Bonds. The preparation and distribution of this Official Statement have been authorized by the Corporation and the City. For further information, please contact the Corporation, c/o the Mayor's Office of Public Finance at (415) 554-5956.

The execution and delivery of this Official Statement have been authorized by the Corporation.

CITY AND COUNTY OF SAN FRANCISCO  
FINANCE CORPORATION

By: /s/ Tom Hsieh  
President

## **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 International Airport, (“SFO”) although located fourteen miles south of downtown San Francisco in San Mateo County, is owned and operated by the City. In 1969, the City acquired the Port of San Francisco (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 serves 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 first elected was 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; Sopenia (“Sophie”) Maxwell, an electrician; and Gerardo Sandoval, a deputy public defender. Gavin Newsom, 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 term 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 \$5 billion annual operating budget. The Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for 29,000 employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Harrington had been the Assistant General Manager and Finance Director of the San Francisco Public Utilities Commission (the “PUC”). He was responsible for the financial activities for the Municipal Railway (public transit), Water Department, and Hetch Hetchy Water and Power System. Mr. Harrington worked with the PUC from 1984 to 1991. Mr. Harrington was an auditor with KPMG Peat Marwick, from 1980 to 1984, specializing in government, non-profit, and financial institution clients. He was responsible for the audit of the City and County of San Francisco. While working for KPMG, Mr. Harrington became a Certified Public Accountant.

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

Mabel Teng was inaugurated as San Francisco’s first Asian-American Assessor-Recorder 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 Trustee 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 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 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. Also on June 1, 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.

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

Under provisions of the City's Administrative Code, the Treasurer, upon recommendation of the Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any idle funds then held in the pooled investment fund. The operating cash reserve 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 City’s fiscal year 2002-03 adopted budget is \$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 bond repayment. 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, maintains 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”.) Furthermore, the 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 Six-Month Budget Status Report, issued on February 11, 2003 projected an additional \$36.76 million reduction in revenues and transfers to the General Fund. In response, the Mayor has implemented additional spending reductions, departmental savings targets and delayed hiring for the remainder of fiscal year 2002-03 to address such shortfall.

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 AND COUNTY OF SAN FRANCISCO**  
**Budgeted General Fund Revenues and Appropriations for**  
**Fiscal Years 1998-99 through 2002-03**  
**(000s)**

	FY 1998-99 Revised <u>Budget</u>	FY 1999-00 Revised <u>Budget</u>	FY 2000-01 Revised <u>Budget</u>	FY 2001-02 Revised <u>Budget</u>	FY 2002-03 Original <u>Budget</u>
Prior Year Surplus	\$101,956	\$106,820	\$127,333	\$193,720	\$173,289
<u>Budgeted Revenues</u>					
Property Taxes	\$346,027	\$388,945	\$426,305	\$461,715	\$513,235
Business Taxes	231,263	246,450	270,077	275,669	282,110
Other Local Taxes	341,965	349,129	394,715	459,814	387,955
Licenses, Permits and Franchises	14,909	15,396	16,357	18,775	16,982
Fines, Forfeitures and Penalties	4,922	14,541	6,816	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	<u>456</u>	<u>598</u>	<u>978</u>	<u>1,312</u>	<u>37,578</u>
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	
<u>Expenditure Appropriations</u>					
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	<u>88,236</u>	<u>73,619</u>	<u>89,469</u>	<u>116,861</u>	<u>61,814</u>
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	-	-	<u>(240,770)</u>	<u>(293,517)</u>	<u>(301,643)</u>
Net Transfers In/Out	(\$108,017)	(\$120,732)	(\$83,774)	(\$157,489)	(\$171,222)
Excess (Deficiency) of Sources					
Over (Under) Uses	\$ -	\$ -	\$ -	\$57,260	\$27,100

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay, however, are funded only as payments are required to be made. As of June 30, 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.

**TABLE A-2**

<b>General Fund Balances</b>	
<b>As of June 30, 2002</b>	
<b>(000s)</b>	
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	<u>25,379</u>
Total Reserved Fund Balance	\$237,321
Unreserved - designated for litigation & contingency	\$17,506
Unreserved - available for appropriation	<u>130,200</u>
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	<u>(19,256)</u>
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-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**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>					
<b>Statement of Revenues, Expenditures and Changes in General Fund Balances (000s)</b>					
	Fiscal Year Ended June 30,				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>Revenues:</u>					
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	<u>\$1,956,818</u>	<u>\$2,015,349</u>	<u>\$1,859,860</u>	<u>\$1,653,872</u>	<u>\$1,584,321</u>
<u>Expenditures:</u>					
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 <sup>111</sup>	50,105	45,380	45,194	48,093	-
Total Expenditures	<u>\$1,911,809</u>	<u>\$1,797,652</u>	<u>\$1,695,407</u>	<u>\$1,572,040</u>	<u>\$1,506,655</u>
Excess of Revenues over Expenditures	\$45,009	\$217,697	\$164,453	\$81,832	\$77,666
<u>Other Financing Sources (uses):</u>					
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)	<u>(\$143,805)</u>	<u>(\$122,334)</u>	<u>(\$129,676)</u>	<u>(\$61,337)</u>	<u>(\$5,766)</u>
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					
before valuation of investments	\$479,187	\$275,640	\$240,863	\$220,550	\$148,650
Net Change in Reserve for Assets					
Not Available for Appropriation	-	-	-	-	-
Cumulative Effect of Change in Accounting Principles	-	108,184	-	-	-
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>121</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	\$44,261
Unreserved & Undesignated Balance, Year End					
-- Budget Basis	\$130,200	\$198,953	\$148,581	\$126,357	\$145,332
<sup>111</sup> Prior to fiscal year 1998-99, General City Responsibilities were reported in General Administration and Finance					
<sup>121</sup> Fund Balances include amounts reserved for cash requirements, emergencies, encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved and undesignated fund balances (which amounts constitute unrestricted general fund balances).					
Source: Comprehensive Annual Financial Reports for the Years Ended June 30, 2002, 2001, 2000, 1999, and 1998					
Office of the Controller, City and County of San Francisco					

## **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 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.

SFO has been impacted by the economic downturn and subsequent loss of business travel and decline in air traffic due to the events of September 11, 2001. Fiscal year 2001-02 total enplaned passenger traffic declined by 20% from the prior fiscal year. Security requirements have restricted access to post-security shops and restaurants; however, SFO anticipates that most concession rents, which were temporarily reduced, will be reinstated during fiscal year 2002-03. For fiscal year 2002-03, SFO transfer of concession revenues to the City’s General Fund, is budgeted at \$21.2 million.

## **Impact of State Budget**

On January 10, 2003, the Governor released a plan for addressing the State’s projected \$34.6 billion General Fund budget shortfall, an amount that would represent roughly one-third of the fiscal year 2002-03 All Funds State Budget or approximately 45 percent of the fiscal year 2002-03 General Fund State Budget. The Governor’s Proposed fiscal year 2003-04 Budget outlines a comprehensive plan to bridge the shortfall, including tax increases, program realignment, deep spending cuts, and major reductions in government subventions.

While the Governor has presented his mid-year and fiscal year 2003-04 Proposed Budget plans to the legislature, it is unclear at this time how quickly the legislature will act on his proposals. It is uncertain what the final budget outcome will be and what exact impact it will have on the City. Additionally, both the Governor’s Proposed fiscal year 2003-04 Budget and the Legislative Analyst Office’s (LAO) projections include economic recovery assumptions, making it difficult to evaluate the full impact of the State’s budgetary solutions on the City’s financial situation. If these recovery assumptions 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.

## **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, 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 if 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) voter-approved overrides which funds debt service for general obligation indebtedness. The total tax rate shown in Table A-4 includes taxes assessed on behalf of the San Francisco Unified School District, San Francisco Community College District, Bay Area Air Quality Management District, Bay Area Rapid Transit (BART) District, and San Francisco Redevelopment Agency, all of which are legally separate entities from the City. See also "Statement of Direct and Overlapping Bonded Debt" below.

Total assessed value has increased on average by 9.6% each year since fiscal year 1998-99. Property tax delinquencies based on the weighted average of the secured and unsecured delinquency rates, have averaged 1.55% over the five years ending in fiscal year 2001-02.

**TABLE A-4**

CITY AND COUNTY OF SAN FRANCISCO									
Assessed Valuation of Taxable Property <sup>[1]</sup>									
Fiscal Years 1998-99 through 2002-03									
(\$000s)									
Fiscal Year	Assessed Valuation			Total Assessed Valuation	% Change from Prior Year	Exclusions <sup>[2]</sup>	Total Tax Rate per \$100 <sup>[3]</sup>	Total Tax Levy (000s) <sup>[4]</sup>	Current Levy Delinquent June 30,
	Land	Improvements on Land	Personal Property						
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 <sup>[5]</sup>

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

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

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

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

<sup>[5]</sup> Fiscal year 2002-03 delinquencies not yet available.

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

The fiscal year 2002-03 total assessed valuation is \$97,535,748,109. After non-reimbursable and homeowner exemptions, but including San Francisco Redevelopment Agency tax increment, net valuation is \$93,738,325,815. Of this total, \$86,020,166,356 (92%) represents secured valuations and \$7,718,159,459 (8%) represents unsecured valuations. The net valuation will result in total property tax revenues of \$1,047,597,370, before correcting for delinquencies. The City's General Fund will receive approximately \$516.6 million of the property tax revenues, representing 51% of the total received, excluding Redevelopment Agency tax increment. 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 (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. There are currently property tax appeals pending seeking reductions in assessed valuations, retroactive in some cases over several years. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" in the forepart of this Official Statement.

Generally, property 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 (“Teeter Plan”). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the Controller to allocate to the City’s taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City’s General Fund retains such amounts. The former method only allowed allocation of secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies, together with the required reserve, from internal borrowing. The Tax Loss Reserve for the Teeter Plan was \$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 initially paid only a portion of its second installment of its 2000-01 property taxes, due April 10, 2001. PG&E took the position that it was not able to make full payment without Bankruptcy Court permission. On May 16, 2001, the Bankruptcy Court ruled that PG&E could pay the remaining portion of its outstanding property taxes and on May 23, 2001, PG&E made such payment to the City. PG&E made complete and timely payment of property taxes due on December 10, 2001 and April 10, 2002 in an aggregate amount of \$8,603,253. PG&E also made complete and timely payment of property taxes due on December 10, 2002 in the amount of \$4,812,718. PG&E paid its 2001 franchise fees in the amount of \$6,718,524 when it was due in April 2002.

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**

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

### **Other City Tax Revenues**

In addition to property tax, the City has several other major tax revenue sources, as described below. For a discussion of State constitutional and statutory limitations on taxes that may be imposed by the City, including a discussion of Proposition 62 and Proposition 218, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" 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 scheme in 2001 curing any alleged constitutional defects. No additional requests for refunds are expected to be received, since all claims had to be filed by November 2001. Any payments related to lawsuits or claims already filed that remain unsettled will be covered through the settlement reserve fund.

### Sales and Use Tax

The State collects the City's 1% local sales tax on retail transactions, along with State and special district sales taxes, and rebates the local sales tax collections to the City. The 1% local sales tax is deposited in the City's General Fund. Budgeted revenue from the local sales and use tax for fiscal year 2002-03 is \$130.6 million; however, as of the FY 2002-03 Six-month Budget Status Report, the City was projecting sales and use taxes to be approximately \$10.5 million under budget. 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.

**TABLE A-6**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>				
<b>Sales and Use Tax Receipts (000's)</b>				
<b>Fiscal Years 1997-98 through 2001-02</b>				
<u>Fiscal Year</u>	<u>Tax Rate</u>	<u>City Share</u>	<u>Revenue</u>	<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%
State Sales Tax Rate for last six months of FY 1999-00 and first six months of FY 2000-01 was 8.25%; the City Share remained unchanged at 1.00%				
Source: Office of the Controller, City and County of San Francisco				

### Transient Occupancy Tax

Pursuant to the City's Municipal Code, a 14% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators. Budgeted revenue from transient occupancy tax for fiscal year 2002-03 is \$160.2 million, including \$6.4 million allocated to the Redevelopment Agency. As of the FY 2002-03 Six-month Budget Status Report, the City was projecting transient and occupancy taxes to be about \$12.9 million under budget. 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.

**TABLE A-7**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>			
<b>Transient Occupancy Tax Receipts (000's)</b>			
<b>Fiscal Years 1997-98 through 2000-02</b>			
<u>Fiscal Year</u>	<u>Tax Rate</u>	<u>Revenue</u>	<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%

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

### **Real Property Transfer Tax**

A tax is imposed on all real estate transfers recorded in the City. The current rate is \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued less than \$250,000, \$6.80 per \$1,000 for properties valued from \$250,000 to \$999,999; and \$7.50 per \$1,000 for properties valued 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 FY 2002-03 Six-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 San Francisco billing addresses. Budgeted revenue from utility user taxes for fiscal year 2002-03 is \$78.2 million; however, as of the FY 2002-03 Six-month Budget Status Report, the City was projecting utility user taxes to be approximately \$7.21 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 Municipal Code and paid by the occupants of the spaces and remitted by the operators of the parking facilities. Budgeted General Fund revenue from the parking tax for fiscal year 2002-03 is \$34.4 million. Parking tax receipts in fiscal year 2001-02 totaled \$30.5 million, a decline of \$3.3 million from 2000-01 levels. As of the FY 2002-03 Six-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.

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

### *Motor Vehicle License Fees*

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

### *Public Safety Sales Tax*

State Proposition 172, passed by the voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. Budgeted revenue from this source is \$71.9 million for fiscal year 2002-03.

### *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 February 28, 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.

**TABLE A-8**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>		
<b>Investment Portfolio</b>		
<b>As of February 28, 2003</b>		
<u>Type of Investment</u>	<u>Book Value</u>	<u>Par Value</u>
Treasury Bills	\$1,108,556,793	\$1,115,000,000
Treasury Notes	694,729,502	703,005,000
FNMA Discount Notes	29,941,100	30,000,000
Federal Home Loan Disc Notes	286,467,128	287,000,000
FMC Discount Notes	100,224,304	101,000,000
Negotiable C. D.'s	300,000,000	300,000,000
Public Time Deposit	<u>100,000</u>	<u>100,000</u>
Total	\$2,520,018,826	\$2,536,105,000
Source: Office of the Treasurer, City and County of San Francisco		

**TABLE A-9**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>		
<b>Investment Maturity Distribution</b>		
<b>As of February 28, 2003</b>		
<u>Maturity</u>	<u>Cost</u>	<u>Percentage</u>
1 to 2 Months	\$891,580,838	35.38%
2 to 3 Months	152,423,009	6.05%
3 to 4 Months	104,387,184	4.14%
4 to 5 Months	511,956,982	20.32%
5 to 6 Months	239,459,133	9.50%
6 to 12 Months	454,542,930	18.04%
12 to 18 Months	117,801,563	4.67%
18 to 24 Months	-	0.00%
24 to 36 Months	-	0.00%
36 to 48 Months	<u>47,867,188</u>	<u>0</u>
	\$2,520,018,826	100.00%
Weighted Average Maturity: 190 Days		
Source: Office of the Treasurer, City and County of San Francisco		

## **Statement of Direct and Overlapping Bonded Debt**

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

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

TABLE A-10

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

<b>2002-2003 Assessed Valuation</b> (net of non-reimbursable & homeowner exemptions):	\$ 93,738,325,815	
	<b>Outstanding 12/31/2002</b>	<b>Self-Supporting, Enterprise Rev.</b>
<b><u>DIRECT GENERAL OBLIGATION BOND DEBT</u></b>		
General City Purposes Carried on the Tax Roll	\$919,900,000	
Harbor Bonds (paid from Port revenues)	2,000,000	\$2,000,000
<b>GROSS DIRECT DEBT</b>	<b>\$921,900,000</b>	<b>\$2,000,000</b>
<b>NET DIRECT DEBT</b>	<b>\$919,900,000</b>	
<b><u>LEASE PAYMENT AND OTHER LONG-TERM OBLIGATIONS</u></b>		
San Francisco Courthouse Corporation COPs, Series 1995	\$44,315,000	
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)	8,185,000	
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)	137,235,000	
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property)	15,460,000	
San Francisco Settlement Obligation Bonds, Series 2001 (Business Tax Judgment)	54,820,000	
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	36,575,000	
San Francisco Finance Corporation	251,885,000	[1]
San Francisco Permit Center, Series 1993	7,295,000	
San Francisco Redevelopment Agency Moscone Convention Center	267,250,845	
San Francisco Lease Revenue Refunding Bonds, Series 1998-I	5,060,000	
San Francisco Social Services Corporation, Series 1976	900,000	
<b>LONG-TERM OBLIGATIONS</b>	<b>\$845,570,845</b>	
<b>GROSS DIRECT DEBT &amp; OBLIGATIONS</b>	<b>\$1,767,470,845</b>	
<b><u>OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</u></b>		
Bayshore Hester Assessment District	\$940,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	163,785,000	
San Francisco Community College District General Obligation Bonds - 2002	22,220,000	
San Francisco Parking Authority Meter Revenue Bonds -1994	2,045,000	
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	21,860,000	
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	
<b>TOTAL OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</b>	<b>\$596,667,748</b>	
<b>GROSS COMBINED TOTAL OBLIGATIONS</b>	<b>\$2,364,138,593</b>	[2][3]
<b><u>Ratios to Assessed Valuation:</u></b>		
	<b>Actual Ratio</b>	<b>Charter Req.</b>
Gross Direct Debt (General Obligation Bonds)	0.98%	< 3.00%
Net Direct Debt (less self-supporting bonds)	0.98%	n/a
Gross Direct Debt & Obligations	1.89%	n/a
Gross Combined Total Obligations	2.52%	n/a

STATE SCHOOL BUILDING AID REPAYMENT FOR FY 02-03

\$254,817

[1] Does not include the bonds offered hereunder.

[2] Reflects Cross-over Refunding and includes \$48,494,434 in accreted value to be paid upon final maturity.

[3] Excludes revenue and mortgage revenue bonds, notes, and non-bonded capital lease obligations.

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

## Tax Supported Debt Service

Under the State Constitution and the Charter, general obligation bonds can only be authorized through voter approval. The full amount of general obligation bonds authorized by the electorate of the City and as yet unissued is \$922,500,000. See Table A-12 below. As of December 31, 2002 the City had \$921,900,000 in general obligation bonds outstanding including \$2,000,000 of general obligation bonds repaid from Port Commission revenues and not carried on the City's property tax roll.

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

**TABLE A-11**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>			
<b>Direct Tax Supported Debt Service</b>			
<b>As of December 31, 2002 <sup>[1]</sup></b>			
Fiscal Year	<u>Principal</u>	<u>Interest</u>	Annual <u>Debt Service</u>
2003	\$61,475,000	\$22,998,805	\$84,473,805
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	<u>2,040,000</u>	<u>86,701</u>	<u>2,126,701</u>
<b>TOTAL <sup>[2]</sup></b>	<b>\$921,900,000</b>	<b>\$355,409,340</b>	<b>\$1,277,309,340</b>

<sup>[1]</sup> The City's only outstanding direct tax supported debt is general obligation bonds. This table does not reflect any debt other than direct tax supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

<sup>[2]</sup> Total debt includes general obligation bonds repaid from Port revenues and

<sup>[3]</sup> not levied on the City's property tax roll.

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

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

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

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 Propositions A and B. Proposition A authorizes up to \$110 million in general obligation bonds to acquire, construct, or reconstruct recreation and park facilities and properties. The City issued the first series of the Neighborhood Recreation and Park Bonds in June 2000 and the second series in February 2001. The City anticipates issuing approximately \$20 million in Neighborhood Recreation and Park Bonds in 2003. Proposition B authorizes up to \$87.4 million in general obligation bonds to acquire, construct, or reconstruct the facilities of the California Academy of Sciences. The City anticipates issuing the first series of the California Academy of Sciences Bonds in early 2004.

In November 2000, voters approved Proposition A. Proposition A authorizes up to \$105,565,000 in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The first series 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.

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 December 31, 2002, 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 December 31, 2002)**

Description of Issue (Date of Authorization)	Series	Issued	Outstanding	Authorized & Unissued
Habor Improvement Bonds	A	\$20,000,000	\$800,000	-
	B	10,000,000	1,200,000	-
Public Safety Improvement Projects (11/7/89)	1994A	3,455,000	165,000	-
	1996B	7,645,000	1,310,000	-
Public Safety Improvement Projects (6/5/90)	1994B	18,100,000	855,000	-
	1995A	18,480,000	6,430,000	-
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 Project (11/8/94)	1996E	25,000,000	4,285,000	-
	1999D	16,730,000	15,200,000	-
City Hall Improvement (11/8/95)	1996A	63,590,000	14,105,000	-
Steinhart Aquarium Improvement (11/8/95)		-	-	29,245,000
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	17,765,000	-
	1999A	20,000,000	18,435,000	-
	2000D	20,000,000	18,795,000	-
	2001C	17,000,000	16,500,000	-
	2001D	23,000,000	22,410,000	-
City College and School Bonds (6/3/97)	1999A	20,395,000	18,435,000	-
	2000A	29,605,000	27,890,000	-
	1999B	60,520,000	54,715,000	29,480,000
Zoo Bonds (6/3/97)	1999C	16,845,000	15,225,000	-
	2000B	17,440,000	16,430,000	-
	2002A	6,210,000	6,210,000	7,505,000
Laguna Honda Hospital (11/2/99)		-	-	299,000,000
Recreation and Parks (3/7/00)	2000C	6,180,000	5,820,000	-
	2001B	14,060,000	13,580,000	89,760,000
California Academy of Sciences (3/7/00)		-	-	87,445,000
Branch Library Bonds (11/7/00)	2001E	17,665,000	17,080,000	-
	2002B	23,135,000	23,135,000	65,065,000
<b>SUB TOTALS</b>		<b>\$717,610,000</b>	<b>\$413,475,000</b>	<b>\$922,500,000</b>
General Obligation Refunding Bonds Series 1997-I issued 10/27/97		\$449,085,000	\$389,480,000	
General Obligation Refunding Bonds Series 2002-RI issued 4/23/02		\$118,945,000	\$118,945,000	
<b>TOTALS</b>		<b>\$1,285,640,000</b>	<b>\$921,900,000</b>	<b>\$922,500,000</b>

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

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 may be authorized only through voter approval. Table A-13 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation. Note that the annual payment obligations reflected in Table A-13 include the full-accreted value of any capital appreciation obligations that will accrue as of the final payment dates.

**TABLE A-13**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>			
<b>Lease Payment and Other Long-Term Obligations</b>			
<b>As of December 31, 2002</b>			
Fiscal <u>Year</u>	<u>Principal</u>	<u>Interest</u>	Annual Payment <u>Obligation</u>
2003	\$32,212,595	\$14,571,188	\$46,783,783
2004	43,176,625	26,818,983	69,995,608
2005	45,416,625	25,750,788	71,167,413
2006	40,660,000	28,086,897	68,746,897
2007	39,205,000	26,973,303	66,178,303
2008	38,945,000	25,914,299	64,859,299
2009	39,710,000	24,831,150	64,541,150
2010	35,375,000	23,702,110	59,077,110
2011	36,300,000	22,727,967	59,027,967
2012	30,335,000	21,690,679	52,025,679
2013	31,400,000	20,872,379	52,272,379
2014	30,725,000	19,983,904	50,708,904
2015	31,385,000	19,109,485	50,494,485
2016	32,860,000	17,853,712	50,713,712
2017	32,610,000	16,151,397	48,761,397
2018	33,130,000	14,463,872	47,593,872
2019	33,615,000	12,759,533	46,374,533
2020	18,880,000	11,001,189	29,881,189
2021	19,825,000	10,054,537	29,879,537
2022	19,085,000	9,060,251	28,145,251
2023	19,420,000	8,116,354	27,536,354
2024	20,200,000	7,157,249	27,357,249
2025	15,785,000	6,156,334	21,941,334
2026	15,870,000	5,479,334	21,349,334
2027	16,870,000	4,785,675	21,655,675
2028	17,585,000	4,050,531	21,635,531
2029	18,615,000	3,280,056	21,895,056
2030	19,375,000	2,467,194	21,842,194
2031	9,675,000	1,680,150	11,355,150
2032	10,185,000	1,164,369	11,349,369
2033	8,345,000	680,794	9,025,794
2034	8,795,000	230,866	9,025,866
<b>TOTAL</b> <sup>[1][2][3][4]</sup>	<u><b>\$845,570,845</b></u>	<u><b>\$437,626,529</b></u>	<u><b>\$1,283,197,374</b></u>

[1] Amount includes \$48,494,434 in accreted value of capital appreciation bonds to be earned upon final maturity.  
 [2] Totals reflect rounding to nearest dollar.  
 [3] Interest payments on Moscone Center Expansion Project, Series 2000 are based upon an assumed interest rate of 3.50%, the approximate 5-year Bond Market Association index.  
 [4] Does not include the bonds offered hereunder.

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

The City electorate has approved several lease revenue bond propositions in addition to those bonds that have already been issued. When issued, these voter-approved lease revenue bonds will be repaid from lease payments made 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 completed in February 2002.

In 1990, voters approved Proposition C, which amended the City Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval. The City and County of San Francisco Finance Corporation (the "Corporation") was established 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 principal amount of obligations with respect to lease financings may not exceed \$20 million in aggregate principal amount at any time, increasing by five percent each fiscal year. Based on that formula, as of December 31, 2002, the total authorized amount for such financings was \$35,917,127. As of December 31, 2002, the total amount of bonds outstanding pursuant to this authorization was \$15,790,000, leaving a capacity of \$20,127,127.

In 1993, voters approved Proposition H, which authorized the issuance of \$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.

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. Moscone West is scheduled to host its first event in April 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 Proposition B and Proposition 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**

As of July 1, 2002, the City employed about 30,000 full time personnel, excluding San Francisco Unified School District, San Francisco Community College District and San Francisco Superior Court employees. City workers are represented by 48 different unions and labor organizations. The largest 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 all but a few hundred unrepresented City employees are determined by collective bargaining pursuant to State law and City Charter. Except for nurses and transit workers, the Charter requires that bargaining impasses be resolved through binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final unless legally challenged. Strikes by City employees are prohibited, according to the Charter. Since 1976, no City employees have gone on a union-authorized strike.

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

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

The City's retirement benefits are established directly by the voters, and not through the regular collective bargaining process; most changes to retirement benefit formulae require a voter-approved charter amendment. Currently, most miscellaneous employees are in a "2% at 60" plan. In November 2002, San Francisco voters voted to increase the uniformed police and fire retirement plan to "3% at 55".

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

The current collective bargaining agreements provide for the following increases in fiscal year 2002-03: Service Employees International Union (representing over 10,000 City employees) received 3.5% in July 2002; nurse unions received a 2.5% increase in July 2002 and 2% in January 2003; over thirty craft and other labor organizations received 2.5% in July 2002 and 2.5% in January 2003; uniformed police and fire employees received 4% in July 2002 and 4% in January 2003; San Francisco Deputy Sheriffs received 5% in July 2002 and 2% in January 2003; and transit workers received 4.5% in July 2002.

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

**TABLE A-14**

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

<sup>[1]</sup> Budgeted positions include SFUSD personnel.

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

## **Risk Management**

The City self-insures the majority of 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, 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 Employee's Retirement System (the "Retirement System") was established in April 1922 and was constituted in its current form by the 1932 charter. The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of 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.

**TABLE A-15**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>					
<b>Employee Retirement System (000s)</b>					
<b>Fiscal Years 1997-98 through 2001-02</b>					
Fiscal Years	Market Value	Actuarial Value	Pension Benefit	Percent	Employee &
Ending	of Assets	of Assets	Obligation	Funded	Employer
<u>June 30</u>	<u>of Assets</u>	<u>of Assets</u>	<u>Obligation</u>	<u>Funded</u>	<u>Contribution</u> <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
<sup>[1]</sup> For fiscal years 1998-99 through 2001-02, the City paid no employer contribution.					
Source: Employees' Retirement System, City and County of San Francisco					

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

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an outside actuarial firm employed under contract. A valuation of the Retirement System is conducted each year and an experience study is performed periodically, the latest being in December 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 793,600 as of the end of 2001, 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 1997 and 2001.

**TABLE B-1**

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

## Conventions and Tourism

The City's tourism industry generated approximately \$6.5 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.

**TABLE B-2**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>			
<b>San Francisco Overnight Hotel Guests (000s)</b>			
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 <sup>[1]</sup>
1998	80.7%	4,140	\$3,410,000
1999	80.7%	4,180	3,590,000
2000	81.9%	4,300	4,288,000
2001	67.7%	3,550	N/A <sup>[1]</sup>

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

Based upon information provided by the San Francisco Convention and Visitor Bureau, convention business is at virtually 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 the construction of an expansion to the Moscone Convention Center. Moscone West is expected to open in 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 December 2002 was 6.1%. This compares with an unadjusted unemployment rate of 6.3% for California.

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.

**TABLE B-3**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>					
<b>Employment by Land Use Activities 1997-2001 <sup>[1]</sup></b>					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Office	194,017	203,512	211,499	224,167	236,959 <sup>[2]</sup>
Retail	89,043	94,220	97,159	103,508	101,505
Industrial	121,706	124,071	120,922	119,922	107,837
Hotel	18,918	19,498	19,522	18,862	17,962
Cultural/Institutional	133,490	134,816	142,064	140,573	122,222
Other	<u>900</u>	<u>39</u>	<u>30</u>	<u>1,307</u>	<u>6</u>
Total	558,074	576,156	591,196	608,339	586,491
<sup>[1]</sup> Most recent data available.					
<sup>[2]</sup> 2001 Office Land use activity group includes Government employment					
Source: San Francisco Planning Department- California Employment Development Department					

## 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**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>					
<b>Taxable Sales 1997 - 2001</b>					
<b>(\$000s)</b>					
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001<sup>[1]</sup></u>
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
Building Materials and Farm Implements	239,959	260,749	292,107	321,632	313,277
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	<u>1,738,808</u>	<u>1,785,928</u>	<u>2,023,242</u>	<u>153,291</u>	<u>149,638</u>
Retail Stores Total	\$6,959,681	\$6,886,688	\$7,676,090	\$8,750,456	\$7,990,386
Business and Personal Services <sup>[3]</sup>	\$821,089	\$921,855	\$1,063,729	\$1,226,650	\$1,107,028
All Other Outlets <sup>[3]</sup>	<u>3,185,453</u>	<u>3,460,146</u>	<u>3,596,942</u>	<u>4,112,820</u>	<u>3,357,822</u>
Total All Outlets <sup>[2][3]</sup>	\$10,966,223	\$11,268,689	\$12,336,761	\$14,089,926	\$12,455,236
<sup>[1]</sup> Most recent data available.					
<sup>[2]</sup> See Table B-5. Taxable Sales in the 272 Largest Cities by Type of Business.					
<sup>[3]</sup> See Table B-3. Taxable Sales in the 36 Largest Counties by Type of Business.					
Source: California State Board of Equalization - Annual Reports.					

**Building Activity**

Table B-5 shows a summary of building activity in the City for fiscal years 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.

**TABLE B-5**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>				
<b>Building Activity 1998-2002</b>				
Fiscal Year Ended <u>June 30</u>	Authorized New <u>Dwelling Units</u>	<u>Value of Building Permits</u>		
		<u>Residential</u>	<u>Non-Residential</u>	<u>Total</u>
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
Source: San Francisco Department of Building Inspection, Central Permit Bureau.				

## 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, California Federal Bank, 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.

**TABLE B-6**

<b>CITY AND COUNTY OF SAN FRANCISCO</b>		
<b>Largest Employers in San Francisco</b>		
<b>As of December 2001</b>		
<u>Employer</u>	<u>Number of Employees</u>	<u>Nature of Business</u>
City and County of San Francisco	27,439	Local government
University of California, San Francisco	13,835	Health services
San Francisco Unified School District	11,296	Education
Charles Schwab & Co. Inc.	9,873	Financial services
Wells Fargo & Co. Inc.	6,366	Banks
United States Postal Service, San Francisco District	5,579	Mail delivery
AT&T	5,200	Telecommunications
PG&E Corp.	5,000	Energy
Pacific Bell/SBC Communications	4,600	Telecommunications
California Pacific Medical Center	4,500	Health care

Source: San Francisco Business Times, Book of Lists 2002.

## **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 including stores such as 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 a small café. Currently underway in the Union Square area is a plan to bring Bloomingdale's to the former Emporium-Capwell building on Market Street, providing 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 could 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 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 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.

**TABLE B-7**

<b>SAN FRANCISCO INTERNATIONAL AIRPORT</b>				
<b>Passenger, Cargo and Mail Data for</b>				
<b>Fiscal Years ending June 30, 1998 through 2002</b>				
Fiscal year Ended <u>June 30</u>	<u>Passengers</u>		<u>Cargo Traffic</u>	
	Enplanements and Deplanements	Annual Percent Change	Freight and Express Air (Metric Tons)	U.S. and Foreign Mail (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

Source: San Francisco Airport Commission.

*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**

<b>PORT OF SAN FRANCISCO</b>				
<b>FISCAL YEARS 2001 AND 2002 REVENUES</b>				
<b>( \$000s)</b>				
<u>Business Line</u>	<u>FY 00-01</u> <u>Audited Revenue</u>	<u>Percentage of</u> <u>2001 Revenue</u>	<u>FY 01-02</u> <u>Audited Revenue</u>	<u>Percentage of</u> <u>2002 Revenue</u>
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>
<b>TOTAL</b>	<b>\$50,345</b>	<b>100%</b>	<b>\$50,494</b>	<b>100%</b>

Source: Port of San Francisco Audited Financial Statements.

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 Metropolitan Oakland International Airport in Alameda County, and the San Jose International Airport in Santa Clara County. These airports also serve the region's air passengers with service to all major domestic cities and many international cities and are 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 work leading to associate degrees.

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

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**APPENDIX C**  
**EXCERPTS\* FROM**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE**  
**CITY AND COUNTY OF SAN FRANCISCO**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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\* 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**

**CITY AND COUNTY OF SAN FRANCISCO**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2002**

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## **INTRODUCTORY SECTION**

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Finance Officers Association
- Organization Chart
- List of Principal Officials



December 3, 2002

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

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the fiscal year ended June 30, 2002 with the Independent Auditors' Report, submitted in compliance with City Charter Sections 2.115 and 3.105 and California Government Code Sections 25250 and 25253. The CAFR has been prepared by the Controller's Office in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. I believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the results of the City's operations as measured by the financial activity of its various funds, and that the included disclosures will provide the reader with an understanding of the City's financial affairs.

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

Our CAFR is divided into the following sections:

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

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

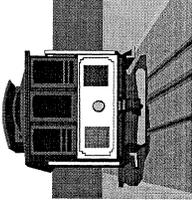
**THE REPORTING ENTITY AND ITS SERVICES**

The City and County of San Francisco (City), established by Charter in 1850, is a legal subdivision of the State of California with the governmental powers of both a city and a county under California law. The City's powers are exercised through a Board of Supervisors serving as the legislative authority, and a Mayor and other independent elected officials serving as the executive authority. The services provided by the City include public protection, public transportation, construction and maintenance of all public facilities, water, parks, public health systems, social services, planning, tax collection, and many others.

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

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

San Francisco is the economic and cultural hub of the Bay Area, a metropolitan region with more than 6.78 million residents in nine counties. The population of the City has grown by approximately 7.3 percent in the past ten years, to 776,733.<sup>i</sup> The year 2000 federal census once again highlights San Francisco's racial and ethnic diversity. All minority groups combined represent just over 56 percent of the population. No single racial or ethnic group by itself represents a majority of the population.<sup>ii</sup>



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 executive, and appoints the heads of most city departments. Many departments are also advised by Commissions or Boards whose 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, Treasurer, and Sheriff. In November 2000, the eleven members of the Board of Supervisors were elected by district for the first time since the 1970s. In order to provide for staggered terms of office on the Board of Supervisors an election for seats of the City's even-numbered supervisorial districts was conducted in November 2002, and subsequent run-off elections are being held in two districts in December 2002.

Overall, nearly 50,000 jobs were created in San Francisco during the 1990s expansion, for an aggregate increase of 1.3%.<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>th</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 technology sector, including in particular "dot-com" companies, has experienced significant job losses. In addition, losses in financial services, travel, and tourism have impacted many professional and service workers. Job losses in 2001 pushed the unemployment rate to a peak of 7.3 percent in January 2002. By June of 2002, the close of the fiscal year, San Francisco's unemployment rate stood at 7.1 percent, slightly 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 41 percent of all jobs. Retail employs the next largest portion, with 16 percent, followed by finance, insurance and real estate businesses, with 12 percent of those working in the City.<sup>iv</sup>

Downturn 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 \$90 per square foot in July of 2000, to around \$30 per square foot by June 2002. Analysts now report that during

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

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

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

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

people.<sup>ix</sup> The City's economy overall has demonstrated sustained growth since the severe recession of the early 1990s.

#### MAJOR INITIATIVES AND ACHIEVEMENTS

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

#### Health and Safety Projects, Programs, and Systems

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 project is financed by general obligation bonds, with tobacco settlement funds and supplemental Medicaid 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 long-term healthcare services, with all facilities built to modern design, environmental, seismic, and technological standards. The project's Environmental Impact Reports and community consultation processes were substantially completed in 2002. Relocation of infrastructure and other preparatory work has begun. Site preparation work will begin in 2003 and construction on the new facilities will begin in early 2004. Community outreach processes will continue throughout construction of the project.

San Francisco's Public Health and Human Services departments are statewide leaders in providing prevention, emergency intervention, and supportive services to homeless, very low income, and other at-risk populations. Working with community-based organizations, these departments also provide substance abuse, mental health, and housing services designed to improve the economic and health status of vulnerable populations. For example, since 1999, the City has developed over 1,200 units of supportive 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 and nutrition programs for which they are eligible, obtain employment, increase income, and stabilize their housing.

An innovative design-build deal has been completed, and ground broken, for the construction of a new jail at the City's existing jail site in San Bruno. The new facility is being built by a private developer, and operated by the City under a financing and lease-back plan which will eventually transfer ownership to the public. San Francisco has been working to reduce overcrowding and improve conditions at the jails—the new facility means the achievement of many of the City's goals in this area. In other recent public safety 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 house. The new site includes security improvements as well as facilities to allow the San Francisco Police Department to better serve the population of primarily immigrant and low-income families 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, becoming the first city or county in California to do so under a new State law authorizing this service.

#### Convention, Cultural and Recreational Facilities

The City's Moscone Convention Center has nearly completed the 300,000 square foot expansion of its exhibit and meeting space at Moscone West. The new, free-standing facility, located at Fourth 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.

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

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.<sup>v</sup>

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 San Francisco and the greater Bay Area's ongoing housing shortage keeps upward pressure on the City's 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 has also contributed to a worsening affordability gap in the City, with homeownership remaining out of reach for most residents and workers in the City. As of June 2002, the median price for an average single family home in San Francisco had climbed slightly from the prior year and stood at \$567,000, a level that was affordable by less than 14 percent of the population.<sup>vi</sup> 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 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 policymakers, planners, employers, and residents.

Reflecting the continued demand and activity in real estate, the City's property tax revenue, the single 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 years, reflecting extraordinary growth in property values and prices during the time period. Helped by falling interest rates, property tax revenues overall grew by approximately \$68.9 million during the fiscal year, an increase of nine percent from the prior fiscal year. Trends in other sources of local tax revenue were more typical of the current downturn in the business cycle, with sales, parking, and other local taxes decreasing by between eight and 24 percent. Hotel taxes showed among the most severe decline, dropping 36 percent during the fiscal year—a loss of almost \$70 million in funding for local cultural institutions and general City services.



The decrease in hotel tax collections experienced by the City is further 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 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 15 percent, down from \$7.6 billion during 2000.<sup>vii</sup> Hotel occupancy rates during the 2001-2002 fiscal year averaged 63.5 percent, down from a range of 77 to 80 percent occupancy rates in the last three fiscal years. Occupancy rates for 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 strengthening 2003 convention season.<sup>viii</sup>

At San Francisco International Airport (SFO), losses in business travel which were already apparent in the spring of 2001, and the drops in air traffic of all kinds following September 11, have reduced passenger traffic by 13 percent and cargo tonnage by 8.6 percent from the prior year. SFO's transfer of concession revenues to the City general fund, budgeted at \$25 million for the fiscal year, was reduced during the year by \$7.3 million, and is projected to be reduced for the next fiscal year and perhaps beyond.

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 diversification. San Francisco's economic base includes national and global companies and locally owned small businesses. The City is a financial and banking center of the West, with the Pacific Stock Exchange, Wells Fargo Bank, and Charles Schwab among others headquartered here. The City has large employers ranging from Provident Financial to The Gap, yet over 85 percent of businesses employ fewer than twenty

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

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

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

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

In the same neighborhood as the Moscone Center and Yerba Buena Gardens with its arts spaces and commercial facilities, the City's cultural institutions are being developed, with the Mexican, African-American, and Jewish Museums each in the midst of major re-design or renovation projects. In the Civic Center, construction of the new Asian Art Museum in the City's former Main Library building is nearing completion and the collection is being prepared for a March 2003 re-opening. The new Asian Art Museum has been financed with a combination of \$51 million of voter-approved bonds and \$69 million in private donations and greatly increases the collections, special shows and programming which will be available to the public. The City's DeYoung museum, under a campaign funded entirely by private donations, razed the seismically unsafe portions of its buildings in 2002 and is preparing the site for the construction of the new museum, scheduled for completion in 2005. A \$105.9 million bond program approved by the voters to improve San Francisco's branch libraries continued its work in 2002, with site acquisition and planning now underway at the Glen Park, Mission Bay, Ingleside, Visitacion Valley and Portola sites. The Program has also purchased a site for a Library support service center, and is engaged in preliminary design at the Excelsior, Richmond, Noe Valley, Marina, and Parkside sites.

Recreational facilities and public park projects which were completed over the last year include improvements to Coit Tower and Pioneer Park in the North Beach area, renovation of the historic carousel at Golden Gate Park, improvements at the San Francisco Zoo including a new Education Center, Animal Resource Center and public entrance and parking lot, and completion of the new Martin Luther King Pool in the Hunter's Point neighborhood. In addition, the City began the reconstruction of the unique glass Conservatory of 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 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 ten years. Finally, in July of 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 granite paving structures throughout, making new public open space and seating available in the heart of the downtown shopping district.

#### Housing, Economic Development, and Transportation Projects

Over a projected 20 year period in total, the former warehouses and rail yards in San Francisco's Mission Bay area in the southeast part of the City are being transformed into a new neighborhood of housing, mixed-use buildings, retail, and medical and technology development. Work on the residential, retail, and industrial projects in Mission Bay area is proceeding on schedule. While office construction in the region is largely on hold due to softness in that market, developers are currently building over 1,000 apartment units along the King Street corridor near Pacific 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 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 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 homebuyers. As of August 2002, the City had funded \$73 million in loans or grants for the development of rental housing, with the program on track to develop approximately 2,200 units of housing and beds in group housing. The Downpayment Assistance Loan Program funded by the bonds has assisted approximately 250 low and moderate-income 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 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

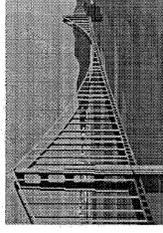
on the former military base, with renovation of 84 units of housing for homeless families getting underway in April 2002.

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 160 townhouses and flats, completed in September 2001. In December 2001, an additional 193 townhouses and flats were completed at Yerba Buena Plaza East, a former high-rise apartment building in 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-income development of its kind in California, combining affordable apartments with retail 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.

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 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 recently completed or under construction, including one at the San Francisco International Airport scheduled to open in 2003.

San Francisco International Airport (SFO), including the new International Complex with a new terminal, parking garages, and an improved airport roadway system opened just under two years ago, serves as the key connection between the Bay Area, national, and international economies, receiving 54 percent of the region's air traffic and 94 percent of international traffic. The recent decreases in passenger and freight 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 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.

Groundbreaking for Phase 1 of the San Francisco Municipal Railway's (Muni) new Third Street light rail line was held in May of 2002 and construction is now underway. The project will eventually connect the 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 Bayshore Caltrain station, 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 Francisco) to Chinatown, is currently in the design consultant selection stage. When completed this major increase in service will improve air quality, reduce downtown traffic congestion, increase connections with BART and Caltrain, and support economic revitalization in the southeast part of the city. Over 95 percent of the Phase 1 funding for the Third Street Light rail project comes from local sales tax funds. In the last year, Muni has also completed the replacement of all aging cars on the Metro lines with new Breda vehicles and rolled out 196 new buses including 80 zero emission electric vehicles and two alternative fuel vehicles.



Projects to improve parking options in San Francisco are also in progress. A new North Beach Parking garage was completed in February 2002, providing much needed parking in an area that is both densely populated and home to many of the City's restaurants, clubs and tourist sites. Parking meters throughout the City are being updated with a plan for new digital technology that accommodates coins and debit cards. Installation of the new meters began in 2002 and is expected to improve parking management in commercial areas, reduce theft, and lower the maintenance costs to the City.

**Status of City Services**

In the spring of 2002, the City, through the Controller's Office, conducted its seventh annual Citizen Survey. A total of 1,365 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.

The 2002 survey results indicated that:

- 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.
- 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.
- 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.
- Survey respondents reported visiting the City's libraries more frequently than in the previous year, and continued to rate library services favorably.
- 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.
- While respondents were more likely than those in other ethnic/racial groups to have children attending private schools and using private health care providers.
- 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.
- 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.

**OTHER FINANCIAL INFORMATION****Internal Controls**

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

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**Budgetary Process**

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

**Pension Trust Fund Operations**

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.

**Cash Management**

The City's pooled deposits and investments are invested pursuant to policy established by the Treasurer working with the City's Treasury Oversight Committee. The City's 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 2001-02 was 4.139%. The Employees' Retirement System and the Redevelopment Agency deposits and investments are maintained outside the City Treasury and follow policies established by their respective governing boards.

**Risk Management**

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

**INDEPENDENT AUDIT**

The City's Charter requires an annual audit of the Controller's records. These records, represented in the Comprehensive Annual Financial Report, have been audited by a consortium headed by the nationally recognized certified public accounting firm, KPMG LLP. The consortium also includes Calvin Louie CPA (representing a separate consortium known as Associated Asian CPA Firms), Lamorena and Chang CPAs, Yano and Associates, and Rodriguez, Perez, Delgado & 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 Auditors' Report on our current financial statements is presented in the Financial Section.

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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 twentieth 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 easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

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

ACKNOWLEDGMENTS

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

Respectfully submitted,

*Edward Harrington*  
Edward Harrington  
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City and County of San Francisco, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001

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



*William S. H. H. H.*  
President

*Jeffrey L. Cook*  
Executive Director

**CITY AND COUNTY OF SAN FRANCISCO**

**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  
 Supervisor..... Doris M. Ward  
 Assessor-Recorder..... Dennis J. Herrera  
 City Attorney..... Terence Hallinan  
 District Attorney..... Kimiko Burton  
 Public Defender..... Michael Hennessey  
 Sheriff.....  
 Superior Court Presiding Judge..... Ronald E. Quidachay  
 Treasurer..... Susan Leal

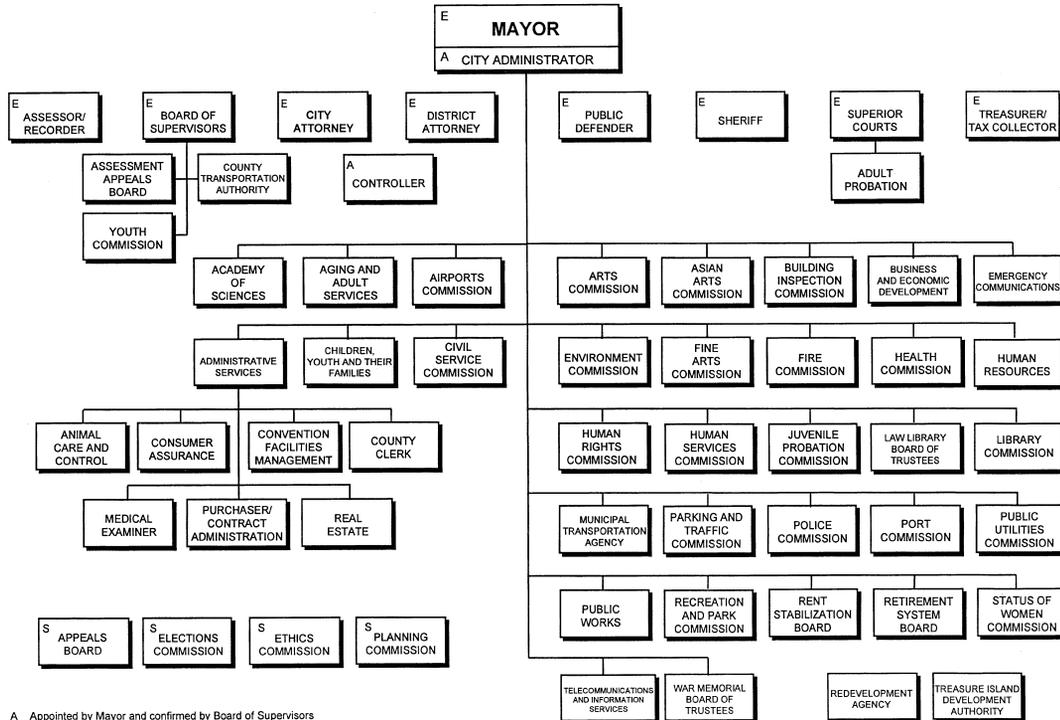
**APPOINTED OFFICIALS**

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

**DEPARTMENT DIRECTORS/ADMINISTRATORS**

Administrative services..... Ryan Brooks  
 Animal Care and Control..... Carl Friedman  
 Consumer Assurance..... David Frieders  
 Convention Facilities Management..... Jack Moerschbaecher  
 County Clerk..... Nancy Alfaro  
 Elections..... John Arnitz (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

**San Francisco City and County Government  
(As of June 30, 2002)**



A Appointed by Mayor and confirmed by Board of Supervisors  
 E Elected  
 S Shared - appointed by various elected officials

CITY AND COUNTY OF SAN FRANCISCO

DEPARTMENT DIRECTORS/ADMINISTRATORS-(Continued)

Appeals Board .....	Robert Feldman
Arts Commission .....	Richard Newirth
Asian Arts Commission .....	Emily Sano
Building Inspection Commission .....	Frank Chiu
Board of Supervisors .....	Gloria Young
Assessment Appeals Board .....	Dawn Duran
County Transportation Authority .....	Jose Louis Moscovich
Youth Commission .....	Colleen Montoya
Business and Economic Development .....	Leamon Abrams
Children, Youth and Their Families .....	Brenda Lopez
Civil Service Commission .....	Kate Favetti
Emergency Communications .....	Thera Bradshaw
Ethics Commission .....	Ginny Vida
Environment Commission .....	Jared Blumenfeld
Fine Arts Commission .....	Harry S. Parker III
Fire Commission .....	Mario Trevino
Health Commission .....	Mitchell Katz, M.D.
Human Resources .....	Andrea Gourline
Human Rights Commission .....	Virginia Harmon
Human Services Commission .....	Trent Rohrer
Juvenile Probation Commission .....	Jesse E. Williams, Jr.
Law Library Board of Trustees .....	Marcia Bell
Library Commission .....	Susan Hildreth
Municipal Transportation Agency .....	Michael Burns
Parking and Traffic Commission .....	Fred Hamdun
Planning Commission .....	Gerald Green
Police Commission .....	Fred H. Lau
Port Commission .....	Douglas Wong
Public Utilities Commission .....	Patricia Martel
Public Works .....	Edwin Lee
Recreation and Park Commission .....	Elizabeth Goldstein
Rent Stabilization Board .....	Joseph Grubb
Retirement System Board .....	Clare M. Murphy
Status of Women Commission .....	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

Redevelopment Agency .....	Marcia Rosen
Treasure Island Development Authority .....	Annemarie Conroy

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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 audited 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 fund 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 the City's basic 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 audit. The prior year partial and summarized comparative information has been derived from the City's 2001 financial statements and, in our report dated January 22, 2002, we expressed unqualified 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 assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 are supplementary information required by accounting principles 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund 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 material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical 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.

**KPMG LLP**

November 27, 2002



**FINANCIAL SECTION**

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 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

- 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.
- 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.
- 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.
- 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.
- 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, \$61 million in settlement obligation bonds issued to provide for refunds under a portion of the City's business tax which was repaid 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.
- The City's revenues from local sources including hotel, sales, and business tax showed significant drops from budget estimates during fiscal year 2002. In addition, concession and fee revenues collected by San 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 fiscal year 2002, and the City took measures to cut spending as a result. The lowered revenues have also affected both the estimated unreserved fund balance and the operating revenues available to the City in the fiscal year ending June 30, 2003. City management will monitor revenue streams and control expenditures and has already restricted expenditures to budget for a general fund revenue decrease currently estimated at \$20 million during fiscal 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) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other **supplementary information** in addition to the basic financial statements themselves. 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

Introductory Section	<b>INTRODUCTORY SECTION</b>		
	+		
	<b>Management's Discussion and Analysis</b>		
	<b>Fund Financial Statements</b>		
Financial Section	Government-wide Financial Statements	Governmental Funds	Fiduciary Funds
		Proprietary Funds	Fiduciary Funds
Financial Section	Statement of net assets	Balance Sheet	Statement of fiduciary net assets
		Statement of revenues, expenditures, and changes in fund balances	Statement of revenues, expenses, and changes in fund net assets
Financial Section	Statement of activities	Budgetary comparison statement	Statement of changes in fiduciary net assets
Statistical Section	<b>Notes to the Financial Statements</b>		
	<b>Required Supplementary Information Other Than MD&amp;A</b>		
Statistical Section	Information on individual non-major funds and other supplementary information that is not required		
	+		
Statistical Section	<b>STATISTICAL SECTION</b>		
	+		

CAFR

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.

	Fund Financial Statements		
	Government-wide Statement	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the City for basic business-type enterprises	Finances in which the City holds resources on behalf of others such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual 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	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trust 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	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	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 periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

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

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

#### **Fund Financial Statements**

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

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

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

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an 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 customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (Airport), Port of San Francisco (Port),

Water Department, Hetch Hetchy 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, printing 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 rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

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

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

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

#### **Required Supplementary Information**

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

#### **Combining Statements**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

This is the 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 changed significantly both the recording and presentation of financial data, the City's CAFR for fiscal year 2001 did not 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.

	Net Assets			
	2002		2001	
	Governmental activities	Business-type activities	Governmental activities	Business-type activities
<b>Assets:</b>				
Current and other assets.....	\$ 1,806,132	\$ 2,099,581	\$ 2,040,145	\$ 4,139,726
Capital assets.....	2,041,451	1,821,115	1,885,824	7,782,633
Total assets.....	3,847,583	3,920,696	3,925,969	11,922,359
<b>Liabilities:</b>				
Long-term liabilities outstanding.....	1,877,327	1,844,956	5,392,934	4,725,413
Other liabilities.....	452,235	617,410	721,128	970,662
Total liabilities.....	2,329,562	2,462,366	6,114,062	5,696,075
<b>Net assets:</b>				
Invested in capital assets, net of related debt.....	887,667	779,698	3,115,392	2,970,198
Restricted.....	717,879	724,034	546,019	577,860
Unrestricted.....	(130,652)	(456,422)	588,598	578,073
Total net assets.....	\$ 1,475,021	\$ 1,458,350	\$ 4,230,010	\$ 4,126,131

**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.

The largest portion of the City's net assets (70 percent) reflects its investment of \$4 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, \$453 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

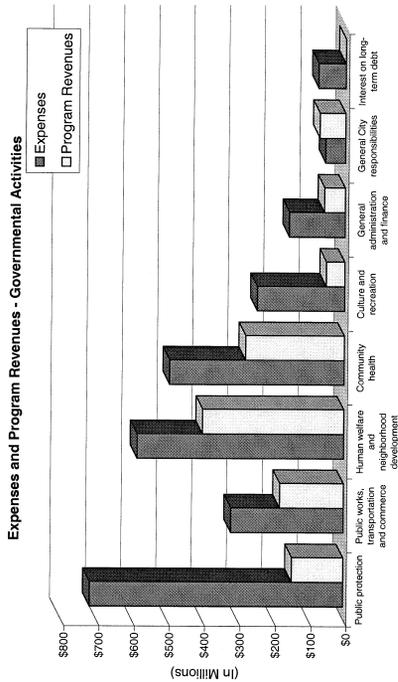
general obligation bonds for the San Francisco Unified School District which is recorded with no corresponding assets. This deficit has also increased from the comparable figure of \$45.4 million in 2001 due to use of reserves to balance the budget.

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

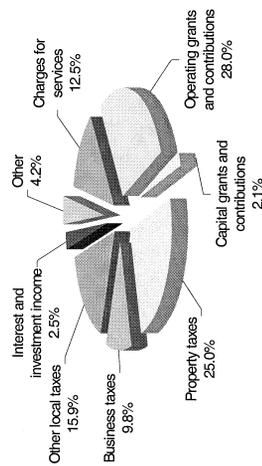
	Governmental activities		Business-type activities		Total
	2002	2001	2002	2001	
<b>Revenues</b>					
Program revenues:					
Charges for services.....	\$ 346,888	\$ 344,721	\$ 1,479,232	\$ 1,408,121	\$ 1,828,130
Fees, grants and contributions.....	781,707	753,863	282,059	280,520	1,024,383
Capital grants and contributions.....	58,394	22,619	251,747	355,350	310,141
General revenues.....	697,703	628,846	-	-	697,703
Property taxes.....	274,848	277,822	-	-	274,848
Business taxes.....	444,590	351,480	-	-	444,590
Other local taxes.....	70,597	81,064	63,530	96,493	134,127
Interest and investment income.....	115,943	115,695	85,425	28,779	201,588
Other.....	2,792,740	2,816,130	2,161,993	2,129,433	4,954,739
Total revenues.....	717,552	686,994	1,479,232	1,408,121	1,828,130
<b>Expenses</b>					
Public protection.....	317,778	300,355	-	-	317,778
Police and fire.....	596,188	499,096	-	-	596,188
Human welfare and neighborhood development.....	493,856	455,101	-	-	493,856
Community health.....	246,620	229,721	-	-	246,620
Culture and recreation.....	156,770	153,742	-	-	156,770
General administration and finance.....	55,551	109,804	-	-	55,551
General City responsibilities.....	77,335	73,588	-	-	77,335
Unallocated interest on long-term debt.....	599,935	599,935	599,935	599,935	1,199,870
Ampl.....	599,935	599,935	599,935	599,935	1,199,870
Traffic.....	468,752	468,752	468,752	468,752	937,504
Port.....	58,694	47,887	47,887	47,887	96,581
Water.....	165,362	145,858	165,362	165,362	330,724
Power.....	113,754	107,000	113,754	107,000	220,754
Hospitals.....	525,045	513,486	525,045	513,486	1,038,531
Sewer.....	159,896	149,887	159,896	149,887	309,783
Garages.....	32,274	34,155	32,274	34,155	66,429
Total expenses.....	2,651,650	2,510,401	2,183,085	1,995,528	4,634,735
Increase/(decrease) in net assets before special items and transfers.....	141,090	305,729	(21,092)	133,905	459,634
Special items.....	(124,399)	(102,154)	124,399	102,154	-
Transfers.....	16,691	203,575	103,307	382,073	119,988
Increase in net assets.....	1,458,350	1,254,755	4,126,703	3,764,630	5,595,033
Net assets at beginning of year.....	\$ 1,475,021	\$ 1,458,350	\$ 4,230,010	\$ 4,126,703	\$ 5,705,031
Net assets at end of year.....	\$ 2,933,371	\$ 2,713,105	\$ 8,356,713	\$ 7,891,333	\$ 11,300,064

**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.



### Revenues By Source - Governmental Activities



**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:

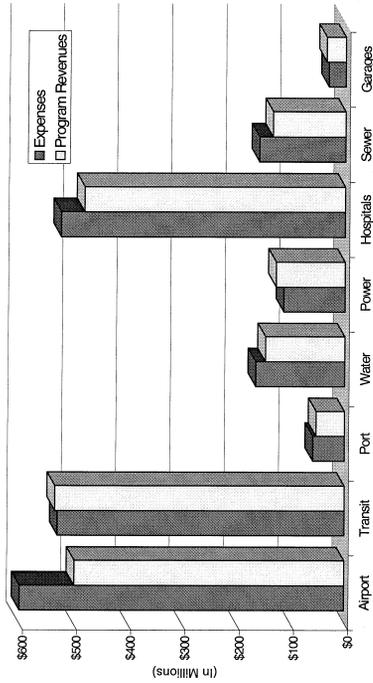
- Property tax revenues increased by approximately \$68.9 million or eleven percent during the year. Most of this increase is attributable to a continued strong real estate market and consequent growth in the assessed value of property and a reduction in the City's estimated assessment appeals reserve. 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 increases 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 Parking and Traffic.

- 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 sales, hotel, 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. Sales tax similarly decreased during the year. Utility users tax decreased, coming off a sharp increase in 2001 related in part to high prices during the run-up in California energy markets.
- 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 short-term instruments the Federal Reserve's interest rate cuts during the year have significantly affected the City's investment returns.

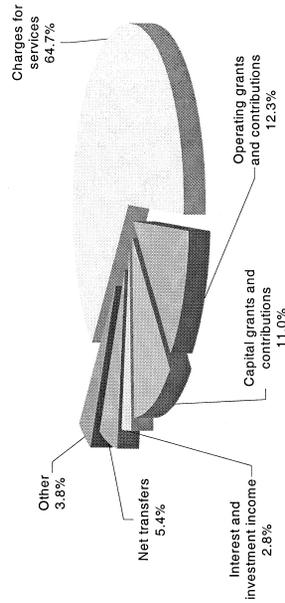
For the most part, increases in expenses paralleled increases in the cost of living in the San Francisco Bay Area and growth in the demand for government services. The transfers that the City General Fund makes each year to help finance the operations of two enterprises, San Francisco General Hospital and Laguna Honda Hospital, decreased by five percent in the aggregate from \$106 million in 2001 to \$100 million in 2002. Both hospitals experienced increases in the proportion of patients covered by Medicare, Medi-Cal or other insurers, and/or improvement in reimbursement rates which allowed them to recover a higher share of their costs of service. Also of note is a decrease of approximately \$54 million from 2001 to 2002 in expenditures in General City 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 grants and contributions are the largest single source of funds (28 percent), followed by property taxes (25 percent) and other local taxes (15.9 percent). These ratios are substantially similar to 2001, with the notable exception of other local taxes, which in 2001 provided approximately 20 percent of total governmental activities revenues, dropping in 2002 related to the City's decreased collections in hotel, sales, and other taxes.

**Expenses and Program Revenues - Business-type Activities**



**Revenues By Source - Business-type Activities**



**Business-type activities:** Business-type activities increased the City's net assets by \$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:

- 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 rates, of parking meters, parking taxes, and parking fines which accrue to MUNI under the terms of the City's charter.

- 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 restricted for the Laguna Honda Replacement Project and will be used to pay contract costs and debt service for construction of the new hospital complex. Laguna Honda also experienced a five percent increase in net patient revenue under increased Medi-Cal reimbursements for skilled nursing facilities.

- 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, Hetch 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 in order to allow Hetch Hetchy to better manage cash flows and cope with the highly volatile electricity market which affected California during the year.

- San Francisco International Airport's net asset decrease of \$46.9 million is due primarily to major capital assets being depreciated on a straight-line basis over an average of 30 years, while principal retirement of debt escalates over time. During fiscal 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 \$50 million during the year. In fiscal year 2002, the cash transfer from the Airport to the City's General Fund was reduced from \$25.1 million to \$17.8 million, reflecting the decrease in Airport concession revenues.

- 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.

As shown in the charts above, the largest of San Francisco's business-type activities—the San Francisco International Airport, the City's two hospitals combined, and the Municipal Railway, each had total expenses over \$500 million in fiscal year 2002, with these three enterprises together making up more than 75 percent of the total business activities. For all of the business-type activities, charges for services provide the largest share of revenues (65 percent) followed by operating grants and contributions (12.2 percent), and capital grants (10.9 percent), which are primarily received by the Municipal Railway. The proportion of business activity revenue overall 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 requirements.

**Governmental Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.25 billion, a decrease of \$243.8 million in comparison with the prior year. The drop represents the City's relatively higher budgetary use of reserves, liquidation of encumbrances, and reductions in carry-forward funds 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 fund where in prior years it had been accounted for in various other governmental funds (capital and debt 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 for 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 (\$392.3 million), (2) to fund continued programs or projects in future fiscal 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 for governmental 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 fund balance of the general fund was \$136.7 million, while total fund balance was \$380.4 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, especially 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 management controls 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 year ended June 30, 2002 of \$45 million, before transfers 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 \$1.912 billion, while total fund balance represents 20 percent of that same amount. For 2001, the general fund's unreserved fund balance was approximately 12 percent of total expenditures of \$1.798 billion, and the total fund balance represented approximately 27 percent of expenditures. These 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 \$267.9 million, the Water Department \$177 million, the Hetch Hetchy Project \$52.7 million, the Clean Water Program \$67 million, the Port of San Francisco \$54.9 million, and the Parking Garages 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 Honda 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 \$8.6 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 net bonded debt related to the defeasance 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).

	Operating Revenues	Operating Expenses	Net Operating Income (Loss)	Non-Operating Revenues (Expenses)	Capital Contributions	Interfund Transfers	Change in Net Assets
Airport.....	\$ 465,716	\$ 409,659	\$ 55,517	\$ (117,595)	\$ 32,937	\$ (17,794)	\$ (46,925)
Water.....	147,216	148,430	(1,214)	(499)	-	-	(1,713)
Hetch Hetchy.....	125,777	113,754	12,023	3,885	-	(382)	15,526
Municipal 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)
Clean Water.....	134,595	128,948	5,647	(19,988)	-	-	(14,341)
Port.....	50,494	55,878	(5,384)	7,545	2,747	-	4,909
Laguna Honda Hospital.....	111,392	141,030	(29,638)	22,004	-	28,659	21,025
Parking Garages/Other.....	35,945	30,928	4,717	(1,689)	-	-	3,049
Total.....	\$ 1,479,232	\$ 1,939,605	\$ (460,373)	\$ 187,524	\$ 251,747	\$ 124,399	\$ 108,307

#### Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public services or employees. As of the end of fiscal year 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 decreases in the market value of the Retirement System's investments. The Investment Trust Fund's net 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 supplemental appropriations approved during the fiscal year. In fiscal year 2002, significant supplemental appropriations were approved for the Department of Elections for temporary salaries, materials, and services (\$5.15 million), the Sheriff for overtime and other personnel costs (\$4.99 million), Emergency Communications Department for civilizationalization efforts and for additional personnel costs (\$1.62 million), the City Attorney for affirmative litigation (\$951 thousand), and the District Attorney's Office due to the high cost of prosecuting a lengthy out-of-venue case (\$260 thousand).

During the year, actual revenues and other resources lagged budgetary estimates by \$3.59 million. The majority of this amount is attributable to local taxes—specifically the sales, hotel, 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 earned 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.

**Changes in Capital Assets, Net of Accumulated Depreciation  
(In thousands)**

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land.....	\$ 139,534	\$ 131,539	\$ 185,594	\$ 184,289	\$ 325,128	\$ 315,838
Facilities and Improvement..	1,223,619	1,214,496	5,456,106	5,316,447	6,679,725	6,530,943
Machinery and equipment.....	77,609	86,372	694,659	493,757	772,268	582,129
Infrastructure.....	23,653	-	481,128	454,889	504,791	454,889
Property held under lease.....	536	536	309	515	845	1,051
Easements.....	-	-	99,631	98,482	99,631	98,482
Construction in progress.....	576,490	386,172	1,288,937	1,234,234	1,844,867	1,620,406
Total.....	\$ 2,041,451	\$ 1,821,115	\$ 8,185,824	\$ 7,782,633	\$ 10,227,275	\$ 9,603,748

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

- The Airport showed an increase of \$126 million or three percent in capital assets related to additional 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 Stations. These facilities are scheduled to begin operations in calendar year 2003.
- 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, 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 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 funds for one-time capital needs.
- 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.
- The Clean Water Program completed sewer replacement projects at four sites within the City for a capital asset increase of \$2.5 million.
- 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.
- 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 sites.

• 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 budgeted in wage augmentation programs, childcare subsidies, and personnel costs. However, these expense reductions are almost entirely offset by decreases in the subvention funds which San Francisco is able to claim under these programs.

• A decrease in expenditures by the Department of Public Health of approximately \$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 not result in service reductions.

• 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 issued later in the year than projected.

• 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 Hospital, thus allowing for reduced subsidy transfers.

• 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 liquidated at the close of the fiscal year.

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, 2003, the City used an estimated budgetary fund balance of \$124 million (see Note 4 to the Basic Financial Statements).

**Capital Assets and Debt Administration**

**Capital Assets**

The City's capital assets for its governmental and business type activities as of June 30, 2002, amount to \$10.2 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 for business-type activities) as shown in the table on the following page.

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

For governmental activities, no major net infrastructure assets are reported at the beginning of the year because the historical costs did not meet the threshold established in GASB 34. In fiscal year 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 amount, \$919.2 million is general obligation bonds (including \$2 million in general obligation bonds issued on behalf 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, loans, and other obligations of the City's business enterprises. The remainder includes accrued leave and workers compensation obligations, 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, \$60.8 million in settlement obligation bonds to provide for refunds under a portion of the City's business tax which was repealed, \$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 favorable 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 program at 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 \$90.4 billion in value as of the close of the fiscal year. As of June 30, 2002, the City had \$919.2 million in authorized, outstanding property tax-supported general obligation bonds, which is equal to approximately one percent of the taxable assessed value of property. As of June 30, 2002, there were an additional \$951.8 million in bonds that were authorized but unissued. If all of these bonds were issued and outstanding, the total debt burden would be approximately two percent of the taxable assessed value of property.

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

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

The City's enterprise activities have experienced some changes in debt ratings since June 30, 2001. In July 2001, Standard & Poor's downgraded the Water Department's underlying rating on outstanding debt from AA- negative 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-related 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 has affirmed its A1 rating for the Airport, but revised the outlook from developing to negative. Fitch IBCA, Inc. lowered its rating for the Airport from AA- to A+.

Since the close of the 2002 fiscal year, the City has issued additional debt of \$250 million in Water Department revenue bonds, primarily for refunding purposes, and \$29.3 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 \$35 million in taxable general obligation bonds for a program to provide loans for seismic strengthening of privately-owned unreinforced masonry buildings. 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 premium.

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 a ten percent 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 reserve requirement 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 2003 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 2.8 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 fallen off during the first quarter of 2003, down approximately eight to ten percent from budgeted projections. Other major local tax revenues have showed lesser shortfalls 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.

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

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

San Francisco General Hospital Medical Center  
Chief Financial Officer  
2789 – 25<sup>th</sup> Street  
San Francisco, CA 94110

### 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

[WWW.SFGOV.ORG](http://WWW.SFGOV.ORG)

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Net Assets**

June 30, 2002  
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
<b>ASSETS</b>					
Current assets:					
Deposits and investments with City Treasury.....	\$ 1,050,766	\$ 754,778	\$ 1,805,544	\$ -	\$ 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	4,144
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.....	16,345	65,756	82,101	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	4,144

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	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable.....	157,542	119,989	277,531	5,590	211
Accrued payroll.....	82,553	61,174	143,727	-	57
Accrued vacation and sick leave pay.....	59,132	38,811	97,943	859	-
Accrued workers' compensation.....	38,926	30,476	69,402	-	-
Estimated claims payable.....	9,224	16,668	25,892	-	-
Bonds, loans, capital leases, and other payables.....	114,626	185,185	299,811	20,081	-
Accrued interest payable.....	11,511	12,381	23,892	27,353	-
Unearned grant and subvention revenues.....	2,995	-	2,995	-	-
Due to primary government.....	(30,785)	30,785	-	22,587	-
Internal balances.....	49,511	107,474	156,985	9,360	-
Deferred credits and other liabilities.....	495,235	602,943	1,098,178	85,630	268
Total current liabilities.....	1,640,462	1,066,243	2,706,705	145,398	4,144
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables.....	-	12,115	12,115	-	-
Accrued interest payable.....	-	42,666	42,666	-	-
Other.....	-	63,404	63,404	-	-
Total liabilities payable from restricted assets.....	-	118,185	118,185	-	-
Noncurrent liabilities:					
Accrued vacation and sick leave pay.....	62,828	30,617	93,445	1,011	-
Accrued workers' compensation.....	137,851	96,928	234,779	-	-
Estimated claims payable.....	32,221	28,618	60,839	-	-
Bonds, loans, capital leases, and other payables.....	1,644,427	5,183,842	6,828,269	566,896	-
Accrued interest payable.....	-	-	-	144,009	-
Deferred credits and other liabilities.....	-	52,929	52,929	-	-
Total noncurrent liabilities.....	1,877,327	5,392,934	7,270,261	714,916	-
Total liabilities.....	2,372,562	6,114,062	8,486,624	800,746	268
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt.....	887,667	3,115,392	4,003,059	76,223	-
Restricted for:					
Cash and emergencies requirements by Charter.....	93,293	-	93,293	-	-
Debt service.....	12,135	334,747	346,882	67,232	-
Capital projects.....	115,052	141,154	256,206	-	-
Community development.....	135,308	-	135,308	-	-
Transportation Authority activities.....	142,740	-	142,740	-	-
Other purposes.....	219,851	70,118	289,969	1,200	3,676
Unrestricted (deficit).....	(130,525)	566,599	436,074	(175,875)	-
Total net assets (deficit).....	\$ 1,475,021	\$ 4,230,010	\$ 5,705,031	\$ (31,220)	\$ 3,676

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Activities**  
**Year ended June 30, 2002**  
(In Thousands)

Functional/Programs Governmental activities:	Net (Expense) Revenue and Changes in Net Assets					Component Units	
	Program Revenues		Primary Government		San Francisco		Development Authority
	Charges for Services	Operating Contributions	Capital Grants and Contributions	Gov- ern- mental Activities	Other Agency	Redevelop- ment	
Public works, transportation and commerce.....	\$ 717,552	\$ 103,941	\$ -	\$ (571,357)	\$ -	\$ -	\$ -
Human welfare and neighborhood development.....	317,778	22,307	56,168	(136,727)	-	-	-
Health care.....	696,189	20,292	370,052	(186,834)	-	-	-
Culture and recreation.....	493,866	38,176	243,106	(214,375)	-	-	-
General administration and finance.....	246,620	47,116	3,458	(194,833)	-	-	-
General City responsibilities.....	156,770	53,434	3,510	(98,813)	-	-	-
Unallocated interest on long-term debt.....	55,551	47,050	26,384	(17,883)	-	-	-
Total governmental activities.....	77,335	-	(77,335)	-	-	-	-
Business-type activities:	2,651,650	348,898	781,767	(1,462,591)	-	-	-
Airport.....	599,335	465,176	32,937	(101,222)	-	-	-
Transit.....	528,725	107,455	216,063	(5,539)	-	-	-
Port.....	58,694	50,494	2,747	(5,453)	-	-	-
Water.....	165,362	147,216	-	(18,146)	-	-	-
Power.....	113,754	125,777	1,788	13,811	-	-	-
Hospitals.....	525,045	412,874	69,525	(42,646)	-	-	-
Sewer.....	159,898	134,595	-	(25,301)	-	-	-
Garages.....	32,274	35,645	-	3,371	-	-	-
Total business-type activities.....	2,185,085	1,479,232	282,059	(170,047)	(170,047)	-	-
Total primary government.....	\$ 4,834,735	\$ 1,828,130	\$ 1,063,826	\$ (1,700,047)	\$ (1,632,638)	\$ -	\$ -
Component units:							
San Francisco Redevelopment Agency.....	\$ 116,252	\$ 25,747	\$ 16,020	\$ -	\$ (73,885)	\$ -	\$ -
Treasure Island Development Authority.....	6,123	8,651	228	-	-	-	2,754
Total component units.....	\$ 122,375	\$ 34,398	\$ 16,948	\$ -	\$ (73,885)	\$ -	\$ 2,754
General Revenues:							
Property taxes.....	\$ 697,703	\$ -	\$ 697,703	\$ 59,434	\$ -	\$ -	\$ -
Business taxes.....	274,848	-	274,848	-	-	-	-
Other local taxes.....	444,380	-	444,380	5,006	-	-	-
Interest and investment income.....	170,837	63,530	334,127	16,652	-	-	-
Transfers - internal activities of primary government.....	(12,669)	85,423	201,368	3,179	-	-	-
Total general revenues and transfers.....	1,479,232	272,323	1,751,555	85,071	-	-	-
Changes in net assets.....	16,631	103,307	119,938	1,316	-	-	2,754
Net assets (deficit) - beginning.....	1,458,330	4,126,703	5,585,033	(42,408)	-	-	1,122
Net assets (deficit) - ending.....	\$ 1,475,021	\$ 4,230,010	\$ 5,705,031	\$ (31,220)	\$ -	\$ -	\$ 3,876

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)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2002	2001	2002	2001	2002	2001
<b>ASSETS</b>						
Deposits and investments with City Treasury.....	\$ 311,466	\$ 400,595	\$ 724,801	\$ 838,427	\$ 1,036,267	\$ 1,239,022
Deposits and investments outside City Treasury.....	361	356	132,498	297,592	132,859	297,948
Receivables:						
Property taxes and penalties.....	26,948	21,687	6,447	7,542	33,395	29,229
Other local taxes.....	147,368	165,567	26,505	17,159	173,873	182,726
Federal and state grants and subventions.....	56,890	62,247	83,085	78,881	139,975	141,128
Charges for services.....	16,125	17,775	5,630	4,960	21,755	22,735
Interest and other.....	7,506	10,935	3,105	15,897	10,611	26,832
Due from other funds.....	66,651	48,937	54	54	66,705	48,937
Due from component unit.....	400	400	22,187	19,187	22,587	19,587
Loans receivable (net of allowance for uncollectible amount of \$165,637 in 2002; \$155,235 in 2001).....	183	183	148,942	117,934	149,125	118,117
Deferred charges and other assets.....	5,862	5,529	1,338	1,443	7,200	6,972
Total assets.....	\$ 639,760	\$ 734,211	\$ 1,154,592	\$ 1,399,022	\$ 1,794,352	\$ 2,133,233
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable.....	\$ 92,514	\$ 66,338	\$ 58,214	\$ 36,912	\$ 150,728	\$ 103,260
Accrued payroll.....	66,071	59,439	14,167	13,077	80,238	72,516
Estimated claims payable.....	-	2,104	-	63,900	388	65,004
Accrued interest payable.....	-	-	11,680	24,308	39,284	52,662
Deferred tax, grant and subvention revenues.....	27,604	27,822	11,680	89,046	33,883	89,046
Due to other funds.....	73,180	99,321	67,669	158,419	240,849	257,740
Deferred credits and other liabilities.....	259,369	255,024	286,021	385,492	545,390	640,516
Total liabilities.....	\$ 529,738	\$ 518,034	\$ 338,766	\$ 673,266	\$ 1,124,684	\$ 1,158,744
Fund balances:						
Reserved for cash requirements.....	93,283	93,283	-	-	93,283	93,283
Reserved for emergencies.....	4,198	4,198	-	-	4,198	4,198
Reserved for assets not available for appropriation.....	6,406	6,089	41,233	51,548	47,639	57,637
Reserved for debt service.....	-	-	36,548	63,308	36,548	63,308
Reserved for encumbrances.....	52,735	37,743	340,591	373,088	393,326	410,831
Reserved for appropriation carryforward.....	61,716	77,060	285,508	446,211	347,224	523,271
Reserved for subsequent years' budgets.....	25,379	53,337	18,604	9,664	43,983	63,001
Unreserved, reported in:						
General fund.....	136,664	207,467	-	-	136,664	207,467
Special revenue funds.....	-	-	97,167	54,018	97,167	54,018
Capital project funds.....	-	-	44,487	11,629	44,487	11,629
Permanent fund.....	-	-	4,433	4,064	4,433	4,064
Total fund balances.....	390,391	479,187	868,571	1,013,530	1,248,982	1,492,717
Total liabilities and fund balances.....	\$ 639,760	\$ 734,211	\$ 1,154,592	\$ 1,399,022	\$ 1,794,352	\$ 2,133,233

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)**

Fund balances - total governmental funds	\$ 1,248,962
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.	2,037,854
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	7,545
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,835,214)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(8,116)
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.	229,549
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.	(205,559)
<b>Net assets of governmental activities</b>	<b>\$ 1,475,021</b>

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 year ended June 30, 2001)  
(in thousands)**

	2002	2001	Other Governmental Funds	2002	2001	Total Governmental Funds
<b>Revenues:</b>						
Property taxes.....	\$ 507,308	\$ 462,171	\$ 179,842	\$ 687,150	\$ 627,654	\$ 627,654
Business taxes.....	274,125	277,084	723	274,848	277,922	277,922
Other local taxes.....	394,357	448,132	110,233	133,948	444,590	591,480
Licenses, permits and franchises.....	19,548	17,714	6,714	5,789	25,792	23,903
Fines, forfeitures and penalties.....	8,591	9,097	3,454	3,676	12,045	12,773
Interest and investment income.....	20,737	27,693	44,860	63,739	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	157,469	161,348	307,943	298,759
State.....	510,952	501,020	97,852	74,341	609,804	575,951
Other.....	102,762	100,325	33,924	6,245	33,924	8,245
Charges for services.....	102,762	100,325	122,765	115,087	225,547	215,112
Other revenues.....	10,336	17,395	16,067	13,724	26,495	31,119
<b>Total revenues.....</b>	<b>1,956,916</b>	<b>2,015,349</b>	<b>819,420</b>	<b>799,559</b>	<b>2,176,236</b>	<b>2,814,938</b>
<b>Expenditures:</b>						
Current:						
Public protection.....	680,019	626,136	40,031	45,983	660,050	672,119
Public works, transportation and commerce.....	103,579	95,466	192,632	204,463	296,411	299,949
Human welfare and neighborhood development.....	467,668	431,266	145,445	123,976	613,133	597,242
Community health.....	385,465	365,290	89,361	89,685	464,826	454,975
Culture and recreation.....	108,810	106,728	129,516	127,135	236,326	233,863
General administration and finance.....	136,143	127,366	28,602	23,116	164,745	150,482
General City responsibilities.....	49,571	45,380	5,057	64,373	54,628	109,153
Debt service:						
Principal retirement.....	-	-	69,536	69,870	69,536	69,870
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.....	1,911,809	1,797,652	276,652	170,472	2,765,662	170,472
<b>Total expenditures.....</b>	<b>1,911,809</b>	<b>1,797,652</b>	<b>1,047,606</b>	<b>996,808</b>	<b>2,955,415</b>	<b>2,794,460</b>
<b>Excess (deficiency) of revenues over expenditures.....</b>	<b>45,009</b>	<b>217,697</b>	<b>(228,186)</b>	<b>(187,219)</b>	<b>(183,177)</b>	<b>20,478</b>
<b>Other financing sources (uses):</b>						
Transfers in.....	109,941	134,983	157,166	126,974	267,107	261,957
Transfers out.....	(316,691)	(257,317)	(219,989)	(107,861)	(636,690)	(365,178)
Issuance of bonds and loans						
Face value of bonds issued.....	60,755	-	189,240	394,040	249,995	394,040
Premium on issuance of bonds.....	-	-	3,095	803	3,095	803
Discount on issuance of bonds.....	(176)	-	(62)	(2,773)	(238)	(2,773)
Payment to refunded bond escrow agent.....	-	-	(136,230)	-	(136,230)	-
Other financing sources-capital leases.....	1,417	-	90,007	-	91,424	-
Other.....	949	-	-	-	949	-
<b>Total other financing sources (uses).....</b>	<b>(143,805)</b>	<b>(122,334)</b>	<b>83,227</b>	<b>411,183</b>	<b>(60,578)</b>	<b>288,849</b>
<b>Net change in fund balances.....</b>	<b>(98,796)</b>	<b>95,363</b>	<b>(144,959)</b>	<b>213,964</b>	<b>(243,755)</b>	<b>309,327</b>
<b>Fund balance at beginning of year, as previously reported.....</b>	<b>479,187</b>	<b>275,640</b>	<b>1,013,530</b>	<b>792,104</b>	<b>1,067,744</b>	<b>1,067,744</b>
<b>Cumulative effect of a change in accounting principles.....</b>	<b>-</b>	<b>108,184</b>	<b>-</b>	<b>7,462</b>	<b>-</b>	<b>115,646</b>
<b>Fund balances at beginning of year, as restated.....</b>	<b>479,187</b>	<b>383,824</b>	<b>1,013,530</b>	<b>799,566</b>	<b>1,492,717</b>	<b>1,183,390</b>
<b>Fund balances at end of year.....</b>	<b>\$ 380,391</b>	<b>\$ 479,187</b>	<b>\$ 868,571</b>	<b>\$ 1,013,530</b>	<b>\$ 1,248,962</b>	<b>\$ 1,492,717</b>

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

**City and County of San Francisco**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Year ended June 30, 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 lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation 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 liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require 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.	10,563
Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term debts made. The 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 Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serves to reduce the liability in the statement of net assets while the accrual of accreted interest serves to increase the liability in the statement of net assets and result in additional expenses in the statement of activities. This is the amount by which principal payments exceeded newly accreted interest.	6,933
Bond issue costs are expensed in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issuance costs exceed amortization 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 funds. These transactions, however, have no effect on net assets. This is the amount by which bond proceeds exceeded principal retirement and payment to escrow for refunded debt in the current period.	(135,653)
Bond premiums and discounts are expensed in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the net amount of bond premiums and discounts capitalized during the current period.	(2,657)
Losses incurred on the advance refunding of debt are expensed in the governmental funds when the refunding occurs and are deferred and amortized for purposes of the statement of activities. This is the portion of the refunding loss that is not amortized but is reported as a bond refunding loss in the statement of activities. The refunding loss is reported within the other financing use entitled "payment to refunded bond escrow agent".	3,666
Amortization of bond premiums, discounts and refunding losses	(158)
Additional accrued interest calculated on bonds and notes payable.	(2,494)
Additional interest calculated pertaining to the City's arbitrage rebate liability.	(2,049)
The net revenues of certain activities of internal service funds is reported with governmental activities.	152,088
Changes in net assets of governmental activities	<u>\$ 16,691</u>

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Budgetary Comparison Statement - General Fund**  
**Year ended June 30, 2002**  
**(In Thousands)**

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>Budgetary fund balance, July 1</b>	<b>\$ 188,710</b>	<b>\$ 489,347</b>	<b>\$ 489,347</b>	<b>\$ -</b>
<b>Resources (Inflows):</b>				
Property taxes.....	461,550	461,715	510,001	48,286
Business taxes.....	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.....	50,822	50,822	49,516	(1,306)
Licenses, permits, and franchisees:				
Franchise tax.....	7,634	7,634	7,575	(59)
Franchise tax.....	11,141	11,141	11,973	832
Fines, forfeitures, and penalties.....	5,793	6,180	6,591	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	6,826	2,670	(4,156)
State subventions:				
Social service subventions.....	115,916	116,800	101,417	(15,383)
Health and welfare realignment.....	85,890	85,841	87,475	1,534
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.....	25,254	22,722	20,853	(1,069)
Charges for services:				
General government service charges.....	29,087	29,108	29,506	398
Public safety service charges.....	12,620	15,434	15,435	1
Recreation charges - Recreation and Park.....	9,754	9,754	9,445	(309)
Med/Cal, 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	(30,656)
Proceeds from issuance of bonds and loans.....	62,800	63,662	61,233	(2,429)
Other resources (inflows).....	900	1,312	1,518	206
<b>Total amounts available for appropriation.....</b>	<b>\$ 2,329,617</b>	<b>\$ 2,717,244</b>	<b>\$ 2,615,595</b>	<b>\$ (101,649)</b>

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund (Continued)

Year ended June 30, 2002

(In Thousands)

Charges to appropriations (outflows):

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Public Protection				
Administrative Services - Animal Care and Control	\$ 3,224	\$ 3,252	\$ 3,033	\$ 219
Administrative Services - Consumer Assurance	1,773	1,676	1,566	110
Administrative Services - Medical Examiner	4,365	4,595	4,315	280
Adult Probation	9,025	9,076	8,837	239
District Attorney	21,259	21,759	21,702	57
Fire Department	195,173	202,583	195,286	7,297
Juvenile Probation	37,094	30,398	29,942	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	340
Sheriff	83,969	92,009	91,477	532
Trial Courts	33,552	33,687	32,742	945
Public Works Transportation and Commerce				
Board of Appeals	425	426	403	23
Business and Economic Development	2,734	2,544	2,316	228
Clean Water	206	246	246	-
Department of Public Works	38,200	32,261	32,206	55
Emergency Communications	19,008	19,385	19,323	72
Light, Heat and Power	2,887	2,492	2,466	26
Parking and Traffic Commission	42,716	43,654	43,046	578
Telecommunications and Information Services	2,773	2,307	2,306	1
Human Welfare and Neighborhood Development				
Adult and Aging Services	19,064	21,434	20,826	608
Children, Youth and Their Families	10,617	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	2
Human Services	437,298	443,992	429,072	14,920
Mayor - Housing and Neighborhood	150	667	606	61
Rent Arbitration Board	-	113	113	-
Public Health	447,126	426,663	395,471	31,212
Culture and Recreation				
Academy of Sciences	2,169	2,270	2,236	34
Administrative Services - Convention Facilities	5,982	5,705	5,420	285
Art Commission	7,270	6,128	6,069	29
Asian Art Museum	3,469	3,599	3,253	346
County Education Office	66	66	64	2
Fire Arts Museum	5,597	5,604	4,786	818
Law Library	520	522	471	51
Mayor - Grants for the Arts	16,995	18,784	15,743	3,041
Recreation and Park Commission	72,237	68,775	68,446	329
General Administration and Finance				
Administrative Services	7,353	6,089	6,089	-
Administrative Services - Purchasing	87	87	87	-
Mayor - Office of Contract Administration	3,196	2,936	2,619	317
Assessor/Recorder	10,803	11,174	10,954	220
Board of Supervisors	8,987	9,964	9,721	243

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund (Continued)

Year ended June 30, 2002

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
City Attorney	7,522	13,282	13,282	-
City Planning	13,404	13,365	13,081	304
Civil Service	665	620	615	5
Comptroller	20,929	20,051	19,821	230
Elections	8,330	14,269	14,363	6
Ethics Commission	878	863	811	42
Human Resources	19,662	21,584	20,883	701
Mayor	7,772	8,159	8,033	126
Retirement Services	420	155	155	-
Treasurer/Tax Collector	17,019	16,241	17,008	433
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	280,550	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	\$ -	\$ 254,827	\$ 385,027	\$ 130,200

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

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" ..... \$2,615,595

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 ..... (489,347)

Property tax revenue - Teeler Plan ..... (2,693)

Unrealized loss on investment ..... (9,254)

Interest reclassified as transfers from other funds ..... 8,820

Proceeds from issuance of bonds and loans ..... (61,233)

Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes ..... (105,070)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds ..... \$1,956,818

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" ..... \$2,230,568

Difference - budget to GAAP:

Capital asset purchases funded under capital leases with Finance Corporation ..... (1,417)

Pension reimbursement and other budget to GAAP differences ..... (636)

Change recognized in budget basis reserves ..... (3,154)

GAAP to budget basis change of business tax settlement recorded in prior year ..... (83,000)

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes ..... (250,550)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds ..... \$1,911,809

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 (Continued)**  
**June 30, 2002**  
**(with summarized financial information as of June 30, 2001)**  
**(In Thousands)**

	Business-type Activities - Enterprise Funds										Total		Governmental Activities-Internal Service Funds		
	San Francisco International 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			2002	2001	2002	2001
<b>LIABILITIES</b>															
<b>Current liabilities:</b>															
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.....	-	3,325	-	-	-	8,798	157	-	101		12,381	12,470	2,997	-	
Bonds, loans, capital leases, and other payables.....	43,550	99,715	-	-	78	39,391	1,315	210	926		185,185	148,939	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	
<b>Liabilities payable from restricted assets:</b>															
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	-	-	
<b>Noncurrent liabilities:</b>															
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	-		96,528	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.....	-	9,535	-	38,191	-	1,395	3,808	-	-		52,929	33,205	-	-	
Bonds, loans, capital leases, and other payables.....	4,218,798	347,026	-	-	724	545,739	34,267	222	37,066		5,183,842	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	
<b>NET ASSETS</b>															
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	
<b>Restricted:</b>															
Debt service.....	277,521	13,955	-	-	-	43,271	-	-	-		334,747	276,392	-	-	
Capital projects.....	11,729	16,684	-	-	1,203	65,301	-	46,237	-		141,154	129,299	-	-	
Other purposes.....	-	-	-	61,453	291	-	6,201	2,173	-		70,118	112,335	-	-	
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)**

	Business-type Activities - Enterprise Funds										Total		Governmental Activities-Internal Service Funds		
	San Francisco International 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			2002	2001	2002	2001
<b>ASSETS</b>															
<b>Current Assets:</b>															
Deposits and investments with City Treasury.....	\$ 278,894	\$ 227,351	\$ 60,250	\$ 74,329	\$ -	\$ 54,370	\$ 59,584	\$ -	\$ -	\$ 2,844	\$ 754,778	\$ 701,962	\$ 14,499	\$ 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	-	
Total current assets.....	318,776	258,663	70,354	165,715	92,294	76,966	68,895	24,774	5,335		1,079,772	1,020,433	84,794	8,097	
<b>Restricted assets:</b>															
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..	286,231	13,300	-	4,787	27	42,631	16,801	361	26,800		390,938	331,524	-	-	
Grants and other receivables.....	25,447	560	-	6,429	-	666	-	858	-		33,960	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	-	-	
<b>Noncurrent assets:</b>															
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	-	
<b>Capital assets:</b>															
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, infrastructure, 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	

(Continued)

**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)**

	Business-type Activities - Enterprise Funds											Total		Governmental Activities-Internal Service Funds						
	San Francisco International 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	2002	2001					2002	2001			
<b>Operating revenues:</b>																				
Aviation.....	\$ 318,772	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 318,772	\$ 218,362	\$ -	\$ -	\$ -	\$ -	
Water and power service.....	-	135,139	125,673	-	-	-	-	-	-	-	-	-	-	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	-	-	117,613	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	-	-	-	-	-	-	-	-	-	-	-	59,855	60,041	-	-	-	-	
<b>Total operating revenues.....</b>	<b>465,178</b>	<b>147,216</b>	<b>125,777</b>	<b>107,455</b>	<b>301,482</b>	<b>134,595</b>	<b>60,494</b>	<b>111,392</b>	<b>35,645</b>	<b>1,479,232</b>	<b>1,384,636</b>	<b>102,362</b>	<b>96,025</b>							
<b>Operating expenses:</b>																				
Personal services.....	139,819	49,676	16,647	368,604	217,365	35,588	47,759	123,555	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	-	65,537	-	-	-	-	-	-	702	67,612	54,903	-							
Materials and supplies.....	8,768	5,955	1,686	36,182	40,800	7,853	-	10,546	1,135	112,623	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	20,879	702	16,585	-	-	-	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							
<b>Total operating expenses.....</b>	<b>409,659</b>	<b>148,430</b>	<b>113,754</b>	<b>528,725</b>	<b>382,253</b>	<b>128,948</b>	<b>55,878</b>	<b>141,030</b>	<b>30,628</b>	<b>1,939,605</b>	<b>1,769,940</b>	<b>103,575</b>	<b>96,892</b>							
<b>Operating income (loss).....</b>	<b>55,517</b>	<b>(1,214)</b>	<b>12,023</b>	<b>(421,270)</b>	<b>(80,771)</b>	<b>5,647</b>	<b>(5,384)</b>	<b>(29,638)</b>	<b>4,717</b>	<b>(460,373)</b>	<b>(385,304)</b>	<b>(1,213)</b>	<b>(687)</b>							
<b>Nonoperating revenues (expenses):</b>																				
Operating grants:																				
Federal.....	-	-	1,788	3,363	-	-	-	-	-	5,151	13,056	-	-							
State / other.....	-	-	-	207,393	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.....	49,559	3,742	358	5,806	4,981	2,944	7,115	20,607	(787)	85,425	28,779	16	986							
<b>Total nonoperating revenues (expenses).....</b>	<b>(117,595)</b>	<b>(469)</b>	<b>3,885</b>	<b>220,453</b>	<b>73,397</b>	<b>(19,988)</b>	<b>7,645</b>	<b>22,004</b>	<b>(1,668)</b>	<b>187,534</b>	<b>183,699</b>	<b>(411)</b>	<b>(81)</b>							
<b>Income (loss) before capital contributions, transfers and special items.....</b>	<b>(62,078)</b>	<b>(1,713)</b>	<b>15,908</b>	<b>(200,817)</b>	<b>(7,374)</b>	<b>(14,341)</b>	<b>2,161</b>	<b>(7,634)</b>	<b>3,049</b>	<b>(272,839)</b>	<b>(201,615)</b>	<b>(1,624)</b>	<b>(948)</b>							
Capital Contributions.....	32,937	-	-	216,963	-	-	2,747	-	-	251,747	335,520	-	-							
Transfers in.....	-	-	-	111,136	74,584	-	-	-	28,659	-	214,361	225,798	512	1,117						
Transfers out.....	(17,784)	-	(382)	(193)	(71,623)	-	-	-	-	(69,982)	(123,644)	-	(50)							
<b>Net income (loss) before special items.....</b>	<b>(46,925)</b>	<b>(1,713)</b>	<b>15,526</b>	<b>126,191</b>	<b>(4,413)</b>	<b>(14,341)</b>	<b>4,908</b>	<b>21,025</b>	<b>3,049</b>	<b>103,307</b>	<b>236,059</b>	<b>(1,112)</b>	<b>119</b>							
Special items.....	-	-	-	-	-	-	-	-	-	-	126,014	-	-							
<b>Change in net assets.....</b>	<b>(46,925)</b>	<b>(1,713)</b>	<b>15,526</b>	<b>126,191</b>	<b>(4,413)</b>	<b>(14,341)</b>	<b>4,908</b>	<b>21,025</b>	<b>3,049</b>	<b>103,307</b>	<b>362,073</b>	<b>(1,112)</b>	<b>119</b>							
<b>Net assets (deficit) at beginning of year.....</b>	<b>608,397</b>	<b>453,617</b>	<b>245,800</b>	<b>1,429,949</b>	<b>53,092</b>	<b>964,721</b>	<b>269,884</b>	<b>41,455</b>	<b>62,688</b>	<b>4,126,703</b>	<b>3,764,630</b>	<b>(3,294)</b>	<b>(3,413)</b>							
<b>Net assets (deficit) at end of year.....</b>	<b>\$ 561,472</b>	<b>\$ 452,104</b>	<b>\$ 261,326</b>	<b>\$ 1,553,140</b>	<b>\$ 48,679</b>	<b>\$ 950,380</b>	<b>\$ 274,492</b>	<b>\$ 62,480</b>	<b>\$ 65,937</b>	<b>\$ 4,230,010</b>	<b>\$ 4,126,703</b>	<b>\$ (4,406)</b>	<b>\$ (3,294)</b>							

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**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)**

	Business-type Activities - Enterprise Funds										Governmental Activities-Internal Service Funds			
	San Francisco International 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	Total	2002	2001	2002	2001
										2002	2001	2002	2001	
Reconciliation of operating income (loss) to net cash used for operating activities:														
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)	
Adjustments for non-cash activities:														
Depreciation and amortization	143,360	25,909	9,614	55,336	6,284	38,306	8,119	1,215	1,068	289,211	256,119	2,709	2,915	
Provision for uncollectibles	(206)	-	-	14	28,740	-	1,118	1,122	-	28,788	24,551	-	-	
Write off of capital assets	-	5,822	-	-	-	-	-	-	-	5,822	-	-	-	
Other	-	(2,048)	-	-	-	-	573	-	-	(1,475)	21,859	-	-	
Changes in asset/liabilities:														
Receivables, net	(5,957)	1,163	(244)	(396)	(59,882)	5,493	395	(11,133)	8	(70,553)	(21,264)	13,327	(301)	
Due from other funds	-	-	-	-	(802)	-	-	-	-	(802)	2,519	-	-	
Inventories	2,112	(659)	49	3,993	16	-	(2)	(70)	-	5,439	(654)	-	-	
Deferred charges and other assets	-	-	-	(133)	(5,927)	-	2,050	(77)	(1,482)	(5,549)	5,388	(387)	12	
Accounts payable	(811)	(1,723)	232	(1,337)	3,829	(924)	116	(97)	5,443	4,728	19,351	1,573	2,808	
Accrued payroll	(1,120)	116	154	2,173	1,299	371	149	(1,138)	53	2,057	7,912	246	155	
Accrued vacation and sick leave pay	-	604	(61)	868	1,394	(20)	75	333	16	3,409	2,455	266	112	
Accrued workers' compensation	-	3,332	569	14,952	2,164	772	1,325	1,105	-	24,209	6,448	434	94	
Estimated claims payable	-	(2,055)	(2,982)	2,697	(11,651)	3,642	1,289	-	-	(9,060)	(4,926)	-	-	
Due to other funds	(1,054)	-	1,200	-	31,694	800	-	9,238	-	41,878	(16,479)	-	-	
Deferred credits and other liabilities	20,088	23,275	-	(1,986)	-	-	(167)	1,941	(569)	42,482	5,304	(95,321)	-	
Total adjustments	156,412	53,636	8,531	76,181	(4,852)	48,440	15,040	2,339	4,657	360,584	309,093	(78,153)	5,795	
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	
Reconciliation of cash and cash equivalents to the balance sheet:														
Deposits and investments with City Treasury:														
Unrestricted	\$ 278,894	\$ 227,351	\$ 60,250	\$ 74,329	\$ -	\$ 54,370	\$ 59,584	\$ -	\$ -	\$ 754,778	\$ 701,962	\$ 14,499	\$ 7,796	
Restricted	299,826	103,140	-	51,160	1,494	90,728	4,005	51,000	-	601,351	648,968	-	-	
Unrestricted deposits and investments outside City Treasury	10	40	10	588	10	-	5	1	2,844	3,508	2,467	51,732	-	
Total deposits and investments	578,730	330,531	60,260	126,077	1,504	145,098	63,594	51,001	2,844	1,359,637	1,353,397	66,231	7,796	
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)	(3,903)	(598)	-	(1)	(50)	(759)	(817)	-	(237,256)	(641,553)	-	-	
Cash and cash equivalents at end of year on statement of cash flows	\$ 347,602	\$ 326,628	\$ 59,662	\$ 130,864	\$ 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 activities:														
Tenant improvements financed by rent credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 375	\$ -	\$ -	\$ 375	\$ 494	\$ -	\$ -	
Loss on abandonment of property and equipment	-	-	-	-	-	-	259	-	-	-	259	-	-	
Contributed improvements by tenants	7,726	-	-	-	-	-	-	-	-	-	7,726	-	18,124	
Acquisition of capital assets on accounts payable and capital leases	-	-	-	-	802	-	1,485	864	-	3,151	5,962	-	-	
	\$ 7,726	\$ -	\$ -	\$ -	\$ 802	\$ -	\$ 2,119	\$ 864	\$ -	\$ 11,511	\$ 25,861	\$ -	\$ -	

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)**

	Business-type Activities - Enterprise Funds										Governmental Activities-Internal Service Funds			
	San Francisco International 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	Total	2002	2001	2002	2001
										2002	2001	2002	2001	
Cash flows from operating activities:														
Cash received from customers, including cash deposits	\$ 493,400	\$ 163,568	\$ 123,743	\$ 120,817	\$ 278,693	\$ 140,088	\$ 5,589	\$ -	\$ 33,529	\$ 1,359,427	\$ 995,283	\$ 115,302	\$ 95,736	
Cash received from patients and third party payors	-	-	-	-	-	-	-	103,145	-	103,145	369,492	-	-	
Cash received from tenants 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 employees for services	(140,533)	(69,698)	(87,369)	(107,353)	(152,608)	(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)	-	-	-	(12,414)	(11,235)	-	-	
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:														
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)	-	(635)	(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:														
Capital grants	15,989	-	-	253,311	-	-	3,123	-	-	272,423	267,765	-	-	
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	-	-	-	
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)	(3,827)	(1,178)	
Retirement of capital leases, bonds and loans	(27,290)	-	-	-	-	-	(13,344)	(200)	-	(48,184)	(69,710)	(16,902)	(1,138)	
Retirement of commercial paper borrowings	-	(85,000)	-	-	-	-	-	-	-	(85,000)	-	-	-	
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	-	-	65,769	47,502	-	-	
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)	(338,261)	(401,240)	(16,695)	(2,282)	
Cash flows from investing activities:														
Purchases of investments with trustees	(1,976,295)	(2,677)	-	(25,339)	-	(47,418)	-	-	(5,489)	(2,057,219)	(1,791,080)	-	-	
Purchases of investments with trustees	1,930,615	-	-	25,339	-	3,975	-	-	-	1,959,929	1,776,151	-	-	
Proceeds from sale of investments with trustees	(588,295)	(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	-	-	-	-	-	-	-	-	-	-	275	-	-	
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	4,652	112	10,372	3,172	1,709	(5,014)	427,835	(288,632)	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	553	415,092	(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	722,911	1,159,693	153,887	3,224	
Cash and cash equivalents-end of year	\$ 347,602	\$ 326,628	\$ 59,662	\$ 130,864	\$ 1,503	\$ 145,046	\$ 73,270	\$ 50,284	\$ 2,844	\$ 1,137,703	\$ 722,611	\$ 66,231	\$ 7,796	

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2002**  
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
<b>ASSETS</b>			
Deposits and investments with City Treasury.....	\$ 70,570	\$ 300,937	\$ 103,993
Deposits and investments outside City Treasury.....	11,026,161	2,930	2,930
Receivables:			
Payroll contribution.....	12,358	-	48,329
Interest and other.....	256,100	1,903	85,441
Invested securities lending collateral.....	1,461,506	-	-
Deferred charges and other assets.....	3	-	5,741
Total assets.....	<u>12,826,698</u>	<u>302,840</u>	<u>246,434</u>
<b>Liabilities</b>			
Accounts payable.....	15,458	2,267	73,049
Estimated claims payable.....	14,911	-	-
Agency obligations.....	-	-	173,365
Obligations under fixed coupon dollar repurchase agreements.....	252,500	-	-
Payable to brokers.....	593,214	-	-
Securities lending collateral.....	1,461,506	-	-
Deferred credits and other liabilities.....	34,782	-	-
Total liabilities.....	<u>2,372,371</u>	<u>2,267</u>	<u>246,434</u>
<b>Net Assets</b>			
Held in trust for pension and other employee benefits and pool participants.....	<u>\$ 10,454,327</u>	<u>\$ 300,573</u>	

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 Funds	Investment Trust Fund
<b>Additions:</b>		
Employer contributions.....	\$ 228,169	-
Employer contributions.....	218,654	-
Contributions on pooled investments.....	-	2,119,085
Total contributions.....	<u>446,823</u>	<u>2,119,085</u>
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).....	<u>(497,626)</u>	<u>10,773</u>
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.....	<u>(50,083)</u>	<u>-</u>
Total additions (loss), net.....	<u>(100,686)</u>	<u>2,129,858</u>
<b>Deductions:</b>		
Benefit payments.....	704,194	-
Refunds of contributions.....	9,814	-
Distribution from pooled investments.....	-	2,104,493
Administrative expenses.....	11,827	-
Total deductions.....	<u>725,835</u>	<u>2,104,493</u>
Change in net assets.....	<u>(86,621)</u>	<u>25,365</u>
Net assets at beginning of year.....	11,280,848	275,208
Net assets at end of year.....	<u>\$ 10,454,327</u>	<u>\$ 300,573</u>

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

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS

(1) THE FINANCIAL REPORTING ENTITY

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

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

**Blended Component Units**

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

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

**San Francisco Finance Corporation (Finance Corporation)** - The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase \$20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. Beginning on July 1, 2001, the operations of the Finance Corporation began to be reported within the internal service 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 means of interfund transfers, from other governmental funds to the internal service funds to establish the Finance Corporation as an internal service fund. Internal service funds report certain long-term assets and liabilities that are not reported in governmental funds since the assets do not represent current financial resources and the liabilities do not require current financial resources. Accordingly, the transfers out from the governmental funds 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's administrative offices at City Hall, Room 336, #1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

**San Francisco Parking Authority (Parking Authority)** - The Parking Authority was created in October 1949, in accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (DPT). The DPT consists of five commissioners appointed by the mayor. Upon creation of the DPT, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the DPT. The staff and fiscal operations of the Parking Authority were also incorporated into the DPT and DPT is reported within other governmental funds. Separate financial statements are not prepared for the Parking Authority. Further information about the Parking 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

NOTES 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 economic development opportunities Citywide. Included in its financial data are the accounts of the San Francisco Redevelopment Financing Authority (SFRFA), a component unit of the Agency. The SFRFA is a separate joint-powers authority, formed between the Agency and the City to facilitate the long-term financing of Agency activities. The Agency's governing commission serves as the Board of Directors of the SFRFA. Financial statements for the Parking Authority can be obtained from their offices at 25 Van Ness Avenue, San Francisco, CA 94102.

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

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

The TIDA's governing body is not substantively the same as that of the City and the TIDA does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial statements are not prepared for TIDA. Further information about TIDA can be obtained from the TIDA 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 San Francisco Airport Improvement Corporation, San Francisco Health Authority, San Francisco Housing Authority, Private Industry Council of San Francisco, San Francisco Unified School District and San Francisco Community College District. The City is represented in two regional agencies, the Bay Area Rapid Transit District (BART) and the Bay Area Air Quality Management District (BAAQM), which are also excluded from the City's reporting entity.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

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

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

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

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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

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

The **San Francisco International Airport Fund** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.

The **Water Department Fund** 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 **Hetch Hetchy Water and Power Fund** accounts for the activities of Hetch Hetchy Water and Power Department (Hetch Hetchy). The department is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity.

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

The **General Hospital Medical Center Fund** accounts for the activities of the San Francisco General Hospital Medical Center, a City-owned acute care hospital. This Fund was established in 1980.

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

The **Port of San Francisco Fund** accounts for the activities of the Port of San Francisco. This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.

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

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

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Additionally, the City reports the following fund types:

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

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

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

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

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

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

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City Departments from the Water Department and Hetch Hetchy. 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 reported instead as general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, airline fees and charges, parking fees, commercial and industrial rents, printing services, vehicle maintenance fees, and telecommunication and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and

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 available for appropriation and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

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

Original Budget

- (1) Departments and Commissions conduct hearings to obtain public comment on their proposed annual budgets 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)

Final Budget

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

- (1) Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year. In certain circumstances, other programs and regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
  - (2) Appropriations may be adjusted during the year with the approval of the Mayor and the Board of Supervisors. Additionally, the Controller is authorized to make certain transfers of surplus appropriations within a department. Such adjustments are reflected in the final budgetary data.
- The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.
- Budgetary data, as revised, is presented in the basic financial statements for the General Fund. Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures.

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.

(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 monthly basis to the Board of Supervisors manages the Treasurer's pool. In addition, the function of the County Treasury Oversight Committee is to review and monitor the City's investment policy and to monitor compliance with the investment policy and reporting provisions of the law through an annual audit.

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to bond issuance of the Enterprise Funds and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the Employees' Retirement System and deposits and investments of the Redevelopment Agency are held by trustees (note 5).

The San Francisco Unified School District, San Francisco Community College District, and the Trial Courts of the State of California are voluntary participants in the City's investment pool. As of June 30, 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.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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

**Treasurer's Pool** – Substantially all investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, the 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 approximates market value.

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

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market value of open contracts are immediately recognized as gains or losses. The market values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 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 Retirement 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.

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 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 exceed the amounts the borrowers owe the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or if the borrowers fail to pay the Retirement System for 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 thirty-three days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted-average maturity of forty-eight days. In lending international securities, cash collateral is invested in a separate short-term

CITY AND COUNTY OF SAN FRANCISCO

NOTES 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 expenses.

The City Charter and Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buy back price. This credit exposure at June 30, 2002 was approximately \$313 thousand.

Investments in S&P 500 futures contracts are used to replicate the performance of the S&P 500 index while lowering transaction costs. Changes in market value of open contracts are immediately recognized as gains or losses. At 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 30, 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 investments (such as short term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations), and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less are carried at amortized cost which approximates market value. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

*Component Unit - San Francisco Redevelopment Agency* - Investments are stated at fair value except for money market investments with maturities of one year or less which have been stated at amortized cost. The fair value of investments has been obtained by using market quotes as of June 30, 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 based 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 budget basis, the interest income is recorded in the General Fund. On a generally accepted accounting principles (GAAP) basis, the income is reported in the fund where the related investments reside. A transfer is then recorded to transfer an amount equal to the interest earnings to the General Fund. This is the case for certain other governmental funds, Internal Service Funds, and Trust 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 cash balance. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then a transfer from the General Fund for an amount equal to the interest expense is made to the fund. This is the case for certain other governmental funds, Municipal Railway, Laguna Honda Hospital, San Francisco General Hospital Medical Center, and the Internal Service Funds.

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

**(e) Loans Receivable**

For the purposes of the fund financial statements, the other governmental funds expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred credit account.

The 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 credit 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. Generally, proprietary funds value inventory at cost or average cost and expense supply inventory as it is consumed. This is referred to as the consumption method of inventory accounting. An exception is the Clean Water 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 infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital lease is included in depreciation and amortization. Facilities and improvements, infrastructure, and machinery and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

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

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

**(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.

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

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

**(j) Bond Issuance Costs and Discounts**

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

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

**(k) Fund Equity**

**Reservations of Fund Equity**

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

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

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

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

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

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

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

**Reserve for subsequent years' budgets** - A portion of fund equity is reserved for subsequent years' budgets. This balance includes the reserve required by the City's Administrative Code for the budget incentive program for the purpose of making additional funds available for items and services that will improve the efficient operations of departments.

**Restricted Assets**

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheets because the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to pay debt service, unspent bond proceeds, and amounts restricted for future capital projects. In addition, certain grant proceeds are restricted by the granting agency.

**Designations of Fund Equity**

Designations of fund balances (note 4) indicate that portion of fund balance that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designation as of June 30, 2002.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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

**Deficit Fund Balances/Net Assets**

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 deficits. The remaining portion of the deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in operating expenses.

The Central Shops Internal Service Fund had a \$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.

**(l) 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.
- (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.

**(m) Refunding of Debt**

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

**(n) Cash Flows**

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

**(o) Estimates**

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

**(p) Reclassifications**

Certain amounts presented as 2001 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform with the presentation in the 2002 basic financial statements.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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

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

Total fund balances of the City’s governmental funds, \$1,248,962, differs from net assets of governmental activities, \$1,475,021, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

	Balance Sheet/Statement of Net Assets (in thousands)				
	Total Governmental Funds	Long-term Assets, Liabilities(1)	Internal Service Funds(2)	Reclassifications and Eliminations	Statement of Net Assets Totals
<b>Assets</b>					
Deposits and investments with City Treasury.....	\$ 1,036,267	\$ -	\$ 14,499	\$ -	\$ 1,050,766
Deposits and investments outside City Treasury.....	132,859	-	51,732	-	184,591
Receivables, net.....	33,395	-	-	-	33,395
Property taxes.....	173,673	-	-	-	173,673
Other local taxes.....	13,975	-	-	-	13,975
Federal and state grants and subventions.....	21,755	-	-	-	21,755
Charges for services.....	10,811	-	-	-	10,811
Intergovernmental receivables.....	68,705	-	1,251	-	69,956
Due from other funds.....	22,587	-	-	(68,705)	-
Due from component unit.....	149,125	-	-	-	149,125
Loans receivable, net.....	-	2,037,854	3,597	-	2,041,451
Capital assets, net.....	7,200	7,545	3,458	-	18,203
Deferred charges and other assets.....	1,794,352	2,045,399	74,637	(68,705)	3,847,583
<b>Total assets.....</b>	<b>1,794,352</b>	<b>2,045,399</b>	<b>74,637</b>	<b>(68,705)</b>	<b>3,847,583</b>
<b>Liabilities</b>					
Accounts payable.....	150,728	-	6,814	-	157,542
Accrued payroll.....	80,238	-	2,315	-	82,553
Accrued vacation and sick leave pay.....	-	119,144	2,816	-	121,960
Accrued workers’ compensation.....	-	175,785	1,012	-	176,797
Estimated claims payable.....	-	41,445	-	-	41,445
Accrued interest payable.....	398	8,116	2,897	-	11,411
Deferred tax, grant and subvention revenues.....	30,854	(36,289)	2,027	-	1,592
Due to other funds/internal funds.....	213,893	(193,260)	1,922	(68,705)	(36,750)
Due to credits and other liabilities.....	240,949	1,488,860	260,193	-	4,000,002
Bonds, loans, capital leases, and other payables.....	545,390	1,613,781	280,096	(68,705)	2,372,562
<b>Total liabilities.....</b>	<b>1,248,962</b>	<b>431,618</b>	<b>(205,659)</b>	<b>-</b>	<b>1,475,021</b>
<b>Total fund balances/net assets.....</b>	<b>\$ 1,794,352</b>	<b>\$ 2,045,399</b>	<b>\$ 74,637</b>	<b>\$ (68,705)</b>	<b>\$ 3,847,583</b>

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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

Cost of capital assets.....  
Accumulated depreciation.....  
\$ 2,514,025  
(476,171)  
\$ 2,037,854

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

\$ 7,545

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

Accrued vacation and sick leave pay.....  
Accrued workers' compensation.....  
Estimated claims payable.....  
Bonds, loans, capital leases, and other payables.....  
\$ (119,144)  
(175,765)  
(41,445)  
(1,498,860)  
\$ (1,835,214)

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

\$ (8,116)

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

Deferred tax, grant and subvention revenue.....  
Deferred credits and other liabilities.....  
\$ 36,289  
163,260  
\$ 229,549

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

\$ (205,559)

(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 Governmental Funds	Long-term Revenues/ Expenses(3)	Capital-related Items(4)	Internal Service Funds(5)	Long-term Debt Transactions(6)	Statement of Activities Totals
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
Fees, forfeitures and penalties.....	42,042	-	-	-	-	42,042
Interest 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
Charges 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
Human welfare and neighborhood development.....	613,133	(27,282)	337	-	-	586,188
Community health.....	484,826	8,420	248	362	-	493,856
Culture and recreation.....	238,326	(1,699)	14,330	2,566	(6,933)	246,620
General administration and finance.....	184,745	(22,046)	13,955	(229)	345	196,770
General City responsibilities.....	34,628	(188)	-	1,111	-	35,551
Debt service:						
Interest.....	69,536	-	-	-	(69,536)	-
Principal and fiscal charges.....	69,111	-	-	8,189	1,035	77,335
Bond issuance costs.....	2,987	-	-	-	(2,987)	-
Capital outlay.....	276,662	(276,662)	-	-	-	-
Total expenditures/expenses.....	2,565,415	(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						
Premium on issuance of bonds.....	249,995	-	-	-	(249,995)	-
Proceeds 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.....	(60,573)	-	-	145,174	(208,045)	(123,450)
Net change for the year.....	\$ (243,755)	\$ 18,995	\$ 219,333	\$ 152,088	\$ (129,970)	\$ 16,691

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(3) Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as available revenues in the governmental funds.

Some expenses reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior period were reported in the current period including in expenditures in the governmental funds. This is the amount by which the debt liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources.

Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenses are not reported in the statement of activities.

(4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.

Capital expenditures.....	\$ 272,560
Depreciation expenses.....	(51,952)
Loss on disposal of capital assets.....	(1,272)
Difference.....	\$ 219,333

(5) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to 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.

Capital expenditures.....	\$ 152,086
Depreciation expenses.....	(51,952)
Loss on disposal of capital assets.....	(1,272)
Difference.....	\$ 219,333

(6) Lease payments on the Moscone Convention Center (note 8) are reported as a culture and recreation expenditure in the governmental funds and, thus, have the effect of reducing fund balance because payment financial resources are used to pay the lease payments. However, the lease payments are reported as capital lease obligations in the statement of net assets and do not result in an expense in the statement of activities. The City's capital lease obligation was reduced because principal payments were made to the lessee. Additions to the lease obligation related to interest accretion are reported as culture and recreation expenditures in the governmental funds when paid. The City's capital lease obligation was increased due to the accrual of accreted interest, resulting in additional culture and recreation expenses being reported in the statement of activities.

Principal payments made.....	\$ 16,729
Increase in capital lease obligation.....	(9,799)
Difference.....	\$ 6,930

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 activities.

Bond issuance costs.....	\$ 2,987
Amortization of bond issuance costs.....	(345)
Difference.....	\$ 2,642

Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. The following premiums and discounts were capitalized during the current period:

Premiums.....	\$ (3,095)
Discounts.....	236
Net amount capitalized.....	\$ (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 reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments and payment to escrow for refunded debt reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders and payments were made to escrow for refunded debt.

Principal payments made.....	\$ 69,536
Payments to escrow for refunded debt.....	135,530
Difference.....	\$ 205,066

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued interest was calculated for bonds and notes payable, (2) deferral of the loss on advance debt refunding which is reported in the governmental funds and capitalized and amortized in the statement of activities, (3) amortization of bond discounts, premiums and refunding losses which are expensed within the fund statements, and (4) additional interest expense was recognized on the accrual of an arbitrage rebate liability which will not be recognized in the governmental funds until the liability is due and payable.

Accrued interest.....	\$ (2,494)
Refunding loss.....	3,666
Amortization of bond premiums, discounts and refunding losses.....	(136)
Arbitrage rebate liability.....	(2,049)
Difference.....	\$ (1,059)

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 liabilities in the statement of net assets and does not affect the statement of activities. Proceeds were received from:

General obligation bonds.....	\$ 17,965
General obligation refunding bonds.....	118,945
Certificate of participation.....	37,170
Certificate of participation refunding.....	15,460
Settlement obligation bonds.....	60,125
Difference.....	\$ 249,995

Capital leases.....	\$ 91,424
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(4) BUDGETARY RESULTS RECONCILED TO RESULTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Budgetary Results Reconciliation

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

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

(a) Basis differences

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

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(b) Timing differences

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

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

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.....	<u>\$380,391</u>

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

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:	
Reserved for budget incentive program.....	2,300
Reserved for investments.....	5,090
Reserved for on-line City access program.....	350
Reserved for salaries and benefits (MOU).....	11,400
Reserved for nurses' childcare (MOU).....	1,100
Reserved for litigation.....	956
Reserved for Recreation & Park savings.....	3,500
Reserved for one time expenditures.....	<u>683</u>
Total reserve.....	\$237,321
Designated for litigation and contingencies.....	17,506
Unreserved - available for appropriation.....	<u>130,200</u>
Total unreserved amounts.....	147,706
Fund Balance, June 30, 2002 - Budget basis	<u>\$385,027</u>

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.

(5) DEPOSITS AND INVESTMENTS

The City's deposits and investments are invested pursuant to investment policy guidelines established by the City Treasurer subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee established under California Government Code Sections 27130 to 27137 is composed of

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 funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. 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 Agencies -
  - Federal Home Loan Bank
  - Federal Farm Credit Bank
  - Federal National Mortgage Association
  - Federal Mortgage Corporation
- 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 has established 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 pledged for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Component Units

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

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

Deposits and investments

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

	Primary Government		Component Units
	Governmental Activities	Business-type Activities	
Deposits and investments with City Treasury.....	\$ 1,050,766 <sup>1</sup>	\$ 754,778	\$ 475,500 <sup>2</sup>
Deposits and investments outside City Treasury.....	184,591 <sup>3</sup>	3,508	11,029,091
Restricted assets:			
City Treasury.....	-	601,351	-
Deposits and investments outside City Treasury.....	-	390,938	1,461,506
Invested securities lending collateral.....	-	-	1,461,506
Total deposits and investments.....	\$ 1,235,357	\$ 1,750,575	\$ 15,952,029
Deposits.....	\$ 39,084	\$ 10,055	\$ 4,228
Investments.....	1,196,273	1,740,520	12,961,869
Total deposits and investments.....	\$ 1,235,357	\$ 1,750,575	\$ 15,952,029

<sup>1</sup> 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).

<sup>3</sup> Includes deposits and investments outside the City Treasury of total governmental funds (\$132,859) and internal service funds (\$51,732).

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):

	Governmental Activities				Business-type Activities				Fiduciary Funds				Component Units			
	Carrying Amount		Bank Balance		Carrying Amount		Bank Balance		Carrying Amount		Bank Balance		Carrying Amount		Bank Balance	
	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance	Amount	Balance
Cash on hand.....	\$ 174	\$ -	\$ 720	\$ -	\$ 2,930	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federally insured deposits.....	500	500	1,283	1,283	-	-	-	-	158	163	-	-	-	-	-	-
Collateralized deposits *.....	38,410	160,860	170	50	-	-	-	-	5,062	6,170	-	-	-	-	-	-
Uninsured and uncollateralized.....	-	-	7,882	7,734	1,298	1,298	-	-	-	-	-	-	-	-	-	-
	\$ 39,084	\$ 161,390	\$ 10,055	\$ 9,067	\$ 4,228	\$ 1,298	\$ 5,221	\$ 6,333								

\* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2002, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately \$122.6 million. Of the \$122.6 million of outstanding checks, \$54.8 million relates to the San Francisco Unified School District and Community College District which have been reflected in an investment trust fund.

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

The \$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, 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

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

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

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

At June 30, 2002, investments included the following (in thousands):

Type of Investment	Category			Carrying Value
	1	2	3	
Primary and Investment Trust Funds				
U.S. government securities.....	2,393,877	-	-	2,393,877
Negotiable certificates of deposit.....	442,736	-	-	442,736
Public time deposit.....	10,000	-	-	10,000
Equity securities.....	100	-	-	100
Total investments in City Treasury	2,846,713	-	-	2,846,713
Employers' Retirement System (ERS)				
U.S. government securities.....	343,510	-	21,211	343,510
Short term bills and notes.....	48,826	-	84,053	1,114,892
Equity securities.....	1,030,839	-	455	3,933,139
Total ERS investments	2,807,654	-	455	5,135,006
Non-categorized investments:				
Mortgage backed securities.....				485,029
Fixed interest mutual funds.....				452,387
Equity investments, including mutual funds.....				748,480
Real estate.....				820,844
Money market mutual funds.....				1,218,142
Investment in lending agents' short-term investment pool.....				745,139
Investments lent to broker-dealers.....				1,451,506
Other Funds:				
Total non-categorized investments.....				14,118,243
Total Employees' Retirement System.....	64,049	427,733	481,781	12,486,369
Other Funds:				
Total categorized investments.....	64,049	427,733	481,781	12,486,369
U.S. government securities.....				24,533
Commercial paper.....				49,266
Money market mutual funds.....				73,789
Total non-categorized investments.....				565,580
Total Other Funds.....				15,858,662
Total Primary Government Including Pension and Investment Trust Funds.....	7,941,620	533,482	15,858,662	
Component Units -				
Redevelopment Agency				
U.S. government securities and Federal agencies.....	1,786	3,854	132,102	137,842
Bankers' acceptance.....		3,608		3,608
Commercial paper.....	7,528	13,593	11,059	32,180
Corporate medium term notes.....	2,015	-	-	2,015
Repurchase agreements.....			1,634	1,634
Total categorized investments.....	11,329	21,155	144,795	177,279
Non-categorized investments:				
Guaranteed investment contracts.....				39,912
Money market mutual funds.....				38,023
Total non-categorized investments.....				77,935
Total Redevelopment Agency.....				140,854
Treasure Island Development Authority Investments in City Treasury.....				313,233
Total U.S. government securities.....	3,442	-	-	3,442
Total Treasury Island Development Authority.....	3,442	-	-	3,442
Total Component Units.....	14,771	21,155	144,795	321,675

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

The types of investments made during the year were substantially the same as those held as of June 30, 2002. Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. City management believes the liquidity in the portfolio is sufficient to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose. The interest and net investment loss is comprised of the following at June 30, 2002 (in thousands):

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

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

The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for the fiscal year ended June 30, 2002 was 4.139%.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2002 (in thousands):

<b>Statement of Net Assets</b>	
Net assets held in trust for all pool participants.....	<u>\$ 2,885,772</u>
Equity of internal pool participants.....	2,585,199
Equity of external pool participants.....	300,573
Total equity.....	<u>\$ 2,885,772</u>
<b>Statement of Changes in Net Assets</b>	
Net assets at July 1, 2001.....	\$ 3,023,036
Net change in investments by pool participants.....	(137,264)
Net assets at June 30, 2002.....	<u>\$ 2,885,772</u>

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2002 (in thousands):

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

CITY AND COUNTY OF SAN FRANCISCO

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

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at 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 amended 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 "override" 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 \$84.5 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 School District, the San Francisco Community College District, the Bay Area Air Quality Management District, and the Bay Area Rapid Transit District. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 2.20% and 5.15%, respectively, of the current year tax levy, for an average delinquency rate of 2.48% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve, as of June 30, 2002 was \$9.1 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:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 131,539	\$ 7,995	\$ -	\$ 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	(1,215)	1,325,427
Governmental activities capital assets, net.....	\$ 1,821,115	\$ 250,212	\$ (29,876)	\$ 2,041,451

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Business-type Activities:

San Francisco International Airport

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 2,316	\$ -	\$ -	2,316
Construction in progress.....	679,644	268,648	(170,551)	777,739
Total capital assets, not being depreciated.....	681,960	268,648	(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	(949)	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	(900)	49,664
Easements.....	27,041	8,287	-	33,308
Total accumulated depreciation.....	666,490	140,983	(9,280)	798,193
Total capital assets, being depreciated, net.....	3,204,345	25,303	(222)	3,232,426
Capital assets, net.....	\$ 3,886,305	\$ 296,949	\$ (170,773)	\$ 4,012,481

Water Department

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 17,436	\$ 650	\$ (3)	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	\$ (148,659)	\$ 624,495

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Hetch Hetchy Water and Power

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 4,215	\$ -	\$ -	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)	185,962
Capital assets, net.....	\$ 205,071	\$ 9,083	\$ (5,496)	\$ 208,658

Municipal Railway

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 18,537	\$ -	\$ (95)	18,481
Construction in progress.....	354,426	214,864	(277,645)	291,645
Total capital assets, not being depreciated.....	372,963	214,864	(277,701)	310,126
Capital assets, being depreciated:				
Facilities and improvements.....	234,944	22,631	(25,600)	231,967
Machinery and equipment.....	665,898	234,338	(86,236)	814,000
Infrastructure.....	593,562	52,714	-	646,276
Total capital assets, being depreciated.....	1,494,404	309,683	(111,844)	1,692,243
Less accumulated depreciation for:				
Facilities and improvements.....	78,272	3,141	-	81,413
Machinery and equipment.....	249,363	25,710	(79,129)	195,944
Infrastructure.....	138,663	26,485	-	165,148
Total accumulated depreciation.....	466,298	55,336	(79,129)	442,505
Total capital assets, being depreciated, net.....	1,028,106	254,347	(32,715)	1,249,738
Capital assets, net.....	\$ 1,401,069	\$ 469,211	\$ (310,416)	\$ 1,559,864

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

General Hospital Medical Center

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 542	\$ -	\$ -	\$ 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	1	74,898
Machinery and equipment.....	30,176	1,854	-	32,030
Total accumulated depreciation.....	100,643	6,284	1	106,928
Total capital assets, being depreciated, net.....	60,160	(1,896)	(1)	58,263
Capital assets, net.....	\$ 61,341	\$ 575	\$ (193)	\$ 61,723

Clean Water Program

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 22,445	\$ -	\$ -	\$ 22,445
Construction in progress.....	14,655	21,997	(26,239)	10,613
Total capital assets, not being depreciated.....	37,100	21,997	(26,239)	33,058
Capital assets, being depreciated:				
Facilities and improvements.....	1,877,707	24,158	-	1,901,865
Machinery and equipment.....	20,410	1,731	-	22,141
Total capital assets, being depreciated.....	1,898,117	25,889	-	1,924,006
Less accumulated depreciation for:				
Facilities and improvements.....	551,394	37,034	-	588,428
Machinery and equipment.....	16,979	1,272	-	18,251
Total accumulated depreciation.....	568,373	38,306	-	606,679
Total capital assets, being depreciated, net.....	1,329,744	(12,417)	-	1,317,327
Capital assets, net.....	\$ 1,367,044	\$ 9,580	\$ (26,239)	\$ 1,350,385

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

Port of San Francisco

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 118,809	\$ 703	\$ -	\$ 119,512
Construction in progress.....	42,964	13,397	(37,677)	18,784
Total capital assets, not being depreciated.....	161,773	14,100	(37,677)	138,296
Capital assets, being depreciated:				
Facilities and improvements.....	216,149	34,523	(844)	249,828
Machinery and equipment.....	9,965	1,802	(287)	11,480
Total capital assets, being depreciated.....	226,114	36,325	(1,131)	261,306
Less accumulated depreciation for:				
Facilities and improvements.....	143,808	6,888	(826)	149,870
Machinery and equipment.....	5,143	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.....	\$ 238,936	\$ 42,306	\$ (37,610)	\$ 243,632

Laguna Honda Hospital

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

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

**Parking Garages**

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Construction in progress.....	\$ 1,635	\$ 20,524	\$ -	\$ 22,159
Total capital assets, not being depreciated.....	1,635	20,524	-	22,159
Capital assets, being depreciated:				
Facilities and improvements.....	84,711	986	(1,705)	84,002
Machinery and equipment.....	4,625	200	(676)	3,949
Total capital assets, being depreciated.....	89,336	1,186	(2,381)	87,951
Less accumulated depreciation for:				
Facilities and improvements.....	14,088	1,028	-	15,114
Machinery and equipment.....	769	40	(705)	104
Total accumulated depreciation.....	14,857	1,068	(705)	15,218
Total capital assets, being depreciated, net.....	74,481	128	(1,876)	72,733
Capital assets, net.....	\$ 76,116	\$ 20,652	\$ (1,876)	\$ 94,892

**Total Business-type Activities**

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land.....	\$ 184,300	\$ 1,353	\$ (59)	\$ 185,594
Construction in progress.....	1,234,233	700,224	(665,050)	1,269,397
Total capital assets, not being depreciated.....	1,418,533	701,577	(665,119)	1,453,991
Capital assets, being depreciated:				
Facilities and improvements.....	7,284,615	377,396	(36,710)	7,625,301
Machinery and equipment.....	916,592	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.....	2,556,976	286,834	(90,459)	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):

Governmental Activities:	
Public protection.....	\$ 11,191
Public works transportation and commerce.....	14,190
Human welfare and neighborhood development.....	573
Community Health.....	769
Culture and recreation.....	11,869
General administration and finance.....	13,360
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis based on their usage of the assets.....	2,625
Total depreciation expense - governmental activities.....	<u>\$ 54,577</u>
Business-type activities:	
Airport.....	140,983
Water.....	25,909
Power.....	9,614
Transit.....	55,336
Hospitals.....	7,499
Sewer.....	38,306
Port.....	8,119
Garages.....	1,068
Total depreciation expense - business-type activities.....	<u>\$ 266,834</u>

Equipment is generally estimated to have useful lives of 3 to 40 years, except for certain equipment of the Water Department that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 5 to 50 years, except for utility type assets of the Water Department and Hetch Hetchy Water and Power (Hetch Hetchy), the Clean Water Program, the San Francisco Municipal Railway (Muni), Laguna Honda Hospital (LHH), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 100 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of Muni, building and structures of LHH, and pier structures of the Port and totaled \$1.45 billion as of June 30, 2002. In addition, the Hetch Hetchy had utility type assets with useful lives over 100 years which totaled \$4.5 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 \$65.9 million, respectively. Of these amounts, interest expense and interest income of approximately \$44.9 million and \$2.4 million respectively, was capitalized as part of the cost of constructing proprietary capital assets. The net amount of approximately \$42.5 million was capitalized into capital assets.

During fiscal year 2002, Water, Hetch Hetchy, and Clean Water Program expensed \$12.9 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.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Component Unit - Redevelopment Agency

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

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

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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

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

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
<b>GENERAL OBLIGATION BONDS (e):</b>			
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	2021	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 3.75%	509,455
General obligation bonds - governmental activities			917,220
<b>LEASE REVENUE BONDS:</b>			
San Francisco Finance Corporation (b) & (e)*	2024	3.0 to 6.5%	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%	900
Moscone Convention Center Garage (d)	2009	3.35 to 4.0%	5,080
Lease revenue bonds - governmental activities			293,810
<b>OTHER LONG-TERM OBLIGATIONS:</b>			
Certificates of participation (c)	2033	25 to 6.875%	259,360
Loans (c) & (f)	2008	4.5 to 6.7%	13,007
Capital leases payable (d) & (f)	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
<b>DEFERRED AMOUNTS:</b>			
Bond issuance premiums			3,805
Bond issuance discounts			(2,840)
Bond refunding			(6,970)
Deferred amounts			(5,705)
Governmental activities total long-term obligations			\$ 2,099,235

Debt service payments are made from the following sources:

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

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

BUSINESS-TYPE ACTIVITIES			Final Maturity Date	Remaining Interest Rates	Amount
Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount		
San Francisco International Airport:					
Revenue bonds	2032	2.0 to 8.0%	\$ 4,323,005		
Water Department:					
Revenue bonds	2031	4.0 to 7.4%	364,841		
Commercial paper	2003	1.15 to 1.65%	90,000		
General Hospital Medical Center					
Capital lease	2007	3.0 to 3.8%	802		
Clean Water Program:					
Revenue bonds	2026	4.7 to 6.1%	418,809		
State of California - Revolving fund loans	2021	2.8 to 3.5%	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	2029	Variable	3,584		
Capital lease	2005	6.31%	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		
Portsmouth Plaza - notes, loans and other payables	2003	9.00%	104		
San Francisco Market Corporation - notes, loans and other payables	2007	Prime plus 0.25%	388		
Uptown Parking - revenue bonds	2031	4.5 to 6.0%	19,000		
Accrued vacation and sick leave			69,428		
Accrued workers' compensation			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 Date	Remaining Interest Rates	Amount
Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount		
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:					
Lease Revenue Bonds:					
Moscone Convention Center (e)	2024	5.5 to 8.5%	\$ 188,350		
Hotel Tax Revenue Bonds (b)	2025	4.0 to 6.75%	74,765		
Financing Authority Bonds:					
Tax Allocation Revenue Bonds (c)	2025	3.5 to 9.0%	306,362		
Sub-total			569,477		
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (1.25 % at 6/30/02)	12,500		
California Department of Boating and Waterways Loan (e)	2037	4.50%	8,000		
Accrued interest payable			154,859		
Accrued vacation and sick leave pay			1,870		
Component unit total long-term obligations			\$ 746,706		

Debt service payments are made from the following sources:

- (a) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/rescrow trust funds.
- (b) Hotel taxes from hotels located in the Redevelopment Project Areas.
- (c) Property taxes allocated to the Redevelopment Agency based on increased assessed valuations in project areas (note 12) and existing debt service/rescrow trust 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 issue. The City has evaluated each general obligation 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

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

**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 bonds and a liability of \$1.9 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 requirements. Any material arbitrage liability related to the debt of the Enterprise Funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

**Assessment District**

During June 1996, the City issued \$1 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds 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 2028 bearing interest from 6.0% to 6.85%. These bonds do not represent obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Accordingly, the debt has not been included in the basic financial statements. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within the Bayshore-Hester Assessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels.

**Mortgage Revenue Bonds**

In order to facilitate affordable housing, the City has issued mortgage revenue bonds with an outstanding aggregate balance of \$99.7 million as of June 30, 2002. These obligations are secured by the related mortgage indebtedness and are not obligations of the City.

**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):

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 953,535	\$ 136,610	\$ (172,925)	\$ 917,220	\$ 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	23,868
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	-	(108,622)	41,445	9,224
Governmental activity long-term obligations	\$ 2,142,708	\$ 353,370	\$ (376,943)	\$ 2,099,235	\$ 221,906

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 bonds, \$3.6 million of capital leases, \$0.8 million of loans, \$2.8 million of accrued vacation and sick leave pay and \$1 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general funds.

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

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

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Amounts Due Within One Year June 30, 2002
<b>General Hospital Medical Center</b>				
Bonds payable:				
Revenue bonds	\$ -	\$ 802	\$ -	\$ 802
Less deferred amounts:				
For issuance discounts	14,533	1,394	-	15,927
On refunding	12,521	6,074	(3,920)	14,675
Accrued vacation and sick leave pay				3,385
Accrued workers' compensation				12,760
Estimated claims payable				
Long-term liabilities	\$ 27,054	\$ 8,270	\$ (3,920)	\$ 31,404
				\$ 12,760
<b>Clean Water Program</b>				
Bonds payable:				
Revenue bonds	\$ 469,883	\$ 926	\$ (62,000)	\$ 418,809
Less deferred amounts:				
For issuance discounts	(5,037)	-	692	(4,345)
On refunding	(9,689)	-	764	(8,925)
Total bonds payable	455,157	926	(60,544)	405,539
State of California - Revolving fund loans	183,597	-	(14,006)	179,591
Accrued vacation and sick leave pay	3,475	-	(23)	3,452
Accrued workers' compensation	1,323	1,420	(646)	2,097
Estimated claims payable	1,066	4,049	(407)	4,728
Long-term liabilities	\$ 655,238	\$ 6,395	\$ (65,625)	\$ 596,008
				\$ 42,208
<b>Port of San Francisco</b>				
Bonds payable:				
General obligation bonds	\$ 3,200	\$ -	\$ (1,200)	\$ 2,000
Revenue bonds	37,330	-	(3,235)	34,095
Less deferred amounts:				
For issuance premiums	347	-	(44)	303
On refunding	(1,261)	-	158	(1,103)
Total bonds payable	39,616	-	(4,321)	35,295
Notes, loans, and other payables	11,186	1,098	(6,700)	3,584
Capital leases	147	-	(39)	108
Accrued vacation and sick leave pay	1,720	75	-	1,795
Accrued workers' compensation	1,145	1,965	(640)	2,470
Estimated claims payable	311	1,390	(101)	1,600
Long-term liabilities	\$ 54,125	\$ 4,528	\$ (13,801)	\$ 44,852
				\$ 7,484

**CITY AND COUNTY OF SAN FRANCISCO**  
**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):

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Amounts Due Within One Year June 30, 2002
<b>San Francisco International Airport</b>				
Bonds payable:				
Revenue bonds	\$ 3,743,605	\$ 853,625	\$ (274,125)	\$ 4,323,005
Less deferred amounts:				
For issuance premiums	(22,284)	7,836	-	7,836
For issuance discounts	(24,683)	(17,379)	2,816	(39,246)
On refunding				
Total bonds payable	3,696,638	843,982	(269,562)	4,271,058
Commercial paper	397,541	160,847	(568,388)	-
Accrued vacation and sick leave pay	10,255	690	-	10,945
Accrued workers' compensation	7,800	-	(2,397)	5,403
Estimated claims payable	459	500	(500)	459
Long-term liabilities	\$ 4,112,693	\$ 1,006,019	\$ (830,847)	\$ 4,287,865
				\$ 59,463
<b>Water Department</b>				
Bonds payable:				
Revenue bonds	\$ 232,042	\$ 140,149	\$ (7,350)	\$ 364,841
Less deferred amounts:				
For issuance premiums	-	772	(17)	755
For issuance discounts	(4,755)	-	62	(4,693)
On refunding	(4,490)	-	328	(4,162)
Total bonds payable	222,797	140,921	(6,977)	356,741
Commercial paper	75,000	100,000	(85,000)	90,000
Accrued vacation and sick leave pay	6,280	804	-	7,084
Accrued workers' compensation	3,975	5,311	(1,979)	7,307
Estimated claims payable	7,023	366	(2,421)	4,968
Long-term liabilities	\$ 315,075	\$ 247,402	\$ (96,377)	\$ 466,100
				\$ 106,695
<b>Hetch Hetchy Water and Power</b>				
Bonds payable:				
Accrued vacation and sick leave pay	\$ 1,805	\$ -	\$ (61)	\$ 1,744
Accrued workers' compensation	1,056	854	(285)	385
Estimated claims payable	6,602	3,000	(5,992)	3,620
Long-term liabilities	\$ 9,463	\$ 3,854	\$ (6,328)	\$ 6,989
				\$ 1,469
<b>Municipal Railway</b>				
Bonds payable:				
Accrued vacation and sick leave pay	\$ 20,115	\$ 868	\$ -	\$ 20,983
Accrued workers' compensation	67,390	33,566	(19,004)	82,342
Estimated claims payable	26,014	11,838	(7,941)	29,911
Long-term liabilities	\$ 113,519	\$ 46,662	\$ (26,945)	\$ 133,236
				\$ 45,074

CITY AND COUNTY OF SAN FRANCISCO

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:

	July 1, 2001	Additional Obligations, Interest and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
<b>Laguna Honda Hospital</b>					
Capital leases	\$ 632	\$ -	\$ (200)	\$ 432	\$ 210
Revenue bonds	7,163	332	-	7,495	4,532
Accrued vacation and sick leave pay	9,783	3,988	(2,884)	10,887	2,594
Accrued workers' compensation	17,578	4,320	(3,084)	18,814	7,336
Long-term liabilities					
<b>Parking Garages</b>					
Bonds payable:					
Revenue bonds	\$ 18,655	\$ 19,000	\$ (845)	\$ 37,010	\$ 685
Less deferred amounts:					
For issuance premiums	(138)	640	(20)	620	-
For issuance discounts	18,517	19,640	(657)	37,500	685
Total bonds payable	1,081	-	(659)	482	241
Notes, loans, and other payables	19,598	19,640	(1,248)	37,992	926
Long-term liabilities					

	July 1, 2001	Additional Obligations, Interest and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
<b>Total Business-type Activities:</b>					
Bonds payable:	\$ 3,200	\$ 1,013,600	\$ (1,200)	\$ 2,000	\$ 1,200
General obligation bonds	4,501,515	1,013,600	(337,355)	5,177,760	90,995
Revenue bonds	347	9,248	(81)	9,514	-
Less deferred amounts:					
For issuance premiums	(32,214)	-	2,369	(29,705)	-
On refunding	(60,125)	(17,379)	4,085	(53,459)	-
Total bonds payable	4,432,725	1,005,469	(332,051)	5,106,133	92,195
Commercial paper	472,541	280,847	(643,388)	90,000	90,000
State of California - Revolving fund loans	193,697	-	(14,006)	179,591	14,461
Notes, loans, and other payables	12,267	1,088	(9,289)	4,076	315
Capital leases	779	802	(239)	1,342	329
Accrued vacation and sick leave pay	65,546	4,163	(81)	69,428	38,811
Accrued workers' compensation	105,593	53,588	(31,757)	127,404	30,476
Estimated claims payable	41,485	21,143	(17,352)	45,286	16,658
Business-type activity long term obligations	\$ 5,324,343	\$ 1,347,090	\$ (1,046,173)	\$ 5,625,260	\$ 283,255

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):

	July 1, 2001	Additional Obligations, Interest and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
<b>Component unit:</b>					
<b>Redevelopment Agency</b>					
Bonds payable:					
Revenue bonds	\$ 589,163	\$ -	\$ (19,686)	\$ 569,477	\$ 20,081
Refunding bonds	14,000	-	-	14,000	12,500
Total bonds payable	603,163	-	(21,186)	581,977	20,081
Accrued interest payable	145,191	20,517	(10,849)	154,859	10,850 (1)
Notes, loans, and other payables	8,000	-	-	8,000	-
Accrued vacation and sick leave pay	1,674	-	-	1,674	859
Component unit - long term obligations	\$ 758,028	\$ 20,713	\$ (32,035)	\$ 746,706	\$ 31,790

(1) This amount is included in accrued interest payable in the accompanying Statement of Net Assets.

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for governmental activities are as follows (in thousands):

Fiscal Year Ending	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 60,995	\$ 46,160	\$ 16,575	\$ 13,960	\$ 13,269	\$ 16,538	\$ 90,739	\$ 76,658
2004	64,610	44,200	16,520	13,269	12,834	15,111	93,864	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	64,220
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	467,478	226,514
2013-2017	192,160	45,665	44,785	37,270	47,365	42,516	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	2,987	46,035	10,724	75,455	13,721
2033-2037	-	-	-	-	17,139	912	17,139	912
Total	\$ 917,220	\$ 381,226	\$ 253,810	\$ 181,191	\$ 327,187	\$ 236,718	\$ 1,538,117	\$ 809,135

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

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):

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ -	\$ -	\$ 52,260	\$ 227,659	\$ -	\$ -	\$ 52,260	\$ 227,659
2004	-	-	78,245	225,089	-	-	78,245	225,089
2005	-	-	97,665	221,346	-	-	97,665	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	-	-	988,915	553,001	-	-	988,915	553,001
2023-2027	-	-	1,061,640	267,500	-	-	1,061,640	267,500
2028-2032	-	-	430,625	46,888	-	-	430,625	46,888
Total	\$ -	\$ -	\$ 4,323,005	\$ 3,726,446	\$ -	\$ -	\$ 4,323,005	\$ 3,726,446

San Francisco International Airport<sup>(1)</sup>

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ -	\$ -	\$ 9,715	\$ 19,183	\$ -	\$ -	\$ 9,715	\$ 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	-	-	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	-	-	35,676	17,043	-	-	35,676	17,043
2028-2032	-	-	35,676	5,282	-	-	35,676	5,282
Total	\$ -	\$ -	\$ 364,841	\$ 260,932	\$ -	\$ -	\$ 364,841	\$ 260,932

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

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

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 Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ -	\$ -	\$ 24,930	\$ 22,575	\$ 14,461	\$ 5,672	\$ 39,391	\$ 28,247
2004	-	-	20,415	21,382	14,930	5,203	35,345	26,595
2005	-	-	16,010	20,473	15,414	4,718	31,424	25,191
2006	-	-	-	20,106	15,915	4,218	15,915	24,324
2007	-	-	28,980	19,295	16,431	3,702	45,421	22,997
2008-2012	-	-	131,488	74,674	65,541	11,464	197,029	86,138
2013-2017	-	-	100,090	44,654	30,373	3,264	130,463	47,918
2018-2022	-	-	10,380	25,789	6,526	484	16,906	25,273
2023-2027	-	-	86,506	4,821	-	-	86,506	4,821
Total	\$ -	\$ -	\$ 418,609	\$ 253,779	\$ 179,591	\$ 38,725	\$ 598,400	\$ 292,504

Port of San Francisco<sup>(1)</sup>

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 1,200	\$ 112	\$ 3,405	\$ 1,976	\$ 74	\$ 158	\$ 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	2,009
2013-2017	-	-	-	-	600	559	600	559
2018-2022	-	-	-	-	748	410	748	410
2023-2027	-	-	-	-	932	227	932	227
2028-2032	-	-	-	-	433	30	433	30
Total	\$ 2,000	\$ 187	\$ 34,095	\$ 8,684	\$ 3,564	\$ 2,673	\$ 39,679	\$ 11,544

<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.

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 Ending June 30	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ -	\$ -	\$ 685	\$ 3,554	\$ 241	\$ 29	\$ 926
2004	-	-	790	2,256	137	16	927
2005	-	-	295	2,210	114	4	409
2006	-	-	310	2,194	-	-	310
2007	-	-	325	2,180	-	-	325
2008-2012	-	-	6,520	10,619	-	-	6,520
2013-2017	-	-	7,740	8,230	-	-	7,740
2018-2022	-	-	9,425	3,693	-	-	9,425
2023-2027	-	-	-	2,402	-	-	2,402
2028-2032	-	-	10,920	740	-	-	10,920
Total	\$ -	\$ -	\$ 37,010	\$ 38,278	\$ 462	\$ 49	\$ 37,502

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 Ending June 30	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ 1,200	\$ 112	\$ 90,995	\$ 274,927	\$ 14,776	\$ 5,859	\$ 106,971
2004	400	50	113,395	289,052	15,141	5,377	128,936
2005	400	25	128,940	283,435	15,605	4,877	144,945
2006	-	-	117,195	257,333	15,996	4,369	133,191
2007	-	-	152,065	250,408	16,515	3,850	168,580
2008-2012	-	-	654,033	1,125,544	66,022	12,141	920,055
2013-2017	-	-	973,520	880,050	30,973	3,623	1,004,463
2018-2022	-	-	1,089,155	613,354	7,274	894	1,076,429
2023-2027	-	-	1,201,241	291,766	932	227	1,202,173
2028-2032	-	-	477,221	52,910	-	30	477,654
Total	\$ 2,000	\$ 187	\$ 5,177,760	\$ 4,287,779	\$ 183,667	\$ 41,447	\$ 5,363,427

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

(2) 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):

Fiscal Year Ending June 30	Lease Revenue Bonds		Tax Revenue Bonds		Other Long-Term Obligations		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ 5,570	\$ 21,187	\$ 14,511	\$ 18,662	\$ -	\$ 691	\$ 20,861
2004	10,734	39,777	15,449	19,496	-	691	26,183
2005	33,661	84,458	16,101	20,016	-	691	49,762
2006	5,550	13,870	15,032	19,273	-	691	20,682
2007	5,271	14,018	15,545	18,512	675	691	21,491
2008-2012	23,635	73,927	76,984	79,216	5,247	2,977	105,866
2013-2017	48,698	49,950	102,285	49,836	7,948	1,908	198,831
2018-2022	43,955	8,008	93,587	23,950	1,300	1,380	138,842
2023-2027	11,276	1,175	31,633	32,702	1,620	1,060	44,529
2028-2032	-	-	-	-	2,019	661	2,019
2033-2037	-	-	-	-	1,691	183	1,691
Total	\$ 186,350	\$ 306,150	\$ 381,127	\$ 281,663	\$ 20,500	\$ 11,624	\$ 589,877

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' 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 governmental and business-type activities; however, general obligation bonds have not been issued for business-type activities since 1979. 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)
Authorized and unissued as of June 30, 2001	Bonds issued:	
Series 2001E, Branch Library Bonds	Series 2001E, Branch Library Bonds	\$ 969,510
Net authorized and unissued as of June 30, 2002		(17,665)
		\$ 951,845

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)**

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 funded from Port's revenues.

Advance Refundings

In April 2002, the City issued \$118.9 million of general obligation refunding bonds, Series 2002-R1 with interest rates ranging from 3.0% to 5.0% (maturing from June 2003 through June 2013) to advance refund a portion of the City's outstanding General Obligation Bonds as follows:

**General Obligation Refunding Bonds**

Description of Refunded Bonds	Amount Refunded	Average Interest Rate
Series 1993 A - Public Safety Improvement Projects, 1989.....	\$ 10,505	5.323%
Series 1993 B - Public Safety Improvement Projects, 1990.....	44,055	5.323%
Series 1993 C - Golden Gate Park Improvements, 1992.....	5,400	5.323%
Series 1993 D - Fire Department Facilities Project, 1992.....	10,890	5.323%
Series 1995 A - Public Safety Improvement Projects, 1990.....	8,355	5.457%
Series 1995 B - Golden Gate Park Improvements, 1992.....	11,385	5.457%
Series 1996 A - City Hall Improvement Project.....	14,130	5.400%
Series 1996 B - Public Safety Improvement Projects, 1989.....	1,185	5.500%
Series 1996 C - Fire Department Facilities Project, 1992.....	2,205	5.500%
Series 1996 D - School District Facilities Improvements, 1994.....	6,530	5.500%
Series 1996 E - Asian Art Museum Relocation Project.....	3,860	5.500%
Total.....	\$ 118,510	

The net proceeds of \$121.2 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 additional \$3.2 million of unspent prior bond 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 \$118.5 million of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities of the statement of net assets.

Although the refunding resulted in 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 \$6.2 million.

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

**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 funds 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 are considered to be defeased and the liability for those certificates of participation has been removed from the governmental activities of the statement of net assets.

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.

Lease Revenue Bonds

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 fiscal year.....	
Annual increase in Finance Corporation's equipment program.....	1,629
Current year maturities in Finance Corporation's equipment program.....	6,485
Bonds issued:	
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 the Indenture and Equipment Lease Agreements. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any amounts that are not applied towards the acquisition or construction of real 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

**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 annual 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 \$83.5 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 the acquisition and construction of a citywide emergency radio communication system (800mhz). There were two issues made in January 1998 for \$31.3 million and in January 1999 for \$18.7 million. Further, the Finance Corporation was authorized in 1994 to issue lease revenue bonds of up to \$60 million for the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. There were two issues made in June 1998 for \$23.3 million and in June 1997 for \$22.6 million. As of June 30, 2002, the amount authorized and unissued was \$14.1 million.

(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 \$157.5 million were issued. Each Series of Bonds may bear interest at a different rate and in a different interest rate mode from other Series of Bonds. Funds deposited to the cash with fiscal agent accounts on the issue date were calculated 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, \$8.2 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 makes lease payments from the City's general fund. The garage opened in February 2002.

**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 Certificates 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 voter-approval requirement for issuing revenue bonds. Under the proposed exception, the Board of Supervisors can authorize the issuance of revenue bonds to buy, build, or improve renewable 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 renewable energy facilities to supply electricity to City agencies. The money 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)**

**Airport**

On July 11, 2001, the San Francisco International Airport (SFO) issued Second Series Revenue Bond 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):

**San Francisco International Airport Refunding Bonds**

	Amount Refunded	Average Interest Rate
Second Series Revenue Bond Issuance:		
Issue 8B.....	\$ 825	5.20%
Issue 9b.....	15,310	5.00%-5.25%
Issue 10B.....	1,550	5.20%
Issue 11.....	78,950	5.75%-6.25%
Issue 12B.....	26,975	5.5%-5.63%
Issue 13A.....	10,750	7.13%
Issue 16B.....	6,760	5.25%-5.50%
Issue 17.....	2,885	5.25%
Issue 18B.....	2,715	5.25%
Issue 19.....	685	5.25%
Total.....	\$ 147,405	

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.

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.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 the bonds identified above until the bonds are called beginning May 1, 2004 and ending May 1, 2006.

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.

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 economic gain (difference between the present values of the old and new debt service payments) of \$8.2 million.

On March 14, 2002, the Airport issued Second Series Revenue Bond Issue 28 (Issue 28) in the amount of \$365 million with interest rates ranging for 2% to 5.5%. A portion of the proceeds from Issue 28 were deposited into an irrevocable 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 \$98.4 million of the Airport's Second Series Revenue Bonds Issue 1.

**CITY AND COUNTY OF SAN FRANCISCO**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

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.

The net proceeds of \$97.5 million (including original issue premium of \$4.3 million, and after depositing \$248.1 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 \$1.3 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.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.

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.

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 issuing commercial paper as a means of interim financing. The rates 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 (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.

**Water Department**

In November 1997, the San Francisco voters approved Propositions A & B, authorizing up to \$304 million in Water Revenue Bonds to fund capital improvements for the Water Enterprise. In May and June 1999, the Public Utilities Commission and the Board of Supervisors respectively approved a commercial paper program to provide short-term financing for capital improvement projects funded under the \$304 million Water Revenue Bond Program. Under the enabling ordinance approved by the Board of Supervisors, the maximum amount of commercial paper that may be outstanding at any given time is \$150 million. As of June 30, 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 5.0%. The current interest serial bonds 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**

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 3.5% and the lease matures from 2003 through 2007.

**CITY AND COUNTY OF SAN FRANCISCO**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**Parking Garages**

In May 2001, the Uptown Parking Corporation, issued \$19 million of bonds for the purpose of financing 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 certain ratios and levels of cash and cash equivalents.

**Component Unit Debt - Redevelopment Agency**

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

**(9) EMPLOYEE BENEFIT PROGRAMS**

**(a) Retirement Plans**

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, 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-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2002 was \$1,858 million. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

**Membership**

Membership of the Retirement System at July 1, 2001, the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits	1,935	1,722	13,951	17,608
Active members:				
Vested	1,669	1,211	16,852	19,732
Nonvested	512	592	9,688	10,792
Subtotal	2,181	1,803	26,540	30,524
Total	4,116	3,525	40,491	48,132

**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.

**Funding Policy** - Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 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 actuarial report, there were no required employer contributions for fiscal year 2001-02 because the City is funded at 129.0% of liability.

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

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

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2000	\$ 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-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

**Miscellaneous Plan**

**Funding Policy** - Miscellaneous plan - 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)**

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

**Annual Pension Cost - Miscellaneous plan** - cost for PERS for fiscal year 2001-02 was equal to the City's required and actual contributions which was determined as part of the June 30, 1999 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 1999 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% to 14.20% projected annual salary increases that vary by age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized, as a level percentage of pay, over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/1997	\$ 0	N/A	\$0
6/30/1998	\$ 0	N/A	\$0
6/30/1999	\$ 0	N/A	\$0

**Safety Plan**

**Funding Policy - Safety plan** - Participants are required to contribute 9% 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 safety plan, the fiscal year contribution rate is 5.432% because the City is funded at 131.2%. The contribution requirements of plan members and the City are established and may be amended by PERS.

**Annual Pension Cost - Safety Plan** - cost for PERS for fiscal year 2001-02 was equal to the City's required and actual contributions which was determined as part of the June 30, 1999 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 1999 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% to 11.59% projected annual salary increases that vary by age, service and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/1997	\$12,759	100%	\$0
6/30/1998	\$ 8,392	100%	\$0
6/30/1999	\$ 0	N/A	\$0

**(b) Deferred Compensation Plan**

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

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

**(c) Health Service System**

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District and Unified School District, amounted to approximately \$218.9 million in fiscal year 2002. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California. Included in this amount is \$47.3 million to provide post-retirement health care benefits for 18,335 retired employees. The City's liability for both current employee and post-retirement health care benefits is limited to its annual contribution. The Health contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the Health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, 2<sup>nd</sup> Floor, San Francisco, CA 94103 or by calling (415) 554-1700.

**(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY**

The San Francisco County Transportation Authority (the Authority) was established in 1989 by the voters of the City and County of San Francisco pursuant to State Code Section 131.000. The purpose of the Authority is to impose the voter-approved transactions and use tax of one-half of one percent to fund essential traffic and transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan, for a period not to exceed 20 years. The principal focus of the Authority's Expenditure Plan is to define a program of prioritized projects to ensure that funding is allocated across major transportation categories. The City accounts for these activities in the other governmental funds.

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

The Authority serves as the Congestion Management Agency under state laws, and in that capacity prioritizes state and federal transportation funds for San Francisco. The funding is administered by the Metropolitan Transportation Commission in accordance with the Federal Surface Transportation Program for congestion management activities.

In April 1998, the Authority signed a memorandum of understanding with the State of California Department of Transportation (Caltrans) to serve as the lead agency for the environmental impact

**CITY AND COUNTY OF SAN FRANCISCO**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

research and study and the preliminary design for the Doyle Drive Replacement Project for which Caltrans was awarded \$6 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).

<b>ASSETS</b>		<b>OPERATIONS</b>	
Deposits and investments.....	\$ 128,709	Revenues:	
Receivables.....	26,305	Sales tax.....	\$ 62,861
Total assets.....	<u>\$ 155,014</u>	Interest and investment income.....	8,856
		Intergovernmental.....	3,846
		Expenditures and other financing uses:	75,553
<b>LIABILITIES AND FUND BALANCE</b>		Public works, transportation, and commerce.....	78,027
Due to other funds.....	\$ 10,445	Transfer to other funds.....	16,833
Other liabilities.....	1,829		<u>94,860</u>
Total liabilities.....	<u>12,274</u>		
Fund balance:		Deficiency of revenues under expenditures	(19,297)
Reserved for encumbrances.....	134,730	and other financing uses.....	162,037
Unreserved.....	8,010	Fund balance at beginning of year.....	162,037
Total fund balance.....	<u>142,740</u>	Fund balance at end of year.....	<u>\$ 142,740</u>
Total liabilities and fund balance.....	<u>\$ 155,014</u>		

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

**(a) San Francisco International Airport**

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 Francisco in an unincorporated area of San Mateo County between the Bayside 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 nation's principal gateways for Pacific traffic.

The new International Terminal Complex (ITC), which opened December 10, 2000, was the centerpiece of 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 ITC to U.S. Highway 101, and individual projects generally consisting of other terminal, parking, cargo, general aviation, emergency response, security and other 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 \$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 "Capital Plan") to meet the future needs of the Airport. However, as a result of the September 11, 2001 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 projects that are not already in progress or related to safety and security of the Airport.

The Airport has financed its capital program primarily through the issuance of revenue bonds and commercial paper secured by a pledge of the Net Revenues of the Airport, and through interest earnings, Airport 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, 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.

For the year ended June 30, 2002, the Airport has reported \$40.6 million of PFC revenue which is 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 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 airlines: \$93.4 million of San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A; \$12.3 million of San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997B (Taxable); and \$19.3 million of San 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 agreement between the Commission and the company with respect to the jet fuel distribution facilities. The LLC was formed by certain airlines operating at the Airport, including United Airlines, which were its initial 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 their 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 impact of aircraft noise on the communities surrounding the Airport through the implementation of (1) 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 ordinances to protect new purchasers of homes within their community.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Pursuant to an agreement with certain airlines, the AlPort 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 1969, the Port was owned by the State of California. At that time the Port was transferred in trust to the City under the terms and conditions of legislation as ratified by the electorate of the City. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

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

On November 26, 1996, a fire at the east end of Pier 48 destroyed the interconnecting wood frame structure and caused substantial structural damage to the steel frames, walls, and roof at the easterly end of Sheds A and B on the pier. On July 14, 1998, a fire damaged the historic ferry slip arch structure at Pier 43 and the one-story auxiliary building connected to the arch's west tower. Insurance was in force to cover fire damage to the Port's property at both piers. In January 2002, the Port and its insurers reached a settlement to complete the required construction repairs at Pier 48. The Port has received insurance payments of \$6.8 million for approved and completed repairs and \$8.0 million 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 hazardous waste in California. A former tenant operated a soil disposal service and abandoned the contaminated soil after declaring bankruptcy 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 (BCDC), the Port is committed to fund and expend up to \$30 million over a 20 year period for pier removal, parks and plazas and other public access improvements. As of June 30, 2002 \$1.5 million has been appropriated and \$0.9 million has been expended for projects under the agreement.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(c) Water Department

The San Francisco Water Department (Water) was established in 1930. Water, which consists of a 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 owned by the Water Department. In response to the directive, the Commission developed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute 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 accrued 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) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately one-third of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, the Port of San Francisco, San Francisco County hospitals, street lighting, Moscone Center, and the water and sewer utilities). The balance 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.

## CITY AND COUNTY OF SAN FRANCISCO

### 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.

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 Hetchy entered into the Contract on May 9, 2001 to purchase 2.19 million mWhrs of electric energy. Under this take or pay contract, Hetch Hetchy is obligated to pay for a minimum amount of electricity even if the electricity is not required for operations. Commitments related to this contract total \$33.0 million annually, for a total of \$131.8 million through June 30, 2006. Expenditures under this contract totaled \$41.7 million in fiscal year ending June 30, 2002.

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 certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

The Public Utilities Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 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.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turlock Irrigation Districts (the Districts) in which the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of \$3.5 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to 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 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

The San Francisco Municipal Railway (MUNI) is the City's public transit agency. MUNI was established in 1912. During the fiscal year 1999-2000, the San Francisco Municipal Transit Agency (MTA) was created by Proposition E, a Charter amendment approved by the voters, to run MUNI. MTA replaced the San Francisco Public Transportation Commission. The data reflects the combined operations of MUNI and the San Francisco Municipal Railway Improvement Corporation (SF-MRIC). SF-MRIC 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.

## CITY AND COUNTY OF SAN FRANCISCO

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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.

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 Development Act funds and sales tax allocations. As of June 30, 2002, MUNI had various operating grants 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.

The State Public Utilities Code requires that fare revenues must equal or exceed 33% of operating costs in order to qualify for an allocation of certain sales tax revenues available for public transit. Transit operators may add local support to fare revenues in order to calculate the fare recovery ratio. The City provides significant local support to MUNI from parking revenues and the General Fund.

MUNI has outstanding contract commitments of approximately \$88.1 million with third parties for various capital projects. Grant funding is available for a majority of this amount. MUNI also has outstanding commitments of approximately \$10.6 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SFMRIC's Board of Directors has authorized SFMRIC to extend financial guarantees to MUNI for certain projects totaling \$2.7 million.

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 this. 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 2001, the Municipal Transportation Agency Board of Directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-back 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 transit system.

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.

**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 that match the completion date of the sublease. While these payments to the trust did not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the possibility that MUNI will be required to make future payments to the trust 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, 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 LHH was \$28 million.

Net income of LHH on a GAAP basis	\$21,025
Tobacco claims settlement*	(20,970)
Net loss on specific/donor restricted funds	(1,578)
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	<u>(29,670)</u>
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	9,210
Change in encumbrances and appropriation carry forwards	(10,338)
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation and other expenses	2,651
Net loss of LHH requiring General Fund subsidy on a budget basis	<u>\$(28,147)</u>

\*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 fiscal year ended June 30, 2002, 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.

**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 each year 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.

Loss before operating transfers of SFGH on a GAAP basis	\$(7,374)
Reimbursement to City General Fund for SB 855 matching program	(70,523)
Net gain on specific/donor restricted funds	148
Operating transfers from City General Fund to support SFGH on:	
Operation of Mental Health Rehabilitation Facility	(938)
Other Program Support	(61)
Interest expense on the overdraft funds with the City Treasury	1,221
Operating transfers from SFGH to LHH	1,100
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(6,666)
Change in encumbrances and appropriation carryforwards	4,585
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation expense	6,284
Other expenses	(101)
Net loss of SFGH requiring General Fund subsidy on a Budget basis	<u>\$(72,345)</u>

SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, the State of California through Senate Bills 855 and 1255 and the Short-Doyle mental health program, the federal Medi-Cal Medical Education Program and Administrative Claiming System, and a managed care agreement signed with a health maintenance organization (HMO).

CITY AND COUNTY OF SAN FRANCISCO

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.

State of California Senate Bill 855 (SB-855) was passed by the state legislature in July 1991 to provide additional funding to hospitals which provide a significant portion of their services to Medi-Cal recipients. In order to receive additional funds, the City must transfer funds to the State Medi-Cal program so that the funds may be matched by federal funds. Gross patient revenue recorded by SFGH for SB-855 totaled \$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.

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.

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.

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.

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.

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.

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.

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 interns 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)

(h) Clean Water Program

The Clean Water Program (CWP) was established in 1977 pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

CWP's revenue, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various outstanding Sewer Revenue Bonds.

CWP has entered into several loan contracts with the California State Water Resources Control Board under which CWP borrowed monies to finance the construction of certain facilities. As of June 30, 2002, CWP had \$179.6 million of loan principal outstanding.

On December 1, 2001, the CWP defeased (in-substance) \$28.4 million of outstanding sewer revenue bonds. The CWP did not issue additional bonds to defease the outstanding issues, but used funds received from the State of California Water Resources Control Revolving Fund Loan Program. The defeased bonds include \$21 million of 1992 sewer revenue refunding bonds with interest rates ranging from 5.7% to 5.8%, \$5.4 million of 1994 sewer revenue refunding bonds with interest rates of 4.7%, and \$2.0 million of 1995A sewer revenue bonds with interest rates of 5.4%. Funds of \$30.2 million were deposited in an irrevocable trust with an escrow agent and invested in a U.S. Treasury Money Market Fund to provide for all future debt service payments on the refunded sewer revenue bonds. As a result, the refunded sewer revenue bonds are considered to be defeased in substance and the liability for those bonds has been removed from the accompanying basic financial statements. The difference between the \$30.2 million deposited with the escrow agent and the carrying amount of the refunded sewer revenue bonds of \$27.6 million (net of \$0.8 million in unamortized bond issuance costs, original issue discounts, and refunding loss associated with those bonds) has been reported as a component of interest expense in the accompanying basic financial statements.

In 1995, CWP entered into a forward purchase and sale agreement with a financial institution. Under the agreement, CWP received an up front fee of \$8.9 million from the financial institution. In exchange, CWP will use its debt service payments not yet due to bondholders to purchase short-term U.S. Treasury bills at face value. Revenue is being recognized over the life of the agreement based on the present value of the future earnings. The fee was recorded as deferred revenue, and the unamortized balance as of June 30, 2002 was \$1.4 million.

As of June 30, 2002, the CWP had purchase commitments for construction and for materials and services totaling \$9.5 million.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

(1) 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):

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis-O'Farrell Parking	Portsmouth Plaza Parking	San Francisco Market	Total
Operating revenues.....	\$ 11,461	\$ 13,892	\$ 2,184	\$ 3,741	\$ 3,004	\$ 1,273	\$ 35,645
Depreciation.....	670	-	-	-	134	264	1,068
Operating income (loss).....	1,527	2,013	(120)	687	166	444	4,717
Interest and other non-operating revenues (expenses).....	(1,383)	62	33	(345)	(9)	(25)	(1,668)
Change in net assets.....	144	2,075	(87)	342	157	418	3,049
Capital assets, additions.....	441	20,524	31	510	143	71	21,720
Capital assets, deletions.....	870	1,705	-	-	-	6	2,581
Net working capital (deficit).....	(6,815)	(12,595)	147	(676)	454	683	(18,802)
Total assets.....	29,569	61,878	7,344	18,515	3,043	6,791	127,140
Total liabilities.....	19,727	33,896	426	5,788	652	714	61,203
Net assets.....	9,842	27,982	6,918	12,727	2,391	6,077	65,937
Total debt outstanding.....	\$ 12,655	\$ 19,620	\$ -	\$ 5,225	\$ 104	\$ 388	\$ 37,992

(12) SAN FRANCISCO REDEVELOPMENT AGENCY

The Agency is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and twelve redevelopment project areas are now underway. In addition, the Agency is undertaking feasibility studies for three new redevelopment survey areas designated by the Board of Supervisors of the City and County of San Francisco.

The Agency acts as the lead Agency in administering the Housing Opportunities for Persons with AIDS program which is funded by a grant from the U.S. Department of Housing and Urban Development. Under a grant with the Office of Economic Adjustment on behalf of the U.S. Department of Defense, the Agency has also undertaken community economic adjustment activities for planning the reuse of Hunters Point Naval Shipyard.

In October and November 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, and Tax Allocation Agreements. The two project areas total 303 acres. Mission Bay North consists of approximately 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 3,000 housing units, 20% of which will be affordable units, 350,000 square feet of urban entertainment retail space, 100,000 square feet of city-serving retail space, 55,000 square feet of neighborhood-serving retail space and six acres of public open space. The proposed development in the south will include 3,090 housing units, 20% of which will be affordable units, a 43-acre University of California San Francisco (UCSF) research campus, a 500 room hotel, 210,000 square feet of city-serving and neighborhood-

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 \$701 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 its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned must also be set aside for such purposes. The Agency established the Low and Moderate Income Housing Fund to account for this commitment and has reserved \$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.

During the year the Agency incorporated the Public Initiatives Development Corporation, which is chartered to develop affordable housing on the Agency's behalf. There was no financial activity during the year.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. The TIDA is governed by seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City.

The mission of TIDA is to redevelop the former Naval Station Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California

CITY AND COUNTY OF SAN FRANCISCO

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 being of the citizens 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 facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy which are not leased to the TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing 1,000 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

During fiscal year 2002, TIDA's primary sources of revenues included facility rents and federal grant funding from the U.S. Navy under a cooperative agreement. Under the cooperative agreement, TIDA provides caretaker services for areas of Treasure and Yerba Buena Islands which are owned by the U.S. Navy and not leased to TIDA.

During fiscal year 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 Developer 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:	Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental fund		\$ 22,516
	General Hospital Medical Center		31,694
	Laguna Honda Hospital		10,414
	Internal Service Funds		2,027
			<u>66,651</u>
Nonmajor Governmental Fund	Nonmajor Governmental Fund		54
Municipal Railway	Nonmajor governmental fund		10,445
	Heich Hetchy Water and Power		1,200
	Clean Water Program		800
			<u>12,445</u>
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			<u>\$ 80,234</u>

Due to / from primary government and component units:

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

Interfund transfers:

Transfers Out:	Transfers In:						
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Municipal Railway	San Francisco General Hospital	Laguna Honda Hospital	Total
General fund.....	\$ -	\$ 120,670	\$ 512	\$ 94,305	\$ 73,646	\$ 27,558	\$ 316,691
Nonmajor governmental funds.....	21,441	180,776	-	16,833	938	-	219,989
Internal Service funds.....	-	-	-	-	-	-	-
San Francisco International Airport.....	17,784	-	-	-	-	-	17,784
General Hospital Medical Center.....	70,523	-	-	-	-	1,100	71,623
Hetchy Hetchy Water and Power.....	-	382	-	-	-	-	382
Municipal Railway.....	193	-	-	-	-	-	193
Less amount transferred to internal service funds.....	-	(144,662)	-	-	-	-	(144,662)
Total transfers out.....	\$ 109,941	\$ 157,166	\$ 512	\$ 111,130	\$ 74,584	\$ 28,658	\$ 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 Corporation. Because internal service funds report certain long-term assets and liabilities that are not reported in governmental funds, there is no corresponding transfers in reported within internal service funds related to the creation of this fund (Note 1). Also, \$16.8 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 Governmental Activities

Fiscal Years	
2003	\$ 24,439
2004	16,227
2005	15,427
2006	13,021
2007	8,356
2008-2012	10,681
Total	\$ 88,161

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Business-type Activities

Fiscal Years	San Francisco International Airport	Municipal Railway	General Hospital Medical Center	Total Business-type Activities
2003	\$ 5,437	\$ 4,267	\$ 4,405	\$ 14,109
2004	5,402	3,931	1,584	10,917
2005	5,251	2,440	608	8,299
2006	5,509	803	168	6,480
2007	5,714	153	28	5,895
2008-2012	10,318	121	-	10,439
2013-2017	-	121	-	121
2018-2022	-	121	-	121
2023-2027	-	97	-	97
Total	\$ 37,631	\$ 12,054	\$ 6,793	\$ 56,478

Component Unit - Redevelopment Agency

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

Fiscal Years	
2003	\$ 2,109
2004	2,198
2005	2,198
2006	1,115
2007	757
2008-2012	3,785
2013-2017	3,785
2018-2022	3,785
2023-2027	3,785
2028-2032	3,785
2033-2037	3,785
2038-2042	3,785
2043-2047	3,786
2048-2052	2,271
Total	\$ 40,891

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

Fiscal Years	Port of San Francisco	San Francisco International Airport	General Hospital Medical Center	Parking Garages	Business-type Activities	Total
2003	\$ 62,196	\$ 26,858	\$ 1,601	\$ 2,515	\$ 93,170	
2004	47,483	23,851	1,730	2,608	75,670	
2005	40,409	22,023	1,775	2,425	66,632	
2006	34,481	19,302	1,802	2,155	57,740	
2007	28,667	16,263	1,832	1,952	50,714	
2008-2012	91,868	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	

Business-type Activities

Fiscal Years	Port of San Francisco	San Francisco International Airport	General Hospital Medical Center	Parking Garages	Business-type Activities	Total
2003	\$ 2,642	\$ 2,607	\$ 2,607	\$ 2,607	\$ 10,463	
2004	2,607	2,607	2,607	2,607	10,428	
2005	2,665	2,665	2,665	2,665	10,660	
2006	2,687	2,687	2,687	2,687	10,748	
2007	2,688	2,688	2,688	2,688	10,752	
2008-2012	12,872	12,872	12,872	12,872	51,488	
2013-2017	13,473	13,473	13,473	13,473	53,892	
2018-2022	13,810	13,810	13,810	13,810	55,240	
2023-2027	14,456	14,456	14,456	14,456	58,824	
2028-2032	15,432	15,432	15,432	15,432	61,728	
2033-2037	16,518	16,518	16,518	16,518	66,072	
2038-2042	17,739	17,739	17,739	17,739	70,956	
2043-2047	16,085	16,085	16,085	16,085	64,340	
2048-2052	444	444	444	444	1,776	
Total	\$ 134,138	\$ 134,138	\$ 134,138	\$ 134,138	545,444	

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):

Fiscal Years	Yerba Buena Center	Western Addition	Hunters Point
2003	\$ 2,642	\$ 2,607	\$ 2,607
2004	2,607	2,607	2,607
2005	2,665	2,665	2,665
2006	2,687	2,687	2,687
2007	2,688	2,688	2,688
2008-2012	12,872	12,872	12,872
2013-2017	13,473	13,473	13,473
2018-2022	13,810	13,810	13,810
2023-2027	14,456	14,456	14,456
2028-2032	15,432	15,432	15,432
2033-2037	16,518	16,518	16,518
2038-2042	17,739	17,739	17,739
2043-2047	16,085	16,085	16,085
2048-2052	444	444	444
Total	\$ 134,138	\$ 134,138	\$ 134,138

(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 Years	Moscone Convention 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	102,989	-	102,989
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.

**CITY AND COUNTY OF SAN FRANCISCO**

**NOTES 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 million to the PCJPB.

**(16) RISK MANAGEMENT**

**Risk Retention Program Description**

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for Muni Railway); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The City maintains limited excess coverage for certain facilities. The Airport carries liability insurance coverage of \$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 San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials errors and omissions risks with combined single limits of \$15,000,000 per occurrence and a deductible of \$50,000 self-insurance retention per occurrence.

Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as initiation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

**Estimated Claims Payable**

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City's liability as of June 30, 2002 has been actuarially determined and includes an estimate of incurred

**CITY AND COUNTY OF SAN FRANCISCO**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

but not reported losses. In addition, various businesses in the City had filed suit in California Superior Court challenging the constitutionality of the City Gross Receipts and Payroll Expense Tax Ordinances. The majority of these suits have been settled for approximately \$63 million. The City has issued debt to pay off this liability over 10 years. A few remaining unsettled claims may be settled over the next 12 months and funds are included in the City's estimated claims payable to cover these expected expenses.

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

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

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

<b>Governmental activities:</b>	
Current portion of estimated claims payables.....	\$ 9,224
Long-term portion of estimated claims payable.....	32,221
<b>Business-type activities:</b>	
Current portion of estimated claims payables.....	16,668
Long-term portion of estimated claims payable.....	29,618
<b>Total</b>	<b>\$ 86,731</b>

The Retirement System is involved in two class action type lawsuits which are collectively referred to as "Final Compensation" cases. These lawsuits allege that the Retirement System should include additional "pay types" in pension calculations. The most significant pay types common to all members of the Retirement System are lump sum payments after termination of employment for sick leave and vacation. The police, fire, and transit employees have additional claims for special pay types specific to those employee groups. There is also a new lawsuit against the Retirement System by the Veteran Police Officers Association (VPOA) that alleges that the Retirement System should include POST pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. These cases are being vigorously contested. The City Attorney has sought outside counsel to help defend the claims. The possible loss to the Retirement System should these cases be successful, while difficult to estimate, could range between \$500 million and \$1 billion. The actual loss could exceed this range. No liability 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 appropriate individual funds in accordance with the City's accounting policies (note 2).

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Changes in the reported accrued workers' compensation since June 30, 2000, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2000-2001	\$ 234,616	\$ 77,612	\$ (55,636)	\$ 256,792
2001-2002	256,792	109,671	(62,282)	304,181

Breakdown of the accrued workers' compensation liability at June 30, 2002 is as follows (in thousands):

<b>Governmental activities:</b>	
Current portion of accrued workers' compensation liability	\$ 38,926
Long-term portion of accrued workers' compensation liability	137,851
<b>Business-type activities:</b>	
Current portion of accrued workers' compensation liability	30,476
Long-term portion of accrued workers' compensation liability	96,928
	<u>\$ 304,181</u>

(17) SUBSEQUENT EVENTS

**Long-term Debt**

In July 2002, the Downtown Parking Corporation issued \$13.6 million in Parking Revenue Refunding Bonds, Series 2002. The Series 2002 bonds were sold to provide funds, together with other available moneys, to refund \$12.8 million aggregate outstanding principal amount of the Corporation's Parking Revenue Bonds, Series 1993. The proceeds of the 1993 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 garage.

In August 2002, the Water Department issued \$164 million of Water Revenue Bonds, Series 2002A. Of the proceeds from the issuance, \$90 million was used to refund all of Water's outstanding commercial paper. In addition, Water issued \$66 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.

In October 2002, the City issued an aggregate amount of \$28.3 million in General Obligation Bonds that consist of the Zoo Facilities Bonds, Series 2002A for \$6.2 million and \$23.1 million for Branch Library Facilities Improvement Bonds, Series 2002B. The 2002A bonds will finance the acquisition, construction or reconstruction of San Francisco Zoo facilities and properties. The 2002B bonds will finance the acquisition, renovation and construction of branch libraries and other library facilities, except the Main Library. Interest rates range from 2.5% to 5.0%. The bonds mature from June 2003 through June 2022.

In October 2002, the Ellis-O'Farrell 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 refund \$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 remodeling of the garage, and construction of two and one-half additional levels of parking, increasing parking capacity 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 or January 2003. As a result of the issuance of the lease revenue refunding bonds, the Agency would reduce total debt service payment and realize up-front savings, which will be applied to the construction of the Moscone 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:

**Proposition A - Water Bonds** This authorizes the City to issue up to \$1.62 billion in Revenue Bonds to finance improvements to its water system. Improvements will upgrade and strengthen the system's pipelines, tunnels and other facilities against earthquakes; upgrade the water storage and pipe 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

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, issuance 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 sewer 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 \$28 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 has a surplus and the City does not expect to have to make a contribution to the Retirement System for at least the next ten years.

**Proposition I - 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 experts to assist 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 described in a Memorandum of Understanding (MOU) dated July 1, 2001, between the City and the affected 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 unused 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 employee's salary rate, exclusive of premiums 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.

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LEASE

*The following is a summary of certain provisions of the Indenture and the Lease and is not to be considered a full statement of the provisions thereof. This summary is qualified in its entirety by reference to and is subject to the complete Indenture and Lease, copies of which are available from the Corporation. For purposes of this Appendix, "Series 2003A Bonds" refers to the Corporation's Lease Revenue Bonds, Series 2003A and "Bonds" refers to all outstanding lease revenue bonds of the Corporation issued under the Indenture.*

#### THE INDENTURE

##### Certain Defined Terms

Additional Rental. The term "Additional Rental" means all amounts payable by the City as Additional Rental pursuant to the Lease.

Authorized Officer. The term "Authorized Officer," when used with respect to the Corporation, means the President or Chief Financial Officer of the Corporation or any other officer of the Corporation who is designated in writing by the Corporation as an Authorized Officer for purposes of the Indenture, and when used with respect to the City, means the Mayor or any other official or employee of the City who is designated in writing by the Mayor as an Authorized Officer for purposes of the Indenture.

Base Rental. The term "Base Rental" means all amounts payable by the City as Base Rental pursuant to the Lease.

Certificate of Completion. The term "Certificate of Completion" means a Certificate of the City, in the form of Exhibit C to the Lease, certifying that all Equipment with respect to a Project anticipated to be acquired has been acquired, installed and accepted by the City and that all Project Costs attributable to such Equipment have been paid.

Computer System. The term "Computer System" means a component of Equipment that consists of both computer hardware and software components.

Credit Facility. The term "Credit Facility" means (i) a surety bond or other financial undertaking issued by a financial institution, if the unsecured obligations of or the claims paying ability of such financial institution has one of the two highest ratings then issued by a nationally recognized bond rating agency, or (ii) a policy of insurance issued by an insurance company, if the obligations insured by such insurance company have one of the two highest ratings then issued by a nationally recognized bond rating agency, or (iii) an irrevocable letter of credit from a bank the long-term obligations of which are rated in one of the two highest rating categories by a nationally recognized rating agency delivered to the Trustee to satisfy the obligation to deposit moneys in the Reserve Fund in connection with any series of Bonds and which is in an amount equal to Reserve Requirement for such series of Bonds.

Equipment. The term "Equipment" means the personal property listed in Exhibit A to the Lease, as supplemented from time to time pursuant to the Lease, and the Existing Equipment listed in Exhibit E to the Lease, to be leased by the Corporation to the City pursuant to the Lease.

Government Certificates. The term “Government Certificates” means evidences of indebtedness of ownership of proportionate interests in future principal and interest payments of Government Obligations, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the Government Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in trust in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

Lease Supplement. The term “Lease Supplement” means a supplement to the Lease, and includes an equipment schedule, a Base Rental payment schedule and a certificate of approval.

Net Proceeds. The term “Net Proceeds” means the amount remaining from the gross proceeds of any insurance claim or condemnation award made in connection with the Equipment, after deducting all expenses (including attorneys’ fees) incurred in the collection of such claim or award.

Owner. The term “Owner” means any person who shall be the registered owner of any outstanding Bond as shown on the registration books required to be kept by the Trustee.

Payment Date. The term “Payment Date” means each April 1 and October 1.

Permitted Investments. The term “Permitted Investments means any of the following

- (1) United States Treasury notes, bonds, bills, or certificates of indebtedness, or obligations for which the full faith and credit of the United States of American are pledged for the payment of principal and interest;
- (2) Obligations issued by federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board or obligations, participations or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Federal National Mortgage Association, or guaranteed portions of Small Business Administration notes, or obligations, participations or other instruments of or issued by a federal agency of a United States of America government-sponsored enterprise, so long as such obligations are fully guaranteed as to interest and principal by the United States of America;
- (3) Demand or time deposits or negotiable certificates of deposit issued by (a) the Trustee or any paying agent, or (b) any bank, organized under the laws of the any state of the United States of America or any national banking association; or savings and loan association provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation, (ii) issued by any bank, trust company or savings and loan association organized under the laws of any state of the United States, or any national banking association, having a combined capital and surplus of at least \$50,000,000, so long as the deposits to which such deposits or certificates of deposit relate (A) do not exceed at any one time in the aggregate 10% of the total of the capital and surplus or shareholders’ equity, as the case may be, of such bank or trust company or savings and loan association or national banking association, and (B) are continuously and fully secured by such securities as are described in clauses (1) or (2) above, which securities shall have a market value (exclusive of accrued interest) at all times at least equal to 110% of the principal amount of such deposits or certificates of deposit (marked to market at least weekly) and whose short-term obligations are rated in the highest rating category by each rating agency maintaining a rating on the Bonds;

- (4) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States (including the Trustee) or any national banking association or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is entered into with an institution whose debt is rated in one of the two highest rating categories by each rating agency that maintains a rating on the Bonds;
- (5) Commercial paper, or corporate bonds or notes rated in the highest rating category by each rating agency that maintains a rating on the Bonds.
- (6) Other unsubordinated securities or obligations issued or guaranteed (including a guarantee in the form of a bank standby letter of credit) by any domestic corporation (including a bank or trust or insurance company) rated in one of the two highest rating categories (without regard to rating subcategories) by each rating agency that maintains a rating on the Bonds.
- (7) Interest-bearing certificates of deposit in a national or state bank or a trust company (which may be the Trustee) which has a combined capital and surplus aggregating not less than \$100,000,000 and which has outstanding, at the time of investment, short-term obligations rated in the highest rating category (without regard to rating subcategories) by each rating agency that maintains a rating on the Bonds.
- (8) Bankers' acceptances, Eurodollar deposits of banks or trust companies, including the Trustee, organized under the laws of the United States or Canada or any state or province thereof, or domestic branches of foreign banks, having a capital and surplus of \$50,000,000 or more and which has outstanding, at the time of investment, short-term obligations rated in the highest rating category (without regard to rating subcategories) by each rating agency that maintains a rating on the Bonds.
- (9) Bonds or other securities issued by any state, territory, commonwealth, or the District of Columbia or any political subdivision thereof which have been defeased and re-rated in the highest rating category by each rating agency that maintains a rating on the Bonds.
- (10) Bonds or other securities issues by any state, territory, commonwealth, or the District of Columbia or any political subdivision thereof which are rated in one of the two highest rating categories by each rating agency that maintains a rating on the Bonds.
- (11) Money market funds rated AAm or better by Standard & Poor's Corporation;

provided that with respect to amounts in the Acquisition Fund and the Costs of Issuance Fund relating to the Series 1998A Bonds and all Series of Bonds issued thereafter, and with respect to amounts in all funds and accounts established under the Indenture on and after the date on which no Series 1991A Bonds, Series 1992A Bonds, Series 1993A Bonds, Series 1994A Bonds, Series 1995A Bonds, Series 1996A Bonds and Series 1997A Bonds remain outstanding, the definition of "Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the Corporation:

- (a) Government Obligations or Government Certificates.
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- ownership;
- (i) Farmers Home Administration (FmHA) - Certificates of beneficial ownership;
  - (ii) Federal Housing Administration Debentures (FHA);
  - (iii) General Services Administration - Participation certificates;
  - (iv) Government National Mortgage Association (GNMA or “Ginnie Mae”) - GNMA guaranteed-mortgage backed bonds, GNMA guaranteed pass through obligations (participation certificates);
  - (v) U.S. Maritime Administration - Guaranteed Title XI financing;
  - (vi) U.S. Department of Housing and Urban Development (HUD) - Project notes and local authority bonds; and
  - (vii) any other agency or instrumentality of the United States of America.
- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
- (i) Federal Home Loan Bank System - Senior debt obligations (consolidated debt obligations);
  - (ii) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) - Participation certificates (mortgage-backed securities) and senior debt obligations;
  - (iii) Federal National Mortgage Association (FNMA or “Fannie Mae”) - Mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities which are valued greater than par on the portion of the unpaid principal);
  - (iv) Student Loan Marketing Association (SLMA or Sallie Mae”) - Senior debt obligations;
  - (v) Resolution Funding Corp. (REFCORP) - Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;
  - (vi) Federal Farm Credit System - Consolidated systemwide bonds and notes; and
  - (vii) any other agency or instrumentality of the United States of America.
- (d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAM-G or AAAM and by Moody’s of Aaa.
- (e) Certificates of deposit issued by a state or national bank or a state or federal savings and loan, provided that such certificates of deposit shall be either (i) continuously and fully insured by the FDIC, or (ii) have a maturity of not greater than 365 days and have the highest short-term letter and numerical ratings of Moody’s and S&P.

- (f) Savings accounts or money market deposits that are fully insured by the FDIC.
- (g) Investment agreements, including guaranteed investment contracts, provided either (i) the long-term unsecured debt or claims ability of the issuer or guarantor thereof is rated in the highest rating category by Moody's and S&P, or (ii) such agreement is fully collateralized by Government Obligations or Government Certificates.
- (h) Commercial paper of "prime" quality rated in the highest rating category by Moody's and S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States.
- (i) Bonds or notes issued by any state or municipality that are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies.
- (j) Federal funds or banker's acceptances which are eligible for purchases by members of the Federal Reserve System, drawn on any bank the short-term obligations of which are rated in the highest rating category by Moody's and S&P, provided that the maturity cannot exceed 270 days.
- (k) Repurchase agreements with maturities of either (a) 30 days or less, or (b) less than one year provided that the collateral is marked-to-market daily, entered into with financial institutions such as banks or trust companies organized under state or federal law, insurance companies, or government bond dealers reporting to, or trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of SPIC, or with a dealer or parent holding company that is rated A or better by Moody's and S&P. The repurchase agreement must be in respect of Government Obligations or Government Certificates or obligations described in paragraph (b) herein, which, exclusive of accrued interest, shall be maintained at least 100% of par. In addition, repurchase agreements shall meet the following criteria: (i) the third party (who shall not be the provider of the collateral) has possession of the repurchase securities and the Government Obligations or Government Certificates; (ii) failure to maintain the requisite collateral levels shall require liquidation and (iii) the third party having possession of the securities has a perfected, first priority security interest in the securities.
- (l) Any other debt or fixed income security specified by the City (except securities of the City and any agency, department, commission or instrumentality thereof) and rated in the highest rating category by Moody's and S&P, including "pre-funded" municipal obligations.

Project. The term "Project" means the acquisition and installation of all items of Equipment to be financed with the proceeds of a particular series of Bonds.

Project Costs. The term "Project Costs" means all costs of payment of, or reimbursement for, the acquisition, installation, if applicable, and financing of the Equipment and any item functionally related to the Equipment, and any license necessary or convenient in connection with the use of the Equipment, including but not limited to, architect, engineering and installation management costs, administrative costs and capital expenditures relating to installation and financing payments, sales tax on the Equipment, costs of accounting, feasibility, environmental and other reports, insurance costs, inspection costs, permit fees, prepaid maintenance, license or software fees, including prepaid technical support costs, filing and recording costs, printing costs, reproduction and binding costs, fees and charges of the Trustee, escrow fees, legal fees and charges, costs of rating agencies or credit ratings, Credit Facility fees and financial and other professional consultant fees.

Rental Payments. The term “Rental Payments” means collectively the Base Rental payments and the Additional Rental payments.

Reserve Requirement. The term “Reserve Requirement” means, with respect to any series of Bonds, the amount specified in the Supplemental Indenture pursuant to which such series of Bonds is issued.

Tax Certificate. The term “Tax Certificate” means a certificate relating to Section 148(f) of the Code, executed by the City on the date of delivery of a series of Bonds, as originally delivered and as it may be amended or supplemented from time to time.

Working Capital Requirement. The term “Working Capital Requirement” means such amount, if any, as may be specified in a Supplemental Indenture with respect to a Series of Bonds.

Written Request of the Corporation. The term “Written Request of the Corporation” means an instrument in writing signed by an Authorized Officer of the Corporation.

### **Pledge of Base Rental Payments; Assignment of Lease**

Subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth therein, all of the Base Rental payments received by the Trustee, all of the proceeds of the Bonds and any other amounts held in any fund or account (except the Rebate Fund) established under the Indenture and all of the right, title and interest of the Corporation in the Lease and in the Equipment are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge constitutes a lien on and security interest in such assets.

Under the Indenture, the Corporation sells, transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the bondholders, all of the Base Rental payments and other moneys pledged as described in the preceding paragraph, all rents, profits and products from the Equipment to which the Corporation has any right or claim whatsoever, and all right, title and interest in and to the Lease including, without limitation, the right to take all actions and give all consents under the Lease and all rights of the Corporation as lessor under the Lease necessary to enforce payment of such Base Rental payments when due or, otherwise to protect the interests of the owners of the Bonds; provided that the Corporation retains certain rights to indemnification and the payment of its costs and expenses under the Lease. The Trustee is entitled to collect and receive all of the Base Rental payments, and any Base Rental payments collected or received by the Corporation, shall be deemed to be held, and to have been collected or received, by the Corporation as the agent of the Trustee and shall forthwith be paid by the Corporation to the Trustee. The Trustee is also required to take all steps, actions and proceedings reasonably necessary in its judgment to preserve and protect the priority of its security interest in the Lease and the Equipment.

### **No Liability of Corporation and City**

Except as expressly provided in the Indenture, the Corporation has no obligation or liability to the Owners with respect to the payment when due of the Rental Payments by the City, or with respect to the performance by the City or the Trustee, as the case may be, of the other agreements and covenants contained in the Lease or in the Indenture that are required to be performed by the City or the Trustee, respectively.

Except for the payment when due of the Rental Payments and the performance of the other agreements and covenants contained in the Lease and the Indenture, the City has no obligation or

liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Base Rental payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required by the Indenture to be performed by the Trustee.

### **Creation and Application of Funds and Accounts**

The Indenture establishes the following funds and accounts for the Bonds and, particularly, the Series 2003A Bonds:

*Acquisition Fund*  
Series 2003A Project Account  
*Costs of Issuance Fund*  
Series 2003A Costs of Issuance Account  
*Rebate Fund*  
Series 2003A Rebate Account  
*Base Rental Payment Fund*  
Series 2003A Account  
*Reserve Fund*  
Series 2003A Reserve Account  
*Surplus Fund*  
*Working Capital Fund*  
*Redemption Fund*

***Acquisition Fund.*** All moneys in the Acquisition Fund are required by the Indenture to be applied by the Trustee to the payment of any Project Costs (or for making reimbursements to the Corporation, the City or any other person for such costs). For each Series of Bonds, the Trustee will establish a Project Account within the Acquisition Fund. Amounts in each such Project Account may be distributed by the Trustee only to pay costs related to the Project financed by such Series of Bonds or to redeem such Series of Bonds. Upon receipt by the Trustee of a Certificate of Completion for the Project financed by a Series of Bonds, all amounts remaining in the Project Account for such Series of Bonds, are required to be transferred by the Trustee to the Rebate Fund or to the Redemption Fund to be applied to the redemption of that Series of Bonds.

***Costs of Issuance Fund.*** For each Series of Bonds, the Trustee is required to establish a Costs of Issuance Account within the Costs of Issuance Fund. Moneys in each such Costs of Issuance Account may be disbursed as is necessary to pay Costs of Issuance for the related Series of Bonds. Upon the earlier of six months after the issuance of any Series of Bonds or payment by the City of all Costs of Issuance for such Series of Bonds, the Trustee shall transfer any amount then remaining in the related Costs of Issuance Account to the Project Account established for such Series of Bonds.

***Rebate Fund.*** There shall be deposited in the Rebate Fund from funds of the City or the Corporation such amounts as are required to be deposited therein pursuant to the Tax Certificate. All moneys at any time deposited in the Rebate Fund or any subaccount therein will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Amounts in the Rebate Fund are not pledged to the payment of the Bonds under the Indenture.

#### ***Base Rental Payment Fund.***

**Interest Fund.** On each Payment Date, the Trustee is required to deposit in each Interest Account created therein for each Series of Bonds that amount, if any, needed to bring the amounts in such

Accounts to the aggregate amount of interest coming due on each Series of Bonds on such Payment Date. Moneys in the Interest Fund are permitted to be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds when due and payable.

Principal Fund. The Indenture requires the Trustee to deposit in each Principal Account created therein for each Series of Bonds, on each Payment Date, that amount, if any, needed to bring the amounts of such Accounts to the aggregate amount of principal coming due on each Series of Bonds on such Payment Date. Moneys in the Principal Fund are required to be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds when due and payable.

Notwithstanding any other provision of the Indenture, with respect to the Series 2003A Bonds and any Series of Bonds issued thereafter, the Supplemental Indenture providing for the issuance of such Series of Bonds may establish a Series Account (including subaccounts therein) within the Base Rental Fund in lieu of the series subaccounts within the Interest Fund and the Principal Fund prescribed by the Indenture. In such event, references to series subaccounts within the Interest Fund or the Principal Fund shall be references to such Series Account or the subaccounts established therein, as the case may be.

Reserve Fund. Upon the issuance of any Series of Bonds, the Trustee shall cause to be deposited in the Reserve Account established within the Reserve Fund for such Series of Bonds an amount equal to the initial Reserve Requirement for such Series of Bonds. Such amount may be derived from the proceeds of such Series of Bonds, other funds of the City or the Corporation or a Credit Facility. After making any required deposits to the Interest Fund and the Principal Fund, the Trustee is required to deposit in each Reserve Account, on each April 1 and October 1, the amount (if any) needed to bring the amount on deposit in each Reserve Account to the then applicable Reserve Requirement for such Reserve Account. In the event amounts in the Base Rental Payment Fund are insufficient to make the deposits described in the preceding sentence, the Trustee will make such deposits on a pro rata basis to each Reserve Account on the basis of the applicable Reserve Requirement. Amounts on deposit in each Reserve Account may be withdrawn by the Trustee solely for deposit in the corresponding Interest Account and Principal Account in the event that the amounts therein are insufficient for the purposes of such Accounts. Any amounts on deposit in a Reserve Account in excess of the Reserve Requirement for such Reserve Account are to be withdrawn by the Trustee and transferred to the Base Rental Payment Fund for deposit in the corresponding Interest Account and Principal Account.

Surplus Fund. After making the required deposits to the funds discussed in the preceding paragraphs, the Trustee is required to transfer, on or before the business day immediately succeeding each Payment Date, any remaining amounts in the Base Rental Payment Fund to the Surplus Fund. On the first business day after making each deposit in the Surplus Fund, the Trustee is to determine whether any moneys then in the Surplus Fund will be required for the payment of principal and interest on the Bonds and will hold any moneys required for such purposes. Moneys in the Surplus Fund not required for such purposes may be used (i) for the redemption of Bonds; (ii) for the purchase of Bonds at such prices (including brokerage and other charges, but excluding accrued interest which is payable from the Interest Fund) as the Corporation may deem advisable, but not to exceed the par value thereof, or in the case of Bonds which by their terms are subject to call and redemption, the highest redemption price (excluding accrued interest) or the then current redemption price (excluding accrued interest), whichever is lowest; or (iii) for transfer to the Working Capital Fund or the City.

Working Capital Fund. All amounts received from the City as Additional Rental under the Lease and such other amounts as designated for deposit therein by a Supplemental Indenture will be deposited by the Trustee in the Working Capital Fund. Upon the Written Request of the Corporation, the Trustee will disburse amounts in the Working Capital Fund for the payment of taxes and assessments and any administrative cost of the Corporation or charges required to be paid by the Corporation in order to

maintain its existence or to comply with the terms of the Bonds or of the Indenture. Amounts in the Working Capital Fund may also be withdrawn or applied to the payment of principal of or interest on the Bonds, on any Payment Date on which the Trustee receives a Written Request of the City and the Corporation to the effect that as of the date of such request, the amounts to be transferred or withdrawn are no longer necessary to be retained in the Working Capital Fund for the purposes for which it was established.

Redemption Fund. On the date specified in the Written Request of the Corporation filed with the Trustee at the time any prepaid Base Rental payment is paid by the City to the Trustee pursuant to the Lease, the Trustee shall deposit in the Redemption Fund that amount of moneys representing the portion of the Base Rental payments designated as prepaid Base Rental payments. Moneys in the Redemption Fund are to be used and withdrawn by the Trustee solely for the purpose of paying the principal of, and the interest on and premium, if any, on the Bonds to be redeemed.

### **Certain Covenants**

Under the Indenture, the Corporation covenants faithfully to comply with, keep, observe, and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract or prescribed by any law of the United States of America or the State of California or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by it, including its right to exist and carry on its respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

The Corporation also agrees to keep the Equipment and all parts thereof free from judgments and material men's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which, in the judgment of the Trustee, might hamper the City in conducting its business or utilizing the Equipment, and the Trustee at its option (after first giving the Corporation ten days' written notice to comply therewith and failure of the Corporation to comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such action or proceedings; provided however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee will not be deemed to have waived or released the Corporation from liability for or on account of any of its agreements and covenants contained in the Indenture or from its liability under the Indenture to defend the validity thereof and to perform such agreements and covenants.

The Corporation agrees so long as any Bonds are outstanding not to create any pledge of or lien on a Base Rental Payment other than the pledge and lien of the Indenture. The Corporation further agrees promptly upon request of the Trustee to take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Equipment or any part thereof and to prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

The Indenture requires the Trustee to keep proper records in which complete and correct entries are to be made of all transactions relating to the receipt, deposit and disbursement of the Rental Payments, and such records will be available for inspection by the Corporation, the City or any Owner or agent thereof duly authorized in writing at reasonable hours and under reasonable conditions. Not later than the last day of each month, and continuing so long as any Bonds are outstanding, the Trustee will furnish to the Corporation, the City and any Owner who may so request a complete statement covering the receipts, deposits and disbursements of the Rental Payments for the preceding calendar month.

## Acquisition of Software

The Indenture provides that the Trustee may not disburse funds from the Acquisition Fund for the acquisition of Integrated Software with respect to a Project financed by Bonds issued subsequent to the issuance of the Series 1995A Bonds unless the Trustee receives a written certificate from an authorized officer of the vendor of such Integrated Software substantially in the form attached to the Indenture.

With respect to any future Series of Bonds, the provisions of the Indenture concerning the acquisition of software and the rights and obligations of the Corporation and the Owners and the Trustee thereunder may be amended or supplemented by an amendment thereof or supplement thereto, which shall become binding upon execution without the written consents of the Owners, but only to the extent permitted by law.

## Events of Default and Remedies

Each Event of Default under the Lease is an “event of default” under the Indenture. See “THE LEASE—Defaults and Remedies” herein. During the continuance of an Event of Default, the Trustee or the Owners of not less than majority in aggregate principal amount of Bonds at the time outstanding are entitled upon notice in writing to the City and the Corporation to exercise the remedies provided to the Corporation in the Lease and to take whatever action at law or in equity may appear necessary to protect and enforce any of the rights vested in the Trustee or in the Owners by the Indenture or by the Bonds. However, under the Indenture the Trustee does not have the remedy to terminate the Lease with respect to any computer software component of the Equipment or the remedy to retake possession of any such software.

*Application of Amounts After Default.* All payments received by the Trustee with respect to the rental of the Equipment after an Event of Default and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease or under the Indenture are required to be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied to the payment of:

- (i) all amounts due the Trustee;
- (ii) to the Owners entitled thereto their proportionate interest and the interest on the Bonds in the order of the maturity of such interest and, if the amount available is not sufficient to pay such amount, then to the payment ratably, according to the amount due to the persons entitled thereto, without any discrimination or privilege;
- (iii) to the Owners entitled thereto, the proportionate interest on the unpaid principal of the Bonds which shall have become due and, if the amount available shall not be sufficient to pay the principal in full, then to the payment ratably, according to the amount of principal due, to the persons entitled thereto without any discrimination or privilege; and
- (iv) as the same shall become due to the Owners entitled thereto the principal of and interest on the Bonds which may thereafter become due either as scheduled or upon redemption pursuant to the Indenture or to the Lease and, if the amount available is not sufficient to pay in full the principal due on any particular date, payment shall be made ratably according to the amount of principal due on such date to the Owners entitled thereto without any discrimination or privilege.

**No Cross Default.** An Event of Default with respect to any Series of Bonds shall not be deemed an Event of Default with respect to any other Series of Bonds, and the rights, remedies and obligations of the Owners and the Trustee under the Indenture resulting from any Event of Default, will only pertain to the Series of Bonds with respect to which such Event of Default occurred.

**Limitation on Suits.** No Owner has any right to institute any proceedings with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy under the Indenture unless such Owner has previously given written notice to the Trustee of a continuing Event of Default, the Owners of not less than 25 percent in principal amount of the outstanding Bonds shall have made written requests to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to it, the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding, and no direction inconsistent with such written request has been given to the Trustee during such period by the Owners of a majority in principal amount of the outstanding Bonds.

**No Waiver.** A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies upon any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breaches shall impair any such right or remedy or be construed to be a waiver of any such default or breach or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

#### **Amendments to Indenture**

The Indenture may be amended or supplemented at any time without the consent of any Owners for one or more of the following purposes:

- (i) to add to the agreements, conditions, covenants and terms required by the Corporation to be observed or performed or to surrender any right or power reserved in the Indenture or conferred on the Corporation, which either case shall not materially adversely affect the interests of the Owners; or
- (ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the Corporation may deem desirable or necessary or not inconsistent with the Indenture and which shall not materially adversely affect the interests of the Owners;
- (iii) to amend the provisions concerning the acquisition of computer software components with respect to any future Series of Bonds; or
- (iv) to provide for the issuance of a Series of Bonds.

The Indenture may be amended or supplemented at any time upon the written consent of the Owners of a majority in aggregate principal amount of the Bonds then outstanding; provided, however, that no such amendment or supplement may (i) extend the maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of such interest or reduce the amount of principal thereof without the prior written consent of the Owner of the Bond so affected, or (ii) reduce the percentage of Owners whose consent is required for the execution of any amendment of or supplement to the Indenture, or (iii) modify any of the rights or obligations of the Trustee without its prior written

consent hereto, or (iv) amend the provisions of the Indenture relating to amendments or supplements to the Indenture without the prior written consent of the Owners of all Bonds then outstanding.

### **Defeasance**

If the Owners of all outstanding Bonds of any Series of Bonds are paid the interest thereon and principal thereof at the times and in the manner stipulated in the Indenture and in the Bonds, then such Owners shall cease to be entitled to the benefit of the Indenture and all agreements of the Corporation and the Trustee to such Owners shall thereupon cease, terminate and become void and shall be discharged and satisfied. Any outstanding Bonds will be deemed to have been paid if there is on deposit with the Trustee moneys or securities described in clauses (1) and (2) of the definition of the term "Permitted Investments" in an amount sufficient (together with the increment, earnings and interest thereon) to pay the principal of and premium, if any, and interest on such Bonds payable at maturity or on prior redemption.

### **The Trustee**

The Corporation, provided that no Event of Default has occurred and has been continuing, or the Owners of a majority in aggregate principal amount of Bonds at the time outstanding, may remove the original Trustee and any successor thereto and may appoint a successor Trustee, but any such successor Trustee must be bank or trust company doing business and having a principal corporate trust office in California, having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and subject to supervision or examination by federal or state authorities. The Trustee may at any time resign by giving written notice to the Corporation, the City and the Owners. Upon receiving notice of resignation of the Trustee, the Corporation is required promptly to appoint a successor Trustee. Any resignation of any Trustee and appointment of a successor Trustee shall become effective only upon acceptance of the appointment by the successor Trustee.

## **THE LEASE**

Under the Lease, the Corporation leases to the City and the City hires from the Corporation the Equipment to have and to hold for the term of the Lease. The Corporation covenants to provide the City during the term of the Lease with quiet use and possession of the Equipment, and the Corporation subject to the provisions of the Lease has the right at all reasonable times to enter into and upon the property of the City for the purposes of the Lease or for any other lawful purpose.

The term of the Lease commenced on the date of initial execution and delivery thereof and ends on the last date on which a Rental Payment is payable thereunder, unless sooner terminated in accordance with the Lease. The Lease terminates as to all of the Equipment comprising any Project upon the earlier of the following: (i) the payment by the City of all Rental Payments and any other amounts required to be paid by the City with respect to such Project under the Lease; or (ii) the discharge of the City's obligation with respect to such Project under the Lease. In addition, if no Event of Default has occurred and is continuing, the term of the Lease will terminate as to any item of Equipment as of the September 30 that next succeeds the date on which the number of years shown as the useful life of such item of Equipment in the Lease has elapsed since the date the City took possession thereof under the Lease. The Lease terminates as to all of the Equipment upon the occurrence of an Event of Default under the Lease and the Corporation's election to terminate the Lease.

## **Maintenance of Equipment**

Under the Lease the City agrees that at all times during the term of the Lease, it will at its own cost and expense, maintain, preserve and keep the Equipment in good repair, working order and condition and will from time to time make or cause to be made all necessary and proper repairs.

## **Insurance**

Under the Lease, the City is required to carry and maintain the following types of insurance with respect to the Equipment during the term of the Lease:

(i) insurance against rental interruption or loss of use and possession of the Equipment in an amount not less than the total Base Rental Payments payable by the City with respect to the Equipment for a period of at least twelve months;

(ii) fire, lightning and extended coverage, theft, vandalism and malicious mischief and flood insurance on the Equipment in an amount equal to the lesser of the full replacement value of the Equipment or the aggregate principal amount of the Bonds outstanding (subject to certain deductibles);

(iii) workers' compensation insurance covering the City's employees working, in, near or about the Equipment, in the same amount and type as other workers' compensation maintained by the City for similar employees doing similar work;

(iv) standard comprehensive general liability insurance or the equivalent covering direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the possession, operation or use of the Equipment, with minimum liability limits of \$1,000,000 for personal injury or death of each person and \$2,000,000 for personal injury or death of two or more persons in each event, and in a minimum amount of \$200,000 (subject to a deductible not to exceed \$5,000) for property damage; and

(v) standard automobile liability insurance covering direct or contingent loss or liability for damages for injury, death or property damage occasioned by reason of the possession, operation or use of the Equipment, with minimum liability limits and maximum deductibles as described in (iv) above.

The City is not required to obtain the coverages described in clauses (i), (ii) or (v) above for any item of equipment until the date the Equipment is acquired under the Lease. The coverages described in clauses (iv) and (v) above may each be in the form of a \$2,000,000 single limit policy covering all such risks and may be maintained as part of or in conjunction with any other liability insurance carried by the City. The Lease permits the City to provide a self-insurance method or plan of protection in lieu of any of the insurance described in clauses (iii) through (v) above, but only if the City obtains and provides the Trustee and the Corporation with a certificate of the Risk Manager of the City to the effect that such method or plan (and the amount contained in the related self-insurance fund) is reasonably sufficient to provide coverage in the same scope and amount he City must obtain a new certificate of the Risk Manager for each twelve-month period. Amounts paid from any self-insurance method or plan are denied insurance proceeds for purposes of the Lease and the Indenture. Net Proceeds of the insurance described in clause (i) are required to be applied to the payment of Rental Payments and Net Proceeds of insurance described in clause (ii) are required to be applied as described below under “– Damage, Destruction and Condemnation.”

## **Governmental Charges and Utility Charges**

The Corporation and the City expect that the Equipment will be used for governmental purposes of the City and therefore that the Equipment will be exempt from all taxes presently assessed and levied with respect to real and personal property. In the event that the use, possession or acquisition by the City or the Corporation of the Equipment is determined to be subject to taxation in any form, except for income or franchise taxes of the Corporation, the City agrees to pay during the term of the Lease all taxes and governmental charges of any kind that may at any time be lawfully assessed or levied with respect to the Equipment and substitutions, modifications, improvements or additions thereto, as well as utility charges incurred in the operation, maintenance, use and upkeep of the Equipment.

## **Damage, Destruction and Condemnation**

During the term of the Lease, if the Equipment or any portion thereof is damaged, destroyed, stolen or otherwise unlawfully removed from the City, the City and the Corporation agree to cause the Net Proceeds of any insurance claim to be applied to the prompt repair, restoration or replacement of the damaged, destroyed or stolen equipment. Any balance of the Net Proceeds after such work has been completed will be paid to the City. Alternatively, the City with the written consent of the Corporation, may elect to cause the Net Proceeds of insurance to be used for the redemption of outstanding Bonds issued to finance the damaged, destroyed or stolen Equipment; provided that the Net Proceeds together with any other moneys then available therefor are at least sufficient to prepay that portion of the Base Rental attributable to the destroyed, damaged or stolen Equipment.

If any Project, or any portion of any Project as to render the remainder unusable for the purposes for which it was used or intended to be used, shall be taken under the power of eminent domain, the Lease will terminate with respect to such Project the Lease requires the City to take or cause to be taken such action as is reasonably necessary to obtain compensation at least equal to the value of the Equipment or portion thereof taken by eminent domain, and all condemnation proceeds are to be transferred to the Redemption Fund and applied to the redemption of the Series of Bonds issued to finance such Project. If part of any Project shall be taken under the power of eminent domain and the remainder is usable for the purposes for which it was used at the time of such taking, the Lease continues in full force and effect with respect to the remainder, and there will be a partial abatement of the Base Rental in an amount equal to the proportion which the value of that portion of the Project taken bears to the fair rental value of the whole of the Project. The fair rental value of any Project after such a taking will be equal to the Base Rental payments due under the Lease reduced by the application of all or any part of any award in eminent domain that is used to redeem outstanding Bonds pursuant to the Indenture.

## **Defaults and Remedies**

Each of the following is an "Event of Default" under the Lease:

- (i) the City shall fail to pay any Rental Payment when the same becomes due and payable;
- (ii) the City shall fail to keep observe or perform any other term, covenant or condition contained in the Lease and such failure shall have continued for 30 days or more;
- (iii) the City's interest in the Lease or any part thereof is assigned or transferred without the written consent of the Corporation:

(iv) the occurrence and continuance of certain bankruptcy or insolvency proceedings or the appointment of a receiver for the City, or of all or substantially all of its assets; or

(v) the City shall abandon or vacate any part of the Equipment under the Lease.

Upon the occurrence of an Event of Default the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease. In addition, the Trustee may terminate the Lease and retake possession of the Equipment, except with respect to any computer software components of the Equipment. No termination of the Lease on account of default by the City will be effective unless and until the Trustee gives written notice to the City of the Trustee's election to terminate the Lease. The Trustee may also collect each installment of Rental Payments as it becomes due and enforce any other term or provision of the Lease or exercise any and all rights to retake possession of the Equipment without terminating the Lease, although the Trustee may not retake possession of any computer software components of the Equipment. If the Trustee does not terminate the Lease, the City will remain liable and agrees in the Lease to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the City and, if the Equipment is not relet, to pay the full amount of the rent to the end of the term of the Lease or, in the event the Equipment is re-let, to pay any deficiency in rental payments that results therefrom; and further agrees to pay the Rental Payments or deficiency notwithstanding the fact that the Trustee may have received in previous years or may receive thereafter Rental Payments in excess of the Rental Payments specified in the Lease and notwithstanding any retaking of possession of the Equipment by the Trustee.

### **Additional Projects**

The Lease permits the supplementation or amendment thereof to allow financing of additional Projects by the execution and delivery of a Lease Supplement. Each Lease Supplement must be approved by the City and the Corporation and no Lease Supplement will be effective unless the total amount of Bonds outstanding after the issuance of the Series of Bonds secured by the Base Rental payments to be made pursuant to such Lease Supplement does not exceed the maximum amount of indebtedness permitted to be outstanding at such time pursuant to the Charter of the City.

### **Triple Net Lease**

The Lease is a triple net lease and the City agrees under the Lease that each Rental Payment is to be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

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## APPENDIX E

### 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 by the City and County of San Francisco Finance Corporation (the “Issuer”) of \$10,975,000 City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2003A (the “2003A Bonds”). The 2003A Bonds are being issued pursuant to an Indenture, dated as of January 1, 1991, as amended and restated as of October 15, 1998, and as supplemented as of April 1, 2003, between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”), (as amended and supplemented the “Indenture”). The City hereby covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the 2003A Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2003A Bonds (including persons holding 2003A Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City, which has filed with the City and the Issuer a written acceptance of such designation.

“Holder” or “Bondholder” shall mean the registered owner of any 2003A Bond.

“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. The National Repositories currently approved by the Securities and Exchange Commission are set forth at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original purchasers of the 2003A Bonds required to comply with the Rule in connection with offering of the 2003A Bonds.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission as listed at <http://www.sec.gov/info/municipal/nrmsir.htm>.

SECTION 3. Provision of Annual Report.

(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 (presently June 30), commencing with the report for the 2002-03 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of its Annual Report and later than the date required above for the filing of such Annual Report if they are not available by that date. If the City’s fiscal year changes, such party shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) above for providing the Annual Report to Repositories, the City (if the Dissemination Agent is other than the City) shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the City’s Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection.

(c) If the Dissemination Agent is unable to verify that the Annual Report of the City is available to provide to Repositories by the date required in subsections (a) and (b) of this Section, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) 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

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Report. The City’s Annual Report shall contain or include by reference the following:

1. The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. The amount of Bonds Outstanding under the Indenture, and the balance of the Reserve Fund.

3. The status of the acquisition of the Equipment, to be provided until completion of the Project.

4. Summaries of the following:

- a. budgeted general fund revenues and appropriations;
- b. assessed valuation of taxable property in the City; and
- c. ad valorem property tax levy and delinquency rate.

5. A schedule of the aggregate annual debt service on tax-supported indebtedness of the City and a summary of authorized, but unissued, tax-supported indebtedness of the City.

6. A schedule of lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation.

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 Issuer or the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. 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) 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 2003A 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 adversely affecting the tax-exempt status of the 2003A Bonds;
8. unscheduled draws on the 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 2003A 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, or cause to have filed, a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2003A Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2003A Bonds. If such termination occurs prior to the final maturity of the 2003A Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, with notice to the Issuer, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, 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 2003A 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 2003A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the 2003A Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2003A Bonds.

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

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this

Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation hereunder to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Trustee, pursuant to the Indenture, may (and, at the request of any Participating Underwriter or the Holders of at least 25% of the aggregate principal amount of Outstanding 2003A Bonds, shall), or any Holder or Beneficial Owner of the 2003A 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 only be instituted in a Federal or State Court located in the City. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture or the Lease, 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. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Issuer, the Dissemination Agent, if any, the Participating Underwriters and Holders and Beneficial Owners from time to time of the 2003A Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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

CITY AND COUNTY OF SAN FRANCISCO

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

**CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A**

**FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Participant: City and County of San Francisco

Name of Bond Issue: City and County of San Francisco Finance Corporation  
Lease Revenue Bonds, Series 2003A

Date of Issuance: \_\_\_\_\_

NOTICE IS HEREBY GIVEN that the City and County of San Francisco has not provided an Annual Report with respect to the above-named Bonds as required by Section 2.02 of Equipment Lease Supplement No. 10, supplementing the Equipment Lease, dated as of January 1, 1991, as amended and restated as of October 15, 1998, between the City and the City and County of San Francisco Finance Corporation. [The City anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

\_\_\_\_\_,  
on behalf of the City and County of San Francisco

cc: Issuer

## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

**The Corporation and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Corporation and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.**

*The following description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the bonds (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from 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 LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its

Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Bonds under the DTC system 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 Security ("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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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.

5. 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.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. 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 issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. 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 issuer or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the issuer or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

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## APPENDIX G

### PROPOSED FORM OF CO-BOND COUNSEL OPINION

[Date of Delivery]

City and County of San Francisco  
Finance Corporation  
San Francisco, California

City and County of San Francisco Finance Corporation  
Lease Revenue Bonds, Series 2003A  
(Final Opinion)

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance of \$10,975,000 aggregate principal amount of City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2003A (the "Bonds"). In such connection, we have reviewed an Equipment Lease, dated as of January 1, 1991, as amended and restated as of October 15, 1998, and as supplemented by Equipment Lease Supplement No. 10, dated as of April 1, 2003 (collectively, the "Equipment Lease"), between the City and County of San Francisco (the "City") and the City and County of San Francisco Finance Corporation (the "Corporation"), an Indenture, dated as of January 1, 1991, by and between the Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"), as amended and restated as of October 15, 1998, and as supplemented by the Eleventh Supplemental Indenture, dated as of April 1, 2003, by and between the Corporation and the Trustee (collectively, the "Indenture"), an Agency Agreement, dated as of January 1, 1991, between the City and the Corporation, a Tax Certificate of the Corporation dated the date hereof (the "Tax Certificate"), opinions of the City Attorney, counsel to the Corporation and counsel to the Trustee, certificates of the City, the Trustee, the Corporation and others, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture and the Equipment Lease.

Certain requirements and procedures contained or referred to in the Indenture, the Equipment Lease, 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. 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 such events do occur. 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 copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City and the Corporation. We have not undertaken to verify independently, and have assumed, 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 first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained

in the Equipment Lease, the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that further actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Bonds, the Equipment Lease, the Indenture 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 charter cities and counties and non-profit public benefit corporations in the State of California (the "State"). We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents mentioned in the preceding sentence, nor do we express any opinion with respect to the state or quality of title to, or interest in, any of the personal property described in or subject to the Equipment Lease or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding limited obligations of the Corporation.
2. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the Corporation.
3. The Equipment Lease has been duly authorized, executed and delivered by the City and the Corporation and constitutes the valid and binding obligation of the City and of the Corporation, respectively. The obligation of the City to make the Rental Payments during the term of the Equipment Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor, and does not constitute a debt of the City or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.
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 it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

LOFTON & JENNINGS