December 21, 2007

The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
Citizens of the 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, 2007, with the Independent Auditor’s Report. The report is submitted in compliance with City Charter sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The Office of the Controller prepared the CAFR in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB).

The City is responsible for the accuracy of the data and for the completeness and fairness of its presentation. The existing comprehensive structure of internal accounting controls in the City provides reasonable assurance that the financial statements are free of any material misstatements. I believe that the reported data is accurate in all material respects and that its presentation fairly depicts the City’s financial position and changes to its financial position as measured by the financial activity of its various funds. I am confident that the included disclosures provide the reader with an understanding of the City’s financial affairs.

The City’s Charter requires an annual audit of the Controller’s records. The records have been audited by Macias Gini & O’Connell LLP and are presented in this CAFR. The CAFR also incorporates financial statements for San Francisco International Airport, the San Francisco Water Enterprise, Hetch Hetchy Water and Power, the Municipal Transportation Agency, the San Francisco Wastewater Enterprise, the Port of San Francisco, the City of San Francisco Market Corporation, the City and County of San Francisco Finance Corporation, the City and County of San Francisco Health Service System, the San Francisco City and County Employees’ Retirement System, and the San Francisco Redevelopment Agency.

This letter of transmittal is designed to complement the Management Discussion and Analysis (MD&A) section of the CAFR. The MD&A provides a narrative overview and analysis of the Basic Financial Statements and is presented after the independent auditor’s report.

Key CAFR 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 includes the MD&A, Basic Financial Statements, notes to the Basic Financial Statements, and required supplementary information. The Basic Financial Statements include the government-wide financial statements that report on all City financial operations, including fund financial statements that present information for all City funds. The independent auditor’s report on the Basic Financial Statements is also included.

The financials of several enterprise activities and of all component units of government are included in this CAFR. Some component units’ financials are blended with the City’s, such as: the San Francisco County Transportation Authority, the San Francisco Finance Corporation, and the San Francisco Parking Authority. The reason for this is that the primary government is financially accountable for the operations of these agencies. In other instances, namely, for the San Francisco Redevelopment Agency and the Treasure Island Development Authority, financial reporting is shown separately.
The Statistical Section includes up to ten years of historical financial data and miscellaneous social and economic information that conforms to GASB standards for reporting—Statement No. 44. This section may be of special interest to prospective investors in our bonds.

Profile of San Francisco’s Government

The City and County of San Francisco was established by Charter in 1850 and is the only legal subdivision of the State of California with the governmental powers of both a city and a county. The City’s legislative power is exercised through a Board of Supervisors, while its executive power is vested upon a Mayor and other appointed and elected officials. Key public services provided by the City include public safety and protection, public transportation, construction and maintenance of all public facilities, water, parks, public health systems, social services and planning. The heads of most of these departments are appointed by the Mayor and advised by commissions and boards appointed by City elected officials.

Elected officials include the Mayor, Members of the Board of Supervisors, Assessor-Recorder, City Attorney, District Attorney, Public Defender, Sheriff, Superior Court Judges, and Treasurer. Since November 2000, the eleven-member Board of Supervisors has been elected through district elections. The eleven district elections are staggered for five and six seats at a time, and held in even-numbered years. Board members serve four-year terms and vacancies are filled by Mayoral appointment.

San Francisco’s Budgetary Process

The City adopts annual budgets for all governmental funds and typically adopts project-length budgets for capital projects and certain debt service funds. The budget is adopted at the character level of expenditure within each department, and the department level and fund is the legal level of budgetary control. Note 2(c) to the Basic Financial Statements summarizes the budgetary roles of City officials and the timetable for their various budgetary actions according to the City Charter.

San Francisco’s Economy: Strongest in Many Years

By the end of fiscal year 2006-2007 (June 30, 2007), San Francisco’s economy was the healthiest it has been in several years. While the national downturn in housing prices, and associated credit crunch and macroeconomic uncertainty are genuine causes for concern, San Francisco itself has little exposure to sub-prime mortgages, and its property tax base is not materially at risk. Housing prices have continued to grow at robust levels. Compared with other areas of the state and country, San Francisco is expected to weather any downturn comparatively well.

Preliminary data indicate that the number of employed residents in San Francisco rose by 9,900 people between June 2006 and June 2007. Final annual employment data indicates that 12,200 new jobs were added in calendar year 2006. Combined with the 5,500 jobs added in 2005, San Francisco has added 17,700 new jobs in the last two years. This reversed four consecutive years of job loss from 2000 to 2004. Annual average unemployment for 2006 fell to 4.2 percent in San Francisco, the lowest point since the boom year of 2000, and the year-to-date average unemployment rate through June 2007 remained at 4.2 percent.

A healthy tourism industry, significant growth in professional and financial services, and a recovering population have contributed to these positive trends. Tourism helped to improve the City’s retail and hospitality sectors, which translated into greater hotel and sales tax revenues for City government.

Real estate market investing in office and housing markets continued to sustain the construction pipeline, as well as increasing property and transfer tax revenues. According to a recent report from the Urban Land Institute and PriceWaterhouseCoopers, San Francisco has the fifth-best real estate investment

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market in the country, ahead of San Jose, Los Angeles, and San Diego. San Francisco ranked in the top five in residential, office, and retail development, and led the nation in hotel development potential.

The national housing downturn, and relatively high levels of construction since 2004, have changed San Francisco’s housing situation over the past year. From December 2005 to December 2006, the median home price declined by 1 percent, from $750,000 to $745,000. Over the full 2006-2007 fiscal year however, the median sales price increased by 4.4 percent, rising to $825,000 by June 2007. This is partly evidence of San Francisco’s strong fundamentals in housing, and partly due to the fact that higher-priced properties appear to be selling more quickly.

**Key Economic Outcomes**

Several important economic outcomes for San Francisco are discussed in more detail in the following sections.

**Population: Clear Recovery After 2005**

Since 2000, the California Department of Finance and the U.S. Census Bureau have released significantly different estimates of San Francisco’s population. In 2006, for the first time since 2000, both sources indicated a rise in San Francisco’s population. The Census reported that San Francisco’s population stood at 744,041 as of July 1, 2006, representing a 0.4 percent increase over 2005. The California Department of Finance reported 802,651 for 2006, indicating a 0.8 percent increase over 2005.

Census data confirms the City’s population has changed in economically significant ways. Very large numbers of young adults moved to San Francisco during the late 1990s, but over 50,000 people in that age group left the City between 2000 and 2004 as job growth declined. According to the Census Bureau’s American Community Survey, however, this trend began to reverse itself in 2004. Between 2004 and 2006 the number of young adults in their twenties in San Francisco rose by over 6,400.

**Employment: One of the Nation’s Fastest-Growing Counties**

The wage and salary employment base of San Francisco grew by over 12,200 jobs during calendar year (CY) 2006, from 508,400 to 520,600. This 2.4 percent growth is the fastest rate of job increase since 1999-2000, and ranked San Francisco 87th in job growth among over 3,000 U.S. counties. Of particular note, San Francisco’s recent job growth rate surpassed Santa Clara, Alameda, and Contra Costa counties within the Bay Area.

**Unemployment: Down to 2000 Levels**

San Francisco’s annual unemployment rate for fiscal year 2006-2007 fell to 4.1 percent. In December 2006, the unemployment rate dipped to 3.7 percent, with only 15,800 San Francisco residents unemployed. That represented the lowest monthly unemployment total since December 2000.

**Average Wages: Rising Rapidly**

Despite the recession associated with the technology slump of the early 2000s, average wages in San Francisco have continued to grow at higher rates than the state or nation. San Francisco’s average annual wage, across all industries, grew to $70,825 in CY 2006 – a 6.4 percent increase over CY 2005. By comparison, average wages nationally grew by only 4.5 percent and by 4.3 percent in California. As

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2 *Emerging Trends in Real Estate 2008*, Urban Land Institute and PriceWaterhouseCoopers  
3 California Association of Realtors, *December 2006 Median Home Prices*.  
4 California Association of Realtors, *June 2007 Median Home Prices*.  
6 U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages
discussed in more detail below, the expansion of San Francisco’s high-wage professional services sector, as well as dramatically rising wages in financial services, are largely responsible for the growth.

Bond Ratings: Holding Strong

The City’s fiscal health continues to improve as reflected in investment grade bond ratings on the City’s municipal debt. Moody’s, Standard & Poor’s and Fitch affirmed the City’s general obligation bond ratings of Aa3, AA and AA-, respectively. The credit outlook on the City’s municipal debt was affirmed “Positive” by Moody's and Fitch and “Stable” by Standard and Poor’s. The rating agencies each cited the City’s strong underlying economy or accelerating economic growth, highlighting the broad and resilient real estate sector in particular. Prudent financial management has also been cited.

San Francisco’s Major Industries

San Francisco’s economy is dependent on the global competitiveness of two sets of industry clusters: knowledge-based businesses centered around professional, financial, and information services, and experience-based businesses centered on tourism. San Francisco’s recovery is due in no small measure to the resurgence of these key elements of its economy. The major industries within these clusters are detailed in this section, with a focus on the most recently-available job data.

In addition, a profile of some new San Francisco companies in each cluster are included below. In CY 2006, 22 major businesses relocated to San Francisco. From January to June 2007, 24 companies had relocated or announced their intentions to relocate to San Francisco. About half of these 2007 moves involved relocations of headquarters operations to the city, while the rest were branch offices of companies moving to San Francisco for the first time.

Finance, Professional, and Headquarters Services: Rapid Growth, and Rising Wages

The core of San Francisco’s knowledge-based economy is its large downtown concentration of corporate headquarters, banks and financial services companies, and professional services such as law firms and consultants. The extraordinary strength of these industries is a significant source of San Francisco’s current prosperity.

San Francisco’s job growth rate is more than twice the national average
In December 2006, San Francisco held 129,316 jobs in financial services, professional services, and corporate headquarters establishments. As a group, employment in these industries grew at the very rapid rate of 6.5 percent in San Francisco between CY 2005 and CY 2006, adding over 8,000 jobs. Nationally, the same industries grew by only 3.2 percent during the same time period.

Inflation-adjusted wages are growing rapidly as well
The increase in average San Francisco wages in these industries are as significant as their employment gains. Adjusted for the Bay Area’s Consumer Price Index (CPI-U/SF), average wages in the City’s financial services sector increased at 9.1 percent per year between 2003 and 2006, 3.3 percent per year in professional services, and 4.9 percent per year in headquarters establishments.

San Francisco is increasingly becoming a venture capital center
San Francisco has long been a financial services center, but in recent years it has seen growth in firms serving the high technology industries in particular. Several venture capital (VC) firms have moved or expanded in San Francisco to serve the emerging industries in the City and Bay Area region. These include Francisco Partners, a $5 billion private equity group, which relocated from Santa Clara County into space within the Presidio’s Letterman Digital Arts Complex, in mid-2007. It joined three other venture capital firms in the Presidio, earning this location the nickname “Sand Hill North” in reference to the concentration of VC firms in Menlo Park, 30 miles to the south. Several other VC firms have relocated to Mission Bay to concentrate on its burgeoning biotechnology industry, including Column Group, Versant

7 NAICS codes 52, 53, and 55.
Ventures, Novo Ventures, and Arch Venture Partners putting four top biotech VC firms in close proximity to other Mission Bay tenants, including Sirna and Pharmon.

**Tourism and Hospitality: Strong Recovery, Rising Hotel Rates**

The other major segment of San Francisco’s economic base is the tourism and hospitality industry. Like the downtown office services, tourism has experienced a very strong recovery since the recession of the early 2000s.

*Employment growth far outpacing the national average*

There were 74,162 people working in arts, recreation, cultural services, accommodation, and food services in San Francisco at the end of 2006. This represents an increase of 2,578 jobs over CY 2005, for a 3.6 percent increase. Again, San Francisco’s growth rate outpaced the national growth rate of 2.2 percent.

*Visitor spending up 5.3 percent in the past year*

After a 4.1 percent increase in visitors between 2004 and 2005, the San Francisco Convention and Visitors Bureau (SFCVB) reported a 0.3 percent increase in San Francisco visitors between 2005 and 2006, with a total of 15.8 million visitors in 2006. These visitors spent an estimated $7.76 billion in the City in 2006, a 5.3 percent increase in spending compared to 2005. The fact that spending is increasingly far more rapidly than visitors indicates that average amount a visitor is spending is also rising; this is a key element of the City’s tourism strategy.

*Rising room rates driving heavy investment in hotels*

In line with the increasing number of visitors, the hotel sector has continued its recovery, with both occupancy and average daily rates (ADR) increasing in 2007 over 2006 figures. Hotels city-wide reported an ADR of $175.66 for the first half of the year, a 4.4 percent increase from the same period in 2006, and up 21.3 percent since the end of 2003. Mid-year occupancy rates increased 2.5 percent over last year, to a healthy 74.7 percent. 86 hotel rooms were added in 2006, and developers and hotel operators are bullish on the San Francisco market: about 2,800 rooms are in the development pipeline.

*Retail sales growth stays strong in the face of decline across the state*

Retail sales are closely tied to the visitor industry in San Francisco. Sales growth was a strong 5.3 percent in FY 2006-2007, consistent with the recovery of tourism and the overall economy. In fact, the City's retail sales tax receipts for FY 2006-2007 surpassed the previous high-water mark experienced during the height of the dot-com boom in FY 2001-2002. This indicates that the City has achieved full recovery on the retail sales tax side in six years. As a point of comparison, several other large Bay Area cities are not projected to recover fully for another six years.

**San Francisco: the global gateway**

In June 2007, the SFCVB launched several new initiatives and strategies to more actively market the City, and encourage visitors to extend their stay and increase their spending. These include focusing on less well-known, more socially-progressive aspects of the City, touting the City's environmental credentials, and marketing a wider set of city neighborhoods. It also includes targeting international travelers, who are thought to be especially attracted to progressive and cosmopolitan San Francisco. These target markets include China and India, as well as traditional markets like the United Kingdom and Japan. Given the recent decline of the US dollar against other major currencies, San Francisco’s worldwide brand and wide international appeal will likely keep growth strong and help insulate the City from other economic risks.

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8 San Francisco Convention and Visitor Bureau, “Visitor Industry Economic Impacts, 2006.”
9 PKF Consulting.
Emerging Technology Industries

Information and Digital Media: clear signs of recovery
Since the mid-1990s, the Information sector—consisting of software products, traditional and internet-based media publishing, film, music, digital media, and television—has emerged as an important component of San Francisco’s economic base. Hard-hit by the recession, San Francisco’s information sector has nevertheless begun to recover, posting an impressive 4.6 percent employment growth rate during CY 2007. In December 2006, San Francisco had 18,100 jobs in the Information sector, according to California’s Employment Development Department.

Many information and digital media businesses have moved to San Francisco in the past year. Google brought about 800 employees to San Francisco when it occupied 210,000 square feet in Hills Plaza. Intuit, the Mountain View-based software maker, moved into 14,100 square feet. Zannel, a mobile video startup, brought 26 employees from incubator space in Menlo Park, and Exent Technologies, a PC and Video game company, relocated from Bethesda, Maryland.

Biotechnology: entering the take-off phase
Recombinant genetic engineering, the central innovation that created the biotechnology industry, was co-invented by a researcher at the University of California, San Francisco in the 1970s. Between UCSF, Stanford University, the University of California at Berkeley, and other local research institutions, the Bay Area is the leading biomedical research region in the world. The region is also home to many of the world’s largest biotechnology companies, and also leads the world in venture capital investment in biotech.

Until recently, however, few biotechnology companies were located in San Francisco itself. This has begun to change with the growth of the Mission Bay redevelopment area. Mission Bay now houses a new UCSF campus, and growing amounts of lab and incubator space for researchers and start-up companies. Between 2005 and 2006, San Francisco added 14 companies and 687 employees in R&D services in physical and biological sciences, which represents early-stage biotechnology.

Significant activity by businesses in this sector include Sirna Therapeutics, which expanded into 40,000 square feet at 1700 Owens Street, a speculative building in Mission Bay that is now fully leased. Merck Pharmaceuticals bought Sirna for $1.1 billion in 2006, bringing a global player into the heart of the City’s biotech cluster. Pharmion relocated from Colorado, and FibroGen announced it will relocate its corporate headquarters from South San Francisco to a new 450,000 square foot laboratory building being developed in Mission Bay. This move will make FibroGen the largest biotech company to date to commit to the City; it will have 200 employees in San Francisco when its building is completed in 2008.

As Mission Bay continues to develop, it is expected that San Francisco’s biotechnology industry will continue to grow rapidly. In expectation of this, Alexandria Real Estate Equities, the primary non-residential land owner in Mission Bay, is speeding up its construction schedule and plans to build 2.2 million square feet of its life science complex at Mission Bay by 2011.

Key Economic Foundations and Government Initiatives

San Francisco’s industry competitiveness and overall prosperity are underpinned by a number of local economic foundations that benefit City businesses, ranging from its real estate and transportation infrastructure, to its quality of life and business climate. In many different areas, the City government is taking steps to strengthen these advantages, and thereby helping to secure the City’s continued prosperity. Some important initiatives are described in the sections that follow.

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10 NAICS code 51.
11 NAICS code 54171.
Housing and Commercial Development

San Francisco continued to make significant progress in developing new residential, commercial, and transportation infrastructure in FY 2006-2007.

**Housing: continuing investment, and planning for future growth**

The Mayor's 15/5 initiative (15,000 new units in five years) is addressing San Francisco's chronic housing shortage. In CY 2006, 2,828 housing units were constructed, indicating the continuing strength of San Francisco's housing market in the face of the national downturn. Another 5,025 units were under construction as of the first quarter of 2007, the most recent data available.

Also in CY 2006, the Planning Department entitled 6,410 new residential units, the third straight year in which over 6,000 units were entitled. These entitlements are laying the groundwork for strong housing production in the next few years. In total, there are about 30,134 residential units in 1,157 different projects in various stages of planning. This total does not include up to approximately 18,000 units planned at the former Naval Shipyard at Hunters Point, and the former Naval Station at Treasure Island. These units are planned but not yet filed, and bring the total to 48,100 units planned, proposed, or under construction.

**Office and Retail: declining vacancy, rising rents, increasing investment, more green buildings**

The office market also continued its recovery in FY 2006-2007, with the vacancy rate declining from 14.1 percent in the third quarter of 2006 to 11.9 percent in the second quarter of 2007. During the same period, office rental rates increased 21.5 percent to $42.31 as of the second quarter of 2007, while the market experienced about 1.9 million square feet of net absorption. Office developers are taking advantage of this strong market: there is currently 1.8 million square feet of commercial space under construction. In 2006, the Mayor issued an executive directive offering priority permitting for green buildings; two major developers are building Leadership in Energy and Environmental Design (LEED) Gold buildings in response to this incentive.

Westfield Centre, including Bloomingdale's, opened last year after a $460 million makeover of the former Emporium home, adding one million square feet of retail and office space to its shopping center in the middle of San Francisco's retail district.

Real estate investors have confidence in the City as well: more than half of downtown's office inventory traded hands in the last two years with the pace quickening in 2007. As of June 2007, there has been $6.1 billion in sales year-to-date, surpassing the entire sales activity for both 2005 ($4.3 billion) and 2006 ($3.8 billion).

**Treasure Island: a pioneering model for urban sustainable development**

Over the last year, a forward-thinking plan for Treasure Island has emerged. By leveraging private capital and the City's entitlement power, the City will transform a closed military base into one of the greenest, most sustainable development projects in U.S. History. The Treasure Island Plan will add 6,000 new residential units, including 1,800 at below market rate. In addition, 250,000 square feet of retail and commercial space, 450 hotel rooms and a 300-acre park in the middle of San Francisco Bay will be created, without using any General Fund monies.

**Bayview and Hunters Point: environmental restoration and economic development**

A similar opportunity exists along San Francisco's southern waterfront, at Candlestick Point and the Hunters Point Shipyard. Current plans include 8,500 housing units, permanent artist studios, over 2,000,000 square feet of research and development space targeted to digital arts, green technology and biotech, and over 350 acres of open space and waterfront park land. Revitalizing these unique waterfront sites will create badly-needed jobs, affordable housing and parks and open space for the Hunters Point community, and the broader region.
In May 2007, the Redevelopment Agency Commission and the Board of Supervisors endorsed the conceptual framework to guide the City and County of San Francisco, its Redevelopment Agency, and Lennar Communities in planning an integrated, mixed-use project at the Candlestick Point Area of the Bayview Hunters Point and the Hunters Point Shipyard Redevelopment Project Areas. A new 49ers stadium could be an element of that revitalization effort; plans are proceeding with, and without, a stadium alternative.

Transportation Infrastructure

San Francisco’s ongoing growth and economic development is raising demand for transportation and creating a need for new investment. This growth is being experienced across all modes, including bus, rail, air, and water. Nevertheless, San Francisco is actually experiencing improving surface transportation performance, despite its growing population and strong economy.

The Transbay Transit Center: a Grand Central Station of the West

In 2006, the Transbay Transit Center project obtained Federal and State environmental approvals. The Center will initially feature an expanded terminal for buses to and from surrounding counties, and is planned to include a terminal for commuter rail from San Mateo County, high speed rail from Southern California, and pedestrian connections to the City’s MUNI Metro, and Bay Area Rapid Transit (BART) subways.

The Transbay Center will include a mixed use Transit Tower, whose development will fund much of the transit infrastructure. That project’s design and development competition resulted in five teams responding, including some of the world’s most prominent architects and developers. On September 20, 2007, the Transbay Joint Powers Authority selected the team of Pelli Clarke Pelli Architects and Hines to enter into exclusive negotiations.

The Transbay Center is a singular expression of transit-oriented development. It includes plans for very tall nearby buildings that will effectively shift the heart of downtown, and create the “Grand Central Station of the West”. The Center will be critical for the future of the local and regional economy. Rising freeway congestion in the Bay Area make it critical for the region to have the ability to rapidly bring large numbers of workers into a transit-accessible employment center. Downtown San Francisco can serve this function better than any other area in California, and the Transbay Center will significantly strengthen this capacity.

San Francisco International Airport: lower fees, more carriers and connections

San Francisco International Airport (SFO) also continued to experience rising usage during the past year. From July 2006 to June 2007, the airport served 34.3 million passengers, up 2.4 percent from the previous year. International passengers rose over twice as fast: 5.1 percent, emphasizing San Francisco’s rising role as an international business and leisure destination, as well as an expanding array of direct international connections.

Continued passenger volume increases are anticipated as SFO’s strategy of lowering landing fees to attract low-cost carriers is paying off. Three new low-cost carriers started service at SFO in 2007. International SFO passenger traffic should increase with the expansion of several international airline routes. United plans to add non-stop service from SFO to the Guangzhou area in 2008, pending DOT approval, and Cathay Pacific Airways will add a second daily flight between San Francisco and Hong Kong. In addition, India’s Jet Airways, Air India, and Kingfisher are expected to begin operations at SFO later in 2007 and early in 2008. These connections will cement San Francisco’s role as a key hub for business and trade with China and India, the two fastest growing major economies in the world.

Port of San Francisco: complementing the city’s tourism industry

The Port of San Francisco is a major west coast cruise ship destination. Passenger boardings have significantly increased in the last three years, nearly doubling between 2003 and 2006 to 223,605 passengers.
Traffic congestion: improving despite economic growth
Traffic congestion has been a major issue in the City, as in most large cities, but the situation has been improving in San Francisco. The County Transportation Agency reports that average vehicle speed increased in San Francisco between 2006 and 2007, during both AM and PM rush hours, and on both arterial roads and freeways. In 2007, the average arterial peak speed in roads in the City's Congestion Management Program was 17.2 miles per hour in the AM, and 17.8 miles per hour during the PM peak period, representing an 8.2 percent and 7.9 percent increase in average speed over 2006 AM and PM peak periods, respectively. Average peak AM freeway speeds increased 36.6 percent to 47.8 miles per hour in 2007, while PM peak freeway speeds increased 20.7 percent to 40.3 miles per hour. The recent completion of major construction projects may be the source of the extraordinarily large increases in average freeway speeds, but the benefits for the local economy are nevertheless substantial.

Transit: New investments in critical infrastructure
Transit is of vital importance to San Francisco, particularly as its employment and population numbers grow. The Bay Area Rapid Transit (BART) system is a four-county commuter rail system that helps make San Francisco an accessible work location to workers across the Bay Area. Each workday in 2007, an average of 154,000 people exit a BART station in San Francisco, a 6.8 percent increase over 2006. The City-owned Municipal Transportation Agency (MUNI) carried an average of 654,300 passengers each workday in FY 2006, totaling nearly 211 million annual passenger trips.

MUNI's $648 million T-Third light rail line started full service in April 2007, connecting the Third Street neighborhoods to the full Muni Metro system. The T-Third provides a vital economic link between the southeast sector of San Francisco and the rest of the City, while also providing significant streetscape improvements to the Third Street corridor.

Quality of Life
In recent years the City has added a number of new attractions that are largely supported by out-of-town visitors, but give residents a wealth of recreational and cultural opportunities they would not have elsewhere. The quality of life generated by these opportunities, in turn is vital to developing the highly-skilled creative talent pool that fuels the City's knowledge sector. Thus a high quality of life is not simply an indicator of successful economic development in San Francisco—it is a prerequisite for continuing economic development.

New museums broaden San Francisco’s tourism appeal and improve the quality of life
Several museums are currently in the works, broadening the base of cultural amenities for both visitors and residents alike. Chief among them is the new California Academy of Sciences in Golden Gate Park. Renzo Piano’s 410,000-square foot facility, across from the de Young Museum, has an undulating living roof covered with plants; this and other green building features will earn the museum LEED platinum status when it opens in October 2008.

Designs for the San Francisco Museum and Historical Society’s development of the historic Old Mint building are nearing completion; a third of the $90 million fundraising goal has been met. Doris and Donald Fisher, co-founders of The Gap, plan to build a 100,000-square-foot Contemporary Art Museum of the Presidio to display their collection of contemporary art. The Walt Disney Family Foundation has signed a lease to establish the Walt Disney Family Museum and Library on the Presidio’s Main Post and is expected to open to visitors in August 2009. The 63,000 square foot Jewish Museum on Yerba Buena Lane will be completed by year end 2007, with an opening scheduled for Spring 2008. Finally, the renowned science museum The Exploratorium has started an environmental impact review for its anticipated move from the Palace of Fine Arts to Piers 15-17, a move that would allow the museum to double its footprint to 200,000 square feet.

Building a greener and more livable city
Several initiatives were started or expanded this year to provide for a cleaner and greener San Francisco to enhance both the visitor and resident experiences. The Livable City Initiative was expanded in order to green City streets and help define the unique characteristics of each neighborhood. The City has secured
$8 million dollars in federal and local funds to begin major streetscape improvements, including planting trees, improving median strips, repairing sidewalks, replacing street lamps. In addition to these streetscape improvements, 5,000 trees were planted in 2006, and another 5,000 are planned for the next 12 months.

In 2006, the City also launched the Clean Corridors program that focuses on main commercial districts, removing graffiti, picking up trash and bringing these 100 key corridors to a higher standard of care and cleanliness.

Another successful tool to improve the City's neighborhood commercial corridors is the creation of more Community Benefit Districts (CBDs). Neighborhood groups and merchant associations now have the ability to form these CBDs to expand daily street cleaning, plant new trees, sponsor neighborhood festivals, provide new signage, and make other improvements.

Governance: Expanding the City's Enterprise Zone

In 2007, San Francisco expanded its enterprise zone along the eastern edge of the City, allowing potentially thousands more businesses to apply for millions of dollars in state tax breaks, including hiring tax credits, tax credits for purchasing machinery, and the ability to carry over operating losses from previous tax years.

Award

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, 2006. This was the twenty-fifth consecutive year (fiscal years ended June 30, 1982 – 2006) 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.

Acknowledgements

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 Macias Gini & O’Connell LLP for their invaluable professional support in the preparation of the CAFR. Finally, I want to thank the Mayor and the Board of Supervisors for their interest and support in planning and conducting the City’s financial operations.

Respectfully submitted,

Edward Harrington
Controller