

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**(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 (The Authority)* - The voters of the City created the Authority in 1989 to impose a voter-approved sales and use tax of one-half of one percent, for a period not to exceed 20 years, to fund essential traffic and transportation projects. In 2003, the voters approved Proposition K, extending the city-wide one-half of one percent sales tax with a new 30 year plan. A board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the Authority. The Authority is reported in a special revenue fund in the City's basic financial statements. Financial statements for the Authority can be obtained from their finance and administrative offices at 100 Van Ness Avenue, 26<sup>th</sup> Floor, San Francisco, CA 94102.

*San Francisco City and County Finance Corporation (The Finance Corporation)* - The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase \$20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. The Finance Corporation is governed by a three-member board of directors approved by the Mayor and the Board of Supervisors. The Finance Corporation is reported as an internal service fund. Financial statements for the Finance Corporation can be obtained from their administrative offices at City Hall, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

*San Francisco Parking Authority (The Parking Authority)* - The Parking Authority was created in October 1949 to provide services exclusively to the City. 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. Beginning on July 1, 2002, the responsibility for overseeing the operations of the DPT became the responsibility of the Municipal Transportation Agency (MTA) pursuant to Proposition E which was passed by the voters in November 1999. Separate financial statements are not prepared for the Parking Authority. Further information about the Parking Authority can be obtained from the MTA administrative offices at 1 South Van Ness Avenue, 7<sup>th</sup> Floor, San Francisco, CA 94102.

***Discretely Presented Component Units***

*San Francisco Redevelopment Agency (The 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 blended component unit of the Agency. The

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

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.

In May 2002, the Public Initiatives Development Corporation (PIDC) was formed to develop affordable housing on the Agency's behalf. The PIDC is reported as a blended component unit of the Agency, due to the Board of the PIDC being comprised of management of the Agency and other appointed individuals. Future funding will be dependent on the Agency and as such, the PIDC is reported as a blended component unit of the Agency.

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 finance department at 1 South Van Ness Avenue, San Francisco, CA 94103.

*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 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 their 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. 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 and the Bay Area Air Quality Management District, of which both are also excluded from the City's reporting entity.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2008

**(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. 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. Agency funds, however, report only assets and liabilities and cannot be said to have a measurement focus. 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.

Property taxes, other local taxes, grants and subventions, 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

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 **San Francisco Water Enterprise Fund** accounts for the activities of the San Francisco Water Enterprise (Water Enterprise). The Water Enterprise is engaged in the distribution of water to the City and certain suburban areas.

The **Hetch Hetchy Water and Power Enterprise 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 Transportation Agency Fund** accounts for the activities of the Municipal Transportation Agency (MTA). The MTA was established by Proposition E, passed by the City's voters in November 1999. The MTA includes the San Francisco Municipal Railway (MUNI), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the operations of the Department of Parking and Traffic (DPT), which includes the Parking Authority. 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. DPT is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. DPT is a separate department of the MTA. The parking garages fund accounted for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.

The **San Francisco General Hospital Medical Center Fund** accounts for the activities of the San Francisco General Hospital Medical Center (SFGH), a City-owned acute care hospital.

The **San Francisco Wastewater Enterprise Fund** (formerly known as the Clean Water Program) 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 operation, development, and maintenance of seven and one-half miles of waterfront property of the Port of San Francisco (Port). 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.

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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

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 retirement benefits, 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 of the State of California 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: the State of California, human welfare, community health, and transportation programs.

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 (GASB). 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 General Fund, Water Enterprise 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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, hospital patient service fees, commercial and industrial rents, printing services, vehicle maintenance fees, and telecommunication and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating 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 substantially modified accrual basis of accounting except for capital project funds and certain debt service funds which substantially 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) available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are deliberated, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The Administrative Code Chapter 3 outlines the City's general budgetary procedures, with Section 3.3 detailing the budget timeline. A summary of the key budgetary steps are summarized as follows:

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

***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 no later than the first working day of March. Staff of the Mayor's Office analyze, review and refine the budget estimates before transmitting the Mayor's Proposed Budget to the Board of Supervisors.
- (3) By the first working day of May, the Mayor submits the Proposed Budget for selected departments to the Board of Supervisors. The selected departments are determined by the Controller in consultation with the Board President and the Mayor's Budget Director. Criteria for selecting the departments include (1) that they are not supported by the City's General Fund or (2) that they do not rely on the State's budget submission in May for their revenue sources.
- (4) By the first working day of June, the Mayor submits the complete Proposed Budget to the Board of Supervisors along with a draft of the Annual Appropriation Ordinance prepared by the Controller's Office.
- (5) 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.
- (6) The designated Committee (usually the Budget Committee) of the Board of Supervisors conducts hearings, hears public comment, and reviews the Mayor's Proposed Budget. The Committee recommends an interim budget reflecting the Mayor's budget transmittal and, by June 30, the Board of Supervisors passes an interim appropriation and salary ordinances.
- (7) Not later than the last working day of July, the Board of Supervisors adopts the budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

***Final Budget***

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

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

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 through 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 issues 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 (school district), San Francisco Community College District (community college district), and the City are involuntary participants in the City's investment pool. As of June 30, 2008, involuntary participants accounted for approximately 95% of the pool. Voluntary participants accounted for 5% of the pool. Further, the school district, community college district, and the Trial Courts of the State of California are external participants of the City's pool. At June 30, 2008, \$538.4 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these three external participants is 17%. Internal participants accounted for 83% of the pool.

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* - 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.

*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 based primarily on appraisals prepared by third-party appraisers. Such fair value estimates involve subjective judgments, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a sales transaction.

The fair values of venture capital investments are estimated based primarily on audited financial statements provided to the individual fund managers. Such fair value estimates involve subjective judgments, and the actual market price of the investments can only be determined by negotiation between independent third parties in a sales transaction.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The City Charter and Retirement System 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 collateral may consist of cash or noncash; noncash collateral is generally U.S. treasuries or other U.S. government obligations. The Retirement System's securities custodians are agents in lending the Plan's domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. 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 at June 30, 2008 is ninety-six 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 fifty-one days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which at year-end had a weighted-average maturity of forty-two 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 Retirement System 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-upon buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased at a higher price (than the agreed-upon buy back price) in the open market. This credit exposure at June 30, 2008 was approximately \$1.7 million.

*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 fair 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 (The Agency)* – The Agency pools deposits and investments, except for certain investments restricted for developers' deposits and pledged assets relating to specific projects. The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2008. 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 of less than one year at the date of purchase are valued at the amortized cost, which approximates fair value as of June 30, 2008.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

***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, Investment Trust and Agency Funds.

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 funds, MTA, Laguna Honda Hospital, 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**

The Mayor's Office of Housing (MOH) and the Mayor's Office of Community Development (MOCD) administer several housing and small business subsidy programs and issues loans to qualified applicants. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. At June 30, 2008, it was determined that \$453.6 million of the \$520.3 million loan portfolio is not expected to be ultimately collected.

For the purposes of the fund financial statements, the 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. 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. The governmental fund types also use the purchase method to account for supply inventories, which are not material. This method records items as expenditures when they are acquired.

**(g) Redevelopment Agency Property Held for Resale**

Property held for resale are both residential and commercial and are 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. Property held for sale may, during the period it is held by the Agency, generate rental income, which is recognized as it becomes due and is considered collectible.

**(h) Capital Assets**

Capital assets, which include land, facilities and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 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 leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, and easements of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Facilities and Improvements	15 to 175
Infrastructure	15 to 70
Machinery and Equipment	2 to 75
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, except for Local 21 members, who are all entitled to accumulate all unused sick leave. 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. Effective July 1, 2002, the City established a pilot "Wellness Incentive Program" (the Program) to promote workforce attendance. The Program was initially negotiated as part of the July 1, 2001 to June 30, 2004 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in several Memorandums of Understanding (MOUs) dated since July 1, 2001, between the City and the affected labor organizations. Under the terms of these MOUs and the labor contracts, the Program is in effect from July 1, 2002 and begins to sunset by June 30, 2010.

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 or 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 accrues for all salary-related items, including the Program, 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**(j) Bond Issuance Costs, Premiums, Discounts and Interest Accretion**

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. San Francisco International Airport's bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The remaining bond premiums, discounts, and issuance costs are calculated using the straight-line 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.

Interest accreted on capital appreciation bonds is reported as accrued interest payable in the government-wide and proprietary fund financial statements.

**(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 rainy day* - The City's Charter requires that the City set aside funds into a reserve account in years in which revenue growth exceeds five percent compared to the year before. The City will be able to spend those funds in years in which revenues decline or grow by less than two percent.

*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 carryforward* - 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 balance 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

***Restricted Net Assets***

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2008, the government-wide statement of net assets reported restricted assets of \$410.1 million in governmental activities and \$421.9 million in business-type activities. For governmental activities, \$1.7 million is restricted by enabling legislation.
- *Unrestricted Net Assets* - This category represents net assets of the City, not restricted for any project or other purpose.

***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, 2008.

*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. At June 30, 2008, \$39.0 million was designated for litigation and contingencies which is included in the unreserved general fund balance.

***Deficit Net Assets/Fund Balances***

The Environmental Protection Fund, Public Protection Fund and Senior Citizens' Program Fund had deficits of \$0.3 million, \$1.7 million and \$1.0 million, respectively as of June 30, 2008. The deficits relate to increases of deferred tax, grant and subvention revenues on various programs which are expected to be collected beyond 120 days of the end of fiscal year 2008.

The San Francisco County Transportation Authority Fund had a \$3 million deficit as of June 30, 2008. The deficit relates to the Authority's capital projects which are scheduled to be implemented over the course of several fiscal periods and are funded with non-current revenues.

The Moscone Convention Center Fund had a \$3.9 million deficit as of June 30, 2008. The deficit will be covered as hotel tax revenues are realized.

The Central Shops Fund and Telecommunications and Information Internal Service Fund had deficits in total net assets of \$0.05 million and \$3.6 million, respectively as of June 30, 2008. The deficits of total net assets relate to the implementation of GASB Statement No. 45 related to other postemployment benefits in the fiscal year 2008. This deficit is expected to be reduced in future years through anticipated rate increases or reductions in the operating expenses. The rates are reviewed and updated annually.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2008

**(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 and a liability of the requesting 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 2006-2007 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2007-2008 basic financial statements.

**(q) Effects of New Pronouncements**

During fiscal year 2008, the City implemented the following accounting standards:

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. The City elected to report a zero net OPEB obligation at the beginning of the transition year, July 1, 2007, with the unfunded actuarial liability amortized over future periods. The City has adopted the maximum acceptable amortization period of thirty years. The disclosures required by GASB Statement No. 45 are provided in Note 9(c) and (d).

The City adopted the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues*. This statement establishes criteria that governments will use to determine whether the

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

proceeds received from either exchanging an interest in the future cash flows from collecting specific receivables or exchanging specific future revenues for immediate cash payments should be reported as revenue or as a borrowing with a related liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues. For the year ended June 30, 2008, the City did not enter into any transactions in which it would receive, or would be entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. Furthermore, the City did not pledge or commit future cash flows generated by collecting specific future revenues for the year ended June 30, 2008.

The City implemented the provisions of GASB Statement No. 50, *Pension Disclosure – an Amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those of other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement amends GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform to requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The disclosures required by GASB Statement No. 50 are provided in Note 9(a).

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In December 2006, GASB issued Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement issued a standard that will require state and local governments to provide the public with better information about the financial impact of environmental cleanups. This statement is effective for the City's fiscal year ending June 30, 2009.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The Statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this Statement is effective for the City's fiscal year ending June 30, 2010.

**(r) 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 statement of net assets 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.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2008

**(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, \$971,669, differ from net assets of governmental activities, \$1,585,056, 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 funds balance sheets and the consolidation of the internal service funds.

**Balance Sheet/Statement of Net Assets (in thousands)**

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassi- fications and Eliminations	Statement of Net Assets Totals
<b>Assets</b>					
Deposits and investments with City Treasury.....	\$ 1,150,759	\$ -	\$ 11,632	\$ -	\$ 1,162,391
Deposits and investments outside City Treasury.....	49,076	-	95,727	-	144,803
Receivables, net:					
Property taxes and penalties.....	57,175	-	-	-	57,175
Other local taxes.....	197,381	-	-	-	197,381
Federal and state grants and subventions.....	156,543	-	-	-	156,543
Charges for services.....	54,708	-	146	-	54,854
Interest and other.....	19,468	-	1,348	-	20,816
Due from other funds.....	28,468	-	-	(28,468)	-
Due from component unit.....	9,160	-	-	-	9,160
Loans receivable, net.....	67,335	-	-	-	67,335
Capital assets, net.....	-	2,926,092	4,985	-	2,931,077
Deferred charges and other assets.....	10,305	16,473	8,190	-	34,968
<b>Total assets</b>	<b>\$ 1,800,378</b>	<b>\$ 2,942,565</b>	<b>\$ 122,028</b>	<b>\$ (28,468)</b>	<b>\$ 4,836,503</b>
<b>Liabilities</b>					
Accounts payable.....	\$ 232,998	\$ -	\$ 7,587	\$ -	\$ 240,585
Accrued payroll.....	80,919	-	1,951	-	82,870
Accrued vacation and sick leave pay.....	-	134,194	4,009	-	138,203
Accrued workers' compensation.....	-	203,276	1,054	-	204,330
Other postemployment benefits obligation.....	-	160,639	4,147	-	164,786
Estimated claims payable.....	-	114,204	-	-	114,204
Accrued interest payable.....	-	8,865	2,704	-	11,569
Deferred tax, grant and subvention revenues.....	143,430	(127,936)	-	-	15,494
Due to other funds/internal balances.....	24,076	-	11,194	(28,468)	6,802
Deferred credits and other liabilities.....	197,286	(95,660)	1,580	-	103,206
Bonds, loans, capital leases, and other payables.....	150,000	1,735,674	283,724	-	2,169,398
<b>Total liabilities</b>	<b>828,709</b>	<b>2,133,256</b>	<b>317,950</b>	<b>(28,468)</b>	<b>3,251,447</b>
<b>Fund balances/net assets</b>					
Total fund balances/net assets.....	971,669	809,309	(195,922)	-	1,585,056
<b>Total liabilities and fund balances/net assets</b>	<b>\$ 1,800,378</b>	<b>\$ 2,942,565</b>	<b>\$ 122,028</b>	<b>\$ (28,468)</b>	<b>\$ 4,836,503</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

- (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.....	\$ 3,743,971
Accumulated depreciation.....	(817,879)
	\$ 2,926,092

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.

\$ 16,473

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.....	\$ (134,194)
Accrued workers' compensation.....	(203,276)
Other postemployment benefits obligation.....	(160,639)
Estimated claims payable.....	(114,204)
Bonds, loans, capital leases, and other payables.....	(1,735,674)
Deferred credits and other liabilities.....	(2,692)
	\$ (2,350,679)

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

\$ (8,865)

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.....	\$ 127,936
Deferred credits and other liabilities.....	98,352
	\$ 226,288

- (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.

Net deficit before adjustments.....	(2,841)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds.....	(284,698)
Deferred charges and other assets.....	3,843
Deferred credits and other liabilities.....	87,774
	\$ (195,922)

In addition, intrafund receivables and payables among various internal service funds of \$91 are eliminated.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**(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, (\$280,270), differs from the change in net assets for governmental activities (\$285,955), 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.

**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
<b>Revenues</b>						
Property taxes.....	\$ 1,179,688	\$ 9,823	\$ -	\$ -	\$ -	\$ 1,189,511
Business taxes.....	396,025	-	-	-	-	396,025
Other local taxes.....	652,971	-	-	-	-	652,971
Licenses, permits and franchises.....	30,943	(108)	-	-	-	30,835
Fines, forfeitures and penalties.....	13,217	-	-	-	-	13,217
Interest and investment income.....	54,256	330	-	3,343	-	57,929
Rents and concessions.....	70,160	264	-	-	-	70,424
Intergovernmental:						
Federal.....	328,315	31,502	-	-	-	359,817
State.....	561,095	27,083	-	-	-	588,178
Other.....	15,907	(131)	-	-	-	15,776
Charges for services.....	288,689	982	-	-	-	289,671
Other revenues.....	81,321	493	-	-	-	81,814
Total revenues.....	<u>3,672,587</u>	<u>70,238</u>	<u>-</u>	<u>3,343</u>	<u>-</u>	<u>3,746,168</u>
<b>Expenditures/Expenses</b>						
Expenditures:						
Public protection.....	927,198	77,476	19,513	(3,730)	-	1,020,457
Public works, transportation and commerce.....	332,171	12,035	8,840	(10,635)	-	342,411
Human welfare and neighborhood development.....	828,903	18,674	618	-	-	848,195
Community health.....	543,046	23,045	1,319	-	-	567,410
Culture and recreation.....	309,612	16,769	51,626	(11,236)	(19,338)	347,433
General administration and finance.....	210,466	23,036	20,380	(3,587)	-	250,295
General City responsibilities.....	71,205	4,691	-	4,018	973	80,887
Debt service:						
Principal retirement.....	106,580	-	-	-	(106,580)	-
Interest and fiscal charges.....	75,844	-	-	11,218	10,632	97,694
Bond issuance costs.....	1,090	-	-	-	(1,090)	-
Capital outlay.....	133,155	-	(133,155)	-	-	-
Total expenditures/expenses.....	<u>3,539,270</u>	<u>175,726</u>	<u>(30,859)</u>	<u>(13,952)</u>	<u>(115,403)</u>	<u>3,554,782</u>
<b>Other financing sources (uses)/changes in net assets</b>						
Net transfers (to) from other funds.....	(479,402)	-	-	2,061	-	(477,341)
Issuance of bonds and loans:						
Face value of bonds issued.....	310,155	-	-	-	(310,155)	-
Face value of loans issued.....	1,829	-	-	-	(1,829)	-
Premium on issuance of bonds.....	13,071	-	-	-	(13,071)	-
Payment to escrow for refunded debt.....	(283,494)	-	-	-	283,494	-
Other financing sources - capital leases.....	24,254	-	-	(24,254)	-	-
Total other financing sources (uses)/changes in net assets.....	<u>(413,587)</u>	<u>-</u>	<u>-</u>	<u>(22,193)</u>	<u>(41,561)</u>	<u>(477,341)</u>
<b>Net change for the year.....</b>	<u>\$ (280,270)</u>	<u>\$ (105,488)</u>	<u>\$ 30,859</u>	<u>\$ (4,898)</u>	<u>\$ 73,842</u>	<u>\$ (285,955)</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

(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.	\$ 9,823
Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities.	<u>60,415</u>
	<u>\$ 70,238</u>
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. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the decrease in long-term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	\$ (173,573)
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 expenditures are not reported in the statement of activities.	<u>(2,153)</u> <u>\$ (175,726)</u>
(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, the loss on disposal of capital assets and capital asset acquired or funded by donation and other revenues.	
Capital expenditures.....	\$ 120,661
Depreciation expense.....	(74,238)
Loss on disposal of capital assets.....	(5,830)
Write off construction in progress.....	(9,734)
Difference.....	<u>\$ 30,859</u>
(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.	<u>\$ (4,898)</u>
(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 current financial resources have been used. For the City as a whole, however, the principal payments reduce the liability in the statement of net assets and do not result in an expense in the statement of activities. The City's capital lease obligation was reduced because principal payments were made to lessee.	
Total property rent payments.....	<u>\$ 19,338</u>
Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities.	
Bond issuance costs.....	\$ 1,090
Amortization of bond issuance costs.....	<u>(973)</u>
Difference.....	<u>\$ 117</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period..... \$ (13,071)

Repayment of bond principal and the payment to escrow for 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.....	\$ 106,580
Payments to escrow for refunded debt.....	<u>283,494</u>
	<u>390,074</u>

Bond and loan proceeds and capital leases are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and do not affect the statement of activities. Proceeds were received from:

General obligation bonds.....	(38,760)
Refunding general obligation bonds.....	(271,395)
Loans.....	<u>(1,829)</u>
	<u>(311,984)</u>
	<u>\$ 78,090</u>

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued and accreted interest was calculated for bonds, notes payable and capital leases, (2) amortization of bond discounts, premiums and refunding losses which are not expended within the fund statements, and (3) 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.

Increase in accrued interest.....	\$ (1,832)
Bond issue cost.....	(810)
Interest payment on capital lease obligations on the Moscone Convention Center.....	(8,561)
Amortization of bond premiums, discounts and refunding losses.....	1,389
Increase in arbitrage rebate liability.....	<u>(818)</u>
	<u>\$ (10,632)</u>

**(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 generally accepted accounting principles (GAAP). 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 timing differences. Timing differences represent transactions that are accounted for in different periods for Budget basis and GAAP basis reporting. As shown below, \$2.6 million in unrealized losses on investments are deducted from budgetary fund balance for GAAP reporting purposes. \$34.6 million in property tax fine and penalty revenues accrued under the Teeter plan (see note 6) and \$26.1 million in delayed health and human services payments due from the State of California, and other miscellaneous delayed accounts receivable have been deducted from budgetary fund balance for GAAP reporting purposes because they are

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

anticipated to be received more than 120 days after the end of the fiscal period. These deductions are partially offset by \$11.4 million in loans receivable, advances and other miscellaneous items considered assets for GAAP purposes, but not available for budgetary appropriation.

The fund balance of the General Fund as of June 30, 2008 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

	<u>General Fund</u>
Fund Balance - Budget Basis.....	\$ 461,193
Unrealized Gains/(Losses) on Investments.....	(2,629)
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis.....	(34,629)
Cumulative Excess Health, Human Service, Franchise Tax and Other Revenues Recognized on a Budget Basis.....	(26,071)
Deferred amounts on loan receivables.....	(3,587)
Reserved for Assets Not Available for Appropriation.....	11,358
Fund Balance - GAAP Basis.....	<u>\$ 405,635</u>

General Fund Budget basis fund balance at June 30, 2008 is composed of the following (in thousands):

Reserved for Rainy Day - Economic Stabilization Reserve.....	\$ 117,556	
Reserved for Rainy Day - One-Time Spending Account.....	236	
Reserved for Encumbrances.....	63,068	
Reserved for Appropriation Carryforward.....	99,959	
Reserved for Subsequent Years' Budgets:		
Baseline Appropriation Funding Mandates.....	1,491	
Budget Savings Incentive Program - Citywide.....	16,181	
Budget Savings Incentive Program - Recreation and Park.....	3,266	
Litigation.....	2,626	
Salaries and benefits costs (MOU).....	12,777	
Total Reserved Fund Balance.....		\$ 317,160
Designated for Litigation and Contingencies.....	38,969	
Unreserved, Undesignated Fund Balance - Available for Appropriation.....	105,064	
Total Unreserved Amounts.....		<u>144,033</u>
Fund Balance, June 30, 2008 - Budget basis.....		<u>\$ 461,193</u>

Of the \$105.1 million unreserved, undesignated fund balance – available for appropriation, \$81.7 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2008-2009.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**(5) DEPOSITS AND INVESTMENTS**

**(a) Cash, Deposits and Investments Presentation**

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

	Primary Government			Total	Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds		
Deposits and investments with					
City Treasury.....	\$ 1,162,391 <sup>1</sup>	\$ 991,537	\$ 679,050 <sup>2</sup>	\$ 2,832,978	\$ 3,551
Deposits and investments outside					
City Treasury.....	49,076 <sup>3</sup>	9,109	16,338,982	16,397,167	270,247
Restricted assets:					
Deposits and investments with					
City Treasury.....	-	321,410	-	321,410	-
Deposits and investments outside					
City Treasury.....	95,727 <sup>3</sup>	348,888	-	444,615	122,485
Invested securities lending collateral.....	-	-	1,567,442	1,567,442	-
<b>Total deposits and investments.....</b>	<b>\$ 1,307,194</b>	<b>\$ 1,670,944</b>	<b>\$ 18,585,474</b>	<b>\$ 21,563,612</b>	<b>\$ 396,283</b>
Cash and deposits.....	\$ 86,073	\$ 104,462	\$ 60,181	\$ 250,716	\$ 55,252
Investments.....	1,221,121	1,566,482	18,525,293	21,312,896	341,031
<b>Total deposits and investments.....</b>	<b>\$ 1,307,194</b>	<b>\$ 1,670,944</b>	<b>\$ 18,585,474</b>	<b>\$ 21,563,612</b>	<b>\$ 396,283</b>

<sup>1</sup> Includes deposits and investments with the City Treasury of total governmental funds (\$1,150,759) and internal service funds (\$11,632).

<sup>2</sup> Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds (\$53,713), investment trust fund (\$540,972), and agency funds (\$84,365).

<sup>3</sup> Includes deposits and investments outside the City Treasury of total governmental funds (\$49,076) and internal service funds (\$95,727).

**(b) Cash and Deposits**

The City had cash and deposits at June 30, 2008, as follows (in thousands):

	Primary Government						Component Units	
	Governmental Activities		Business-type Activities		Fiduciary Funds		Carrying Amount	Bank Balance
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance		
Cash on hand.....	\$ 4,917	\$ -	\$ 662	\$ -	\$ 45	\$ -	\$ 1	\$ -
Federally insured deposits.....	500	500	1,764	1,764	100	100	200	200
Collateralized deposits*.....	80,656	106,384	100,401	112,574	23,608	97,524	55,051	38,990
Uninsured and uncollateralized.....	-	-	1,635	1,635	36,428	36,428	-	-
	<b>\$ 86,073</b>	<b>\$ 106,884</b>	<b>\$ 104,462</b>	<b>\$ 115,973</b>	<b>\$ 60,181</b>	<b>\$ 134,052</b>	<b>\$ 55,252</b>	<b>\$ 39,190</b>

\* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2008, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks and other distribution accounts of approximately \$111.5 million.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

***Custodial Credit Risk - Deposits***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. In addition, the City's investment policy states that mortgage-backed collateral will not be accepted. As of June 30, 2008, \$1.6 million and \$36.4 million of the business-type activities and the Retirement System's bank balances, respectively, were exposed to custodial credit risk by not being insured or collateralized.

**(c) *Investment Policies***

***Treasurer's Pool***

The City's investment 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. The objectives of the policy, in order of priority, are safety, liquidity, and yield. The City has established a Treasury Oversight Committee (Oversight Committee), comprised of various City officials and representatives of agencies with large cash balances, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits a comprehensive investment report to the members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

Although the California Government Code and the City's investment policy do not limit the amount of City funds that may be invested in treasury bills and treasury notes, purchases of treasury bonds are restricted to a maximum of five percent of the total portfolio at the time of purchase. Further, the California Government Code does not limit the amount of City funds that may be invested in federal agency instruments. However, the City's investment policy requires that investments in federal agencies should neither exceed sixty percent of the total portfolio at the time of purchase nor have a weighted average maturity in excess of 270 days. If it exceeds 270 days, the total should not exceed thirty percent of the total par value of the portfolio. The investment policy also limits each type of agency instrument.

The City's investment policy also limits the purchase of negotiable certificates of deposit to the five largest domestic commercial banks that have demonstrated profitability in their most recent audited financial statements at the time of purchase. In addition, the investment policy requires that public time deposits be made only at approved financial institutions with at least one full service branch within the geographical boundaries of the City, and that they yield a minimum of 0.125% higher than equal maturity U.S. Treasury instruments. The investment policy restricts exposure to \$100,000 for all savings institutions and requires that each deposit be fully guaranteed by the Federal Deposit Insurance Corporation. The investment policy also requires that commercial bank deposits be made on a competitive basis with risk exposure based on financial statements and related information gathered on each individual bank.

Also, the California State Government Code requires that the Treasurer purchase only domestic commercial paper with maturities not to exceed 270 days and that the issuer must be rated in the highest ranking by at least one of the national rating agencies. However, the Treasurer's investment policy is more restrictive in that it requires that the Treasurer purchase only domestic commercial paper with maturities not to exceed 180 days.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

The table below identifies the investment types that are authorized for the City, along with the related interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills	N/A	None	None
U.S. Treasury Notes	N/A	None	None
U.S. Treasury Bonds	N/A	5%	None
U.S. Agency Securities	N/A	60%	None
Commercial Paper	180 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Public Time Deposit	1 year	None	None
Public Demand Accounts	N/A	None	None
Bankers Acceptances	180 days	40%	30%
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	45 days	None	\$75 million
Local Agency Investment Fund	N/A	Up to Current State limit (\$40 million)	N/A

The Treasurer also holds for safekeeping bequests, trust funds, and lease deposits for other City departments. The bequests and trust funds consist of stocks and debentures. Those instruments are valued at par, cost, or fair value at the time of donation.

***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.

***Employees' Retirement System***

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

The investment policy permits investments in domestic and international debt and equity securities; real estate; and alternative investments, which include investments in a variety of commingled partnership vehicles.

***San Francisco Redevelopment Agency***

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.

Certain investments of the Agency are in the Local Agency Investment Fund (LAIF). LAIF is sponsored by the State Treasurer and prepares its market value report detailing the carrying cost and the estimated fair value for the entire pool. The Agency has used a multiplier provided by LAIF to determine estimated fair values. In addition, the Agency has investments with trustees. These investments are restricted by various bond covenants and are pledged for payment of principal, interest and specified capital improvements.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**(d) Investment Risks**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following schedule indicates the interest rate risk of the City's investments as of June 30, 2008 (in thousands). The Employees' Retirement System's interest rate risk information is discussed in section (f) of this note.

	Fair Value	Investment Maturities			
		Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
<b>Primary Government:</b>					
Investments in City Treasury:					
U.S. Treasury Bills	\$ 98,997	\$ 98,997	\$ -	\$ -	\$ -
U.S. Treasury Notes	619,774	273,914	345,860	-	-
U.S. Agencies - Coupon	814,318	295,330	518,988	-	-
U.S. Agencies - Discount	466,965	466,965	-	-	-
Commercial paper	647,179	647,179	-	-	-
Negotiable certificates of deposits	325,146	325,146	-	-	-
Public time deposits	24,943	24,943	-	-	-
Less: Treasure Island Development Authority Investments with City Treasury	(3,283)	(3,283)	-	-	-
Subtotal investments in City Treasury	<u>2,994,039</u>	<u>\$ 2,129,191</u>	<u>\$ 864,848</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Outside City Treasury: (Governmental and Business-Type)					
U.S. Treasury Notes	11,758	\$ 5,606	\$ 6,152	\$ -	\$ -
U.S. Treasury Bills	19,554	19,554	-	-	-
U.S. Agencies - Coupon	75,223	40,226	34,997	-	-
U.S. Agencies - Discount	262,449	262,449	-	-	-
Money market mutual funds	103,557	103,557	-	-	-
Equity securities	770	770	-	-	-
Guaranteed investment contract	15,958	-	15,958	-	-
Commercial paper	732	732	-	-	-
Subtotal investments outside City Treasury	<u>490,001</u>	<u>\$ 432,894</u>	<u>\$ 57,107</u>	<u>\$ -</u>	<u>\$ -</u>
Employees' Retirement System investments	<u>17,828,856</u>				
<b>Total Primary Government</b>	<u>21,312,896</u>				
<b>Component Units:</b>					
Redevelopment Agency:					
U.S. Agencies - Coupon	58,354	\$ 40,742	\$ 17,612	\$ -	\$ -
U.S. Agencies - Discount	68,205	68,205	-	-	-
Bankers' acceptances	21,236	21,236	-	-	-
Commercial paper	19,509	19,509	-	-	-
State Local Agency Investment Fund	62,733	62,733	-	-	-
Money market mutual funds	69,536	69,536	-	-	-
Guaranteed investment contracts	38,176	3,342	19,958	-	14,876
Subtotal Redevelopment Agency	<u>337,749</u>	<u>\$ 285,303</u>	<u>\$ 37,570</u>	<u>\$ -</u>	<u>\$ 14,876</u>
Treasure Island Development Authority:					
Investments with City Treasury	<u>3,283</u>	<u>\$ 3,283</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Subtotal Treasure Island Development Authority	<u>3,283</u>	<u>\$ 3,283</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Component Units</b>	<u>341,032</u>				
<b>Total Investments</b>	<u>\$ 21,653,928</u>				

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

One of the ways that the Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. All security transactions including collateral for repurchase agreements, entered into by the Treasurer are conducted on a deliver-versus-payment basis pursuant to approved custodial safekeeping agreements. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Agency's investment policy limits investments to securities with short maturities, such as the following:

- The maximum maturity of commercial paper is 180 days. Investment in commercial paper will comprise not more than 30% of the Agency's portfolio if average maturity is no more than 31 days or 15% if average maturity is more than 31 days.
- The maximum maturity of corporate notes is five years. Investment in corporate notes may not exceed 15% of the Agency's portfolio.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by the California Government Code and the City's investment policy and the actual rating as of June 30, 2008 for each investment type in the City's Treasury.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Standard &amp; Poor's Rating</u>	<u>Total Investment Portfolio</u>
U.S. Treasury Bills	N/A	A-1	3%
U.S. Treasury Notes	N/A	AAA/A-1	21%
U.S. Agencies	N/A	AAA/A-1	43%
Commercial Paper	A-1	A-1	21%
Negotiable Certificates of Deposits	N/A	A-1	11%
Public Time Deposits	N/A	A-1	1%

As a means of limiting its exposure to credit risk, the Agency's investment policy limits investments to high-quality securities with an investment grade of A or better, and maintaining a portfolio diversified by type and issuer.

<u>Investment Type</u>	<u>Credit Ratings</u>	<u>Total Investment Portfolio</u>
U.S. Agencies - Coupon	AAA	17%
U.S. Agencies - Discount	AAA	20%
Commercial paper	A-1/P-1	6%
State Local Agency Investment Fund	Not rated	19%
Money market mutual funds	AAAm	21%
Guaranteed investment contracts	A- or Higher	11%
Bankers acceptances	Not rated	6%

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

The Agency does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2008, \$0.8 million of the Agency's investments are uninsured and unregistered.

**Concentration of Credit Risk**

The City diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to single issuer limitation. As of end of June 30, 2008, the City Treasurer has investments in U.S. Agencies that represent 5% or more of the total Pool in the following: Federal Home Loan Bank, Federal Home Loan Bank Floater, Federal National Mortgage Association Notes, and Federal Home Loan Mortgage Corporation Notes. These investments represent 9%, 18%, 7%, and 7%, respectively. Investments in commercial paper are with Union Bank, ING Group, Bank of America, Nestle Corporation, Bank of Scotland, American International Group, Inc. (AIG), and International Lease Finance Corporation. Negotiable certificates of deposit are with Wells Fargo Bank, J.P. Morgan, Chase, and Bank of America.

In addition, 54.9% of Airport's investments with its trustees are held in Federal National Mortgage Association, 21.7% in Federal Home Loan Bank and 15.9% in Federal Home Loan Mortgage. The Finance Corporation's investments with its trustee are held in Federal Home Loan Bank for 44.3%, and Federal Farm Credit Bank for 12.8%. The Redevelopment Agency held investments with AIG Matched Funding Corporation, Federal Farm Credit Bank, Federal Home Loan Bank, and GE Capital representing 7.6%, 6.9%, 25.6% and 5.3%, respectively, of its investment portfolio.

**(e) Treasurer's Pool**

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2008 (in thousands):

<b>Statement of Net Assets</b>	
Net assets held in trust for all pool participants.....	\$ 3,157,781
Equity of internal pool participants.....	2,619,422
Equity of external pool participants.....	538,359
Total equity.....	\$ 3,157,781
<b>Statement of Changes in Net Assets</b>	
Net assets at July 1, 2007.....	\$ 3,450,364
Net change in investments by pool participants.....	(292,583)
Net assets at June 30, 2008.....	\$ 3,157,781

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2008 (in thousands):

Types of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities.....	1.68% - 5.04%	07/31/08-03/31/13	\$ 726,100	\$ 718,771
Federal agencies.....	2.09% - 4.92%	07/21/08-01/28/13	1,286,778	1,281,283
Negotiable certificate of deposits.....	1.85% - 4.60%	08/19/08-11/13/08	325,000	325,146
Commercial paper.....	1.80% - 6.09%	07/22/08-12/09/08	655,000	647,179
Public time deposits.....	2.55% - 5.63%	07/16/08-01/18/09	25,200	24,943
			\$ 3,018,078	2,997,322
Carrying amount of deposits in Treasurer's Pool.....				160,459
Total cash and investments in Treasurer's Pool.....				\$ 3,157,781

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**(f) Retirement System Investments**

The Retirement System's investments as of June 30, 2008 are summarized as follows (in thousands):

Fixed Income Investments:	
Short-term bills and notes	\$ 879,724
Debt securities:	
U.S. Government and agencies	1,358,339
U.S. Corporate	2,907,858
International government	64,847
International corporate and others	209,952
Subtotal debt securities	<u>4,540,996</u>
Total fixed income investments	<u>5,420,720</u>
Equity securities:	
Domestic	4,138,513
International	3,226,693
Total equity securities	<u>7,365,206</u>
Real estate holdings	1,788,561
Venture capital	1,686,927
Investment in lending agent's short-term investment pool	<u>1,567,442</u>
<b>Total Retirement System Investments</b>	<b>\$ 17,828,856</b>

**Interest Rate Risk**

The Retirement System does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board.

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2008 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-6 years</u>	<u>6-10 years</u>	<u>10+ years</u>
Asset Backed Securities	\$ 175,567	\$ 1,273	\$ 62,295	\$ 15,291	\$ 96,708
Commercial Mortgage-Backed Securities	744,787	-	107,374	133,777	503,636
Corporate Bonds	1,527,709	32,542	648,081	619,369	227,717
Corporate Convertible Bonds	170,505	2,910	47,400	7,791	112,404
Government Agencies	157,403	-	512	154,193	2,698
Government Bonds	276,575	3,516	34,456	144,012	94,591
Government Mortgage-Backed Securities	934,878	-	-	2,622	932,256
Index Linked Government Bonds	29,285	-	7,035	14,631	7,619
Loans	26,974	5,287	8,639	13,048	-
Mortgages	158	-	-	158	-
Municipal/Provincial Bonds	25,046	61	-	4,056	20,929
Non-Government Backed Collateralized Mortgage Obligations	316,775	919	1,785	8,630	305,441
Other Fixed Income	309,504	-	306,425	-	3,079
Short-term Bills and Notes	15,426	15,426	-	-	-
<b>Total</b>	<b>\$ 4,710,592</b>	<b>\$ 61,934</b>	<b>\$ 1,224,002</b>	<b>\$ 1,117,578</b>	<b>\$ 2,307,078</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**Credit Risk**

Fixed income investment managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies. The following table illustrates the Retirement System's exposure to credit risk excluding obligations of the U.S. government and those explicitly guaranteed by the U.S. government as of June 30, 2008 (amounts in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>C</u>	<u>Not Rated</u>
Asset Backed Securities	\$ 175,567	\$ 101,125	\$ 4,193	\$ 32,393	\$ 25,671	\$ 4,742	\$ 2,922	\$ 2,252	\$ 2,269
Commercial Mortgage-Backed	744,788	325,364	17,335	22,674	73,762	44,786	24,983	6,574	229,310
Corporate Bonds	1,527,709	22,699	78,977	182,345	298,581	96,927	167,274	49,800	631,106
Corporate Convertible Bonds	170,505	-	9,741	46,631	44,377	24,809	15,800	2,995	26,152
Government Agencies	157,402	155,640	-	1,377	385	-	-	-	-
Government Bonds	53,506	-	936	3,047	14,097	10,283	8,573	1,830	14,740
Government Mortgage-Backed Securities	934,878	934,878	-	-	-	-	-	-	-
Index Linked Government Bonds	9,636	-	-	-	-	-	-	-	9,636
Mortgages	158	-	-	-	-	-	-	-	158
Municipal/Provincial Bonds	25,046	3,232	13,651	7,427	-	325	-	411	-
Bank Loans	26,973	-	-	-	-	-	-	-	26,973
Collateralized Bonds	3,058	-	427	1,685	946	-	-	-	-
Non-Government Backed-Collateralized Mortgage Obligations	316,774	267,146	3,790	14,296	4,981	4,557	7,697	1,949	12,358
Other Fixed Income - Commingled Funds	306,426	-	-	-	-	-	-	-	306,426
Short-term bills and notes	15,227	6,948	-	-	-	-	-	-	8,279
<b>Total</b>	<b>\$ 4,467,653</b>	<b>\$ 1,817,032</b>	<b>\$ 129,050</b>	<b>\$ 311,875</b>	<b>\$ 462,800</b>	<b>\$ 186,429</b>	<b>\$ 227,249</b>	<b>\$ 65,811</b>	<b>\$ 1,267,407</b>

The ratings are the lower of the ratings by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Investments not rated by either Moody's or S&P are shown as not rated in the above table.

**Custodial Credit Risk**

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but it is the practice of the Retirement System that all investments are insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2008, \$9.0 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

Cash received as securities lending collateral is invested in a securities lending collateral investment pool and is not exposed to custodial credit risk.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of investments. As of June 30, 2008, the Retirement System was subjected to foreign currency risk. To mitigate this risk, the Retirement System's investment policy allows international managers to enter into foreign currency exchange contracts limited to hedging currency exposure existing in the portfolio. The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments. The Retirement System's net exposure to foreign currency risk for fiscal year ended June 30, 2008 is as follows (in thousands):

<b>Currency</b>	<b>Cash</b>	<b>Equity</b>	<b>Fixed Income</b>	<b>Venture Capital</b>	<b>Real Estate</b>	<b>Swaps</b>	<b>Total</b>
Argentine peso	\$ 5,375	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,375
Australian dollar	135,485	115,760	-	-	-	-	251,245
Brazilian real	3,805	39,062	17,424	-	-	12,961	73,252
British pound sterling	68,189	437,062	-	1,282	-	(269)	506,264
Canadian dollar	84,802	108,742	3,124	-	-	-	196,668
Chilean peso	2,922	-	-	-	-	-	2,922
Chinese yuan renminbi	92,728	-	-	-	-	-	92,728
Columbian peso	333	-	3,483	-	-	-	3,816
Czech koruna	9,584	10,962	-	-	-	-	20,546
Danish krone	(4,971)	36,756	-	-	-	-	31,785
Egyptian pound	2,863	15,868	2,674	-	-	-	21,405
Euro	(245,192)	831,880	1,347	207,884	-	(1,030)	794,889
Hong Kong dollar	(10,103)	108,138	-	-	-	-	98,035
Hungarian forint	7,108	14,129	2,082	-	-	-	23,319
Indian rupee	42,498	178	-	-	-	-	42,676
Indonesian rupiah	5,318	1,418	4,124	-	-	1,491	12,351
Japanese yen	32,314	531,759	-	-	46,355	-	610,428
Kenyan shilling	(1,001)	-	-	-	-	-	(1,001)
Kuwaiti dinar	1,193	-	-	-	-	-	1,193
Malaysian ringgit	14,909	12,094	2,113	-	-	-	29,116
Mexican peso	50,033	12,850	782	-	-	-	63,665
New Israeli shekel	6,131	4,698	3,557	-	-	-	14,386
New Taiwan dollar	25,351	5,183	936	-	-	-	31,470
New Zealand dollar	(83,749)	3,573	-	-	-	-	(80,176)
Nigerian naira	711	-	1,680	-	-	571	2,962
Norwegian krone	124,973	34,077	-	-	-	-	159,050
Peruvian nuevo sol	2,968	-	-	-	-	1,274	4,242
Philippine peso	4,122	-	836	-	-	-	4,958
Polish zloty	4,384	13,480	-	-	-	-	17,864
Russian ruble (new)	63,219	-	3,035	-	-	2,838	69,092
Singapore dollar	35,869	41,025	-	-	-	-	76,894
South African rand	7,103	22,459	-	-	-	-	29,562
South Korean won	4,259	67,689	-	-	-	-	71,948
Swedish krona	(6,137)	56,563	-	-	-	-	50,426
Swiss franc	(21,482)	176,753	-	-	-	14	155,285
Thai baht	3,767	11,382	-	-	-	-	15,149
Turkish lira	1,046	13,666	2,050	-	-	-	16,762
Vietnamese dong	1,798	-	-	-	-	-	1,798
United Arab dirham	3,970	794	6,002	-	-	-	10,766
<b>Total</b>	<b>\$ 476,495</b>	<b>\$ 2,728,000</b>	<b>\$ 55,249</b>	<b>\$ 209,166</b>	<b>\$ 46,355</b>	<b>\$ 17,850</b>	<b>\$ 3,533,115</b>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2008, the fair value of open contracts is summarized as follows (in thousands):

Purchase contracts	\$ 5,828,832
Sales contracts	<u>(5,829,336)</u>
Net fair value	<u>\$ (504)</u>

The Retirement System utilized these contracts to hedge (or decrease) the currency risk of foreign investments, 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 impact on market risk of these contracts can be summarized as follows (in thousands):

Contracts used to hedge or to settle trades, net	\$ (1,321,906)
Contracts used to increase investment exposure in a foreign currency or to settle trades, net	<u>1,321,402</u>
Net fair value	<u>\$ (504)</u>

**Securities Lending**

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and securities at 105% of the fair market value of domestic securities and non-domestic securities lent. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral.

The Retirement System lent \$1.95 billion in securities and received collateral of \$0.45 billion and \$1.57 billion in securities and cash, respectively, from borrowers. The Retirement System's securities lending transactions as of June 30, 2008, are summarized in the following table (in thousands):

<u>Security Type</u>	<u>Fair Value of Loaned Securities</u>	<u>Cash Collateral</u>	<u>Fair Value of Non-Cash Collateral</u>
<b>Securities Loaned for Cash Collateral:</b>			
International Equities	\$ 395,790	\$ 416,023	\$ -
International Corporate Fixed	1,536	1,592	-
International Government Fixed	10,197	10,684	-
U.S. Agencies	203,309	208,186	-
U.S. Corporate Fixed	183,061	188,052	-
U.S. Equities	502,300	516,671	-
U.S. Government Fixed	221,316	226,234	-
<b>Securities Loaned with Non-Cash Collateral:</b>			
International Equities	399,808	-	424,681
International Government Fixed	196	-	224
U.S. Equities	<u>28,195</u>	<u>-</u>	<u>29,051</u>
<b>Total</b>	<u>\$ 1,945,708</u>	<u>\$ 1,567,442</u>	<u>\$ 453,956</u>

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. As of June 30, 2008, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. In addition, the lending agent indemnifies the Retirement System against all borrower defaults.

**(g) Supplemental disclosure of non-cash investing, capital and financing activities**

San Francisco International Airport

During fiscal year ended June 30, 2008, the San Francisco International Airport (Airport) issued Second Series Variable Rate Refunding Bonds Issue 34 A/B, 34C/D/E/F, 36A/B, 36C/D, 37A/B, 37C/D for a total of \$1,255 million to refund certain revenue bonds previously issued.

**Other Non-Cash Transactions**

The following represents the other non-cash transactions as of June 30, 2008 (in thousands):

	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water & Power	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Internal Service Funds	Total
Acquisition of capital assets on accounts payable and capital leases.....	\$ 16,437	\$ 27,322	\$ 6,895	\$ 1,068	\$ 4,605	\$ 951	\$ 11,326	\$ 68,604
Loss on abandonment of property and equipment.....	-	-	41,224	-	-	3,733	-	44,957
<b>Total</b>	<b>\$ 16,437</b>	<b>\$ 27,322</b>	<b>\$ 48,119</b>	<b>\$ 1,068</b>	<b>\$ 4,605</b>	<b>\$ 4,684</b>	<b>\$ 11,326</b>	<b>\$ 113,561</b>

**(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 1<sup>st</sup> 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 1<sup>st</sup> and delinquent with penalties after December 10<sup>th</sup>; the second is due February 1<sup>st</sup> and delinquent with penalties after April 10<sup>th</sup>. Secured property taxes that are delinquent and unpaid as of June 30<sup>th</sup> 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 levied on January 1<sup>st</sup> and become delinquent with penalties after August 31<sup>st</sup>. 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 1978-1979, general property taxes are based either on a flat 1% rate applied to the adjusted 1975-1976 value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-1976 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise or be adjusted 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-

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

thirds of the local voters. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately \$134 million for the year ended June 30, 2008.

Taxable valuation for the year ended June 30, 2008 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately \$124 billion, an increase of 6.2%. The secured tax rate was \$1.141 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, \$0.35 for other taxing entities including the San Francisco Unified School District, San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District, and also \$0.141 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 2.44% and 4.33%, respectively, of the current year tax levy, for an average delinquency rate of 2.52% 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 tax 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, 2008 was \$14.3 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**  
**June 30, 2008**

**(7) CAPITAL ASSETS**

**Primary Government**

Capital asset activity of the primary government for the year ended June 30, 2008 was as follows (in thousands):

**Governmental Activities:**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 151,917	\$ -	\$ -	\$ 151,917
Construction in progress.....	325,828	96,202	(173,443)	248,587
Total capital assets, not being depreciated.....	<u>477,745</u>	<u>96,202</u>	<u>(173,443)</u>	<u>400,504</u>
Capital assets, being depreciated:				
Facilities and improvements.....	2,632,750	135,195	(8,252)	2,759,693
Machinery and equipment.....	297,675	28,005	(10,082)	315,598
Infrastructure.....	282,801	27,755	-	310,556
Property held under lease.....	139	-	(139)	-
Total capital assets, being depreciated.....	<u>3,213,365</u>	<u>190,955</u>	<u>(18,473)</u>	<u>3,385,847</u>
Less accumulated depreciation for:				
Facilities and improvements.....	524,451	50,717	(4,018)	571,150
Machinery and equipment.....	244,129	18,013	(7,245)	254,897
Infrastructure.....	21,622	7,605	-	29,227
Property held under lease.....	139	-	(139)	-
Total accumulated depreciation.....	<u>790,341</u>	<u>76,335</u>	<u>(11,402)</u>	<u>855,274</u>
Total capital assets, being depreciated, net.....	<u>2,423,024</u>	<u>114,620</u>	<u>(7,071)</u>	<u>2,530,573</u>
Governmental activities capital assets, net.....	<u>\$ 2,900,769</u>	<u>\$ 210,822</u>	<u>\$ (180,514)</u>	<u>\$ 2,931,077</u>

**Business-type Activities:**

Capital asset activity of the business enterprises for the year ended June 30, 2008, was as follows (in thousands):

**San Francisco International Airport**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 2,316	\$ 471	\$ -	\$ 2,787
Construction in progress.....	68,615	117,084	(130,549)	55,150
Total capital assets, not being depreciated.....	<u>70,931</u>	<u>117,555</u>	<u>(130,549)</u>	<u>57,937</u>
Capital assets, being depreciated:				
Facilities and improvements.....	4,920,229	117,826	(140)	5,037,915
Machinery and equipment.....	63,239	5,981	(2,385)	66,835
Easements.....	139,367	-	-	139,367
Total capital assets, being depreciated.....	<u>5,122,835</u>	<u>123,807</u>	<u>(2,525)</u>	<u>5,244,117</u>
Less accumulated depreciation for:				
Facilities and improvements.....	1,430,895	142,180	(140)	1,572,935
Machinery and equipment.....	54,966	1,987	(2,385)	54,568
Easements.....	66,964	6,955	-	73,919
Total accumulated depreciation.....	<u>1,552,825</u>	<u>151,122</u>	<u>(2,525)</u>	<u>1,701,422</u>
Total capital assets, being depreciated, net.....	<u>3,570,010</u>	<u>(27,315)</u>	<u>-</u>	<u>3,542,695</u>
Capital assets, net.....	<u>\$ 3,640,941</u>	<u>\$ 90,240</u>	<u>\$ (130,549)</u>	<u>\$ 3,600,632</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**San Francisco Water Enterprise**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 18,277	\$ -	\$ (391)	\$ 17,886
Construction in progress.....	311,098	242,954	(130,989)	423,063
Total capital assets, not being depreciated.....	<u>329,375</u>	<u>242,954</u>	<u>(131,380)</u>	<u>440,949</u>
Capital assets, being depreciated:				
Facilities and improvements.....	1,166,073	121,331	-	1,287,404
Machinery and equipment.....	122,584	6,835	(661)	128,758
Total capital assets, being depreciated.....	<u>1,288,657</u>	<u>128,166</u>	<u>(661)</u>	<u>1,416,162</u>
Less accumulated depreciation for:				
Facilities and improvements.....	458,981	37,905	-	496,886
Machinery and equipment.....	84,796	8,053	(618)	92,231
Total accumulated depreciation.....	<u>543,777</u>	<u>45,958</u>	<u>(618)</u>	<u>589,117</u>
Total capital assets, being depreciated, net.....	<u>744,880</u>	<u>82,208</u>	<u>(43)</u>	<u>827,045</u>
Capital assets, net.....	<u>\$ 1,074,255</u>	<u>\$ 325,162</u>	<u>\$ (131,423)</u>	<u>\$ 1,267,994</u>

**Hetch Hetchy Water and Power**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 4,215	\$ 379	\$ -	\$ 4,594
Construction in progress.....	59,125	31,258	(65,866)	24,517
Total capital assets, not being depreciated.....	<u>63,340</u>	<u>31,637</u>	<u>(65,866)</u>	<u>29,111</u>
Capital assets, being depreciated:				
Facilities and improvements.....	464,657	19,910	-	484,567
Machinery and equipment.....	42,764	5,907	(170)	48,501
Total capital assets, being depreciated.....	<u>507,421</u>	<u>25,817</u>	<u>(170)</u>	<u>533,068</u>
Less accumulated depreciation for:				
Facilities and improvements.....	261,598	9,353	-	270,951
Machinery and equipment.....	30,343	1,668	(159)	31,852
Total accumulated depreciation.....	<u>291,941</u>	<u>11,021</u>	<u>(159)</u>	<u>302,803</u>
Total capital assets, being depreciated, net.....	<u>215,480</u>	<u>14,796</u>	<u>(11)</u>	<u>230,265</u>
Capital assets, net.....	<u>\$ 278,820</u>	<u>\$ 46,433</u>	<u>\$ (65,877)</u>	<u>\$ 259,376</u>

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**Municipal Transportation Agency**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 26,245	\$ -	\$ -	\$ 26,245
Construction in progress.....	297,436	140,795	(174,600)	263,631
Total capital assets, not being depreciated.....	<u>323,681</u>	<u>140,795</u>	<u>(174,600)</u>	<u>289,876</u>
Capital assets, being depreciated:				
Facilities and improvements.....	405,816	10,102	(84)	415,834
Machinery and equipment.....	1,099,320	59,598	(18,617)	1,140,301
Infrastructure.....	1,003,194	98,663	-	1,101,857
Total capital assets, being depreciated.....	<u>2,508,330</u>	<u>168,363</u>	<u>(18,701)</u>	<u>2,657,992</u>
Less accumulated depreciation for:				
Facilities and improvements.....	170,686	9,245	(84)	179,847
Machinery and equipment.....	421,193	62,571	(17,412)	466,352
Infrastructure.....	277,465	30,212	-	307,677
Total accumulated depreciation.....	<u>869,344</u>	<u>102,028</u>	<u>(17,496)</u>	<u>953,876</u>
Total capital assets, being depreciated, net.....	<u>1,638,986</u>	<u>66,335</u>	<u>(1,205)</u>	<u>1,704,116</u>
Capital assets, net.....	<u>\$ 1,962,667</u>	<u>\$ 207,130</u>	<u>\$ (175,805)</u>	<u>\$ 1,993,992</u>

**San Francisco General Hospital Medical Center**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 542	\$ -	\$ -	\$ 542
Construction in progress.....	5,720	16,538	(588)	21,670
Total capital assets, not being depreciated.....	<u>6,262</u>	<u>16,538</u>	<u>(588)</u>	<u>22,212</u>
Capital assets, being depreciated:				
Facilities and improvements.....	134,159	1,072	-	135,231
Machinery and equipment.....	54,117	2,713	-	56,830
Total capital assets, being depreciated.....	<u>188,276</u>	<u>3,785</u>	<u>-</u>	<u>192,061</u>
Less accumulated depreciation for:				
Facilities and improvements.....	95,209	3,744	-	98,953
Machinery and equipment.....	45,097	2,850	-	47,947
Total accumulated depreciation.....	<u>140,306</u>	<u>6,594</u>	<u>-</u>	<u>146,900</u>
Total capital assets, being depreciated, net.....	<u>47,970</u>	<u>(2,809)</u>	<u>-</u>	<u>45,161</u>
Capital assets, net.....	<u>\$ 54,232</u>	<u>\$ 13,729</u>	<u>\$ (588)</u>	<u>\$ 67,373</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**San Francisco Wastewater Enterprise**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 22,168	\$ -	\$ (381)	\$ 21,787
Construction in progress.....	42,856	63,315	(43,196)	62,975
Total capital assets, not being depreciated.....	<u>65,024</u>	<u>63,315</u>	<u>(43,577)</u>	<u>84,762</u>
Capital assets, being depreciated:				
Facilities and improvements.....	2,018,942	38,683	-	2,057,625
Machinery and equipment.....	46,224	5,734	(375)	51,583
Total capital assets, being depreciated.....	<u>2,065,166</u>	<u>44,417</u>	<u>(375)</u>	<u>2,109,208</u>
Less accumulated depreciation for:				
Facilities and improvements.....	770,443	36,595	-	807,038
Machinery and equipment.....	24,277	2,163	(369)	26,071
Total accumulated depreciation.....	<u>794,720</u>	<u>38,758</u>	<u>(369)</u>	<u>833,109</u>
Total capital assets, being depreciated, net.....	<u>1,270,446</u>	<u>5,659</u>	<u>(6)</u>	<u>1,276,099</u>
Capital assets, net.....	<u>\$ 1,335,470</u>	<u>\$ 68,974</u>	<u>\$ (43,583)</u>	<u>\$ 1,360,861</u>

**Port of San Francisco**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 121,045	\$ 464	\$ -	\$ 121,509
Construction in progress.....	33,962	14,078	(15,331)	32,709
Total capital assets, not being depreciated.....	<u>155,007</u>	<u>14,542</u>	<u>(15,331)</u>	<u>154,218</u>
Capital assets, being depreciated:				
Facilities and improvements.....	295,610	12,123	-	307,733
Machinery and equipment.....	14,915	1,770	(137)	16,548
Total capital assets, being depreciated.....	<u>310,525</u>	<u>13,893</u>	<u>(137)</u>	<u>324,281</u>
Less accumulated depreciation for:				
Facilities and improvements.....	183,139	9,275	-	192,414
Machinery and equipment.....	10,031	1,133	(137)	11,027
Total accumulated depreciation.....	<u>193,170</u>	<u>10,408</u>	<u>(137)</u>	<u>203,441</u>
Total capital assets, being depreciated, net.....	<u>117,355</u>	<u>3,485</u>	<u>-</u>	<u>120,840</u>
Capital assets, net.....	<u>\$ 272,362</u>	<u>\$ 18,027</u>	<u>\$ (15,331)</u>	<u>\$ 275,058</u>

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**Laguna Honda Hospital**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land.....	\$ 914	\$ -	\$ -	\$ 914
Construction in progress.....	235,877	74,657	-	310,534
Total capital assets, not being depreciated.....	<u>236,791</u>	<u>74,657</u>	<u>-</u>	<u>311,448</u>
Capital assets, being depreciated:				
Facilities and improvements.....	28,107	21	-	28,128
Machinery and equipment.....	13,538	666	-	14,204
Property held under lease.....	2,845	86	-	2,931
Total capital assets, being depreciated.....	<u>44,490</u>	<u>773</u>	<u>-</u>	<u>45,263</u>
Less accumulated depreciation for:				
Facilities and improvements.....	24,277	668	-	24,945
Machinery and equipment.....	12,446	298	-	12,744
Property held under lease.....	361	106	-	467
Total accumulated depreciation.....	<u>37,084</u>	<u>1,072</u>	<u>-</u>	<u>38,156</u>
Total capital assets, being depreciated, net.....	<u>7,406</u>	<u>(299)</u>	<u>-</u>	<u>7,107</u>
Capital assets, net.....	<u>\$ 244,197</u>	<u>\$ 74,358</u>	<u>\$ -</u>	<u>\$ 318,555</u>

**Other Fund – San Francisco Market Corporation**

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Construction in progress.....	\$ -	\$ 3	\$ -	\$ 3
Total capital assets, being depreciated.....	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>
Capital assets, being depreciated:				
Facilities and improvements.....	9,638	234	-	9,872
Machinery and equipment.....	56	-	-	56
Total capital assets, being depreciated.....	<u>9,694</u>	<u>234</u>	<u>-</u>	<u>9,928</u>
Less accumulated depreciation for:				
Facilities and improvements.....	5,081	266	-	5,347
Machinery and equipment.....	23	8	-	31
Total accumulated depreciation.....	<u>5,104</u>	<u>274</u>	<u>-</u>	<u>5,378</u>
Total capital assets, being depreciated, net.....	<u>4,590</u>	<u>(40)</u>	<u>-</u>	<u>4,550</u>
Capital assets, net.....	<u>\$ 4,590</u>	<u>\$ (37)</u>	<u>\$ -</u>	<u>\$ 4,553</u>

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**Total Business-type Activities**

	Balance July 1, 2007	Increases*	Decreases*	Balance June 30, 2008
<b>Capital assets, not being depreciated:</b>				
Land.....	\$ 195,722	\$ 1,314	\$ (772)	\$ 196,264
Construction in progress.....	1,054,689	700,682	(561,119)	1,194,252
Total capital assets, not being depreciated.....	<u>1,250,411</u>	<u>701,996</u>	<u>(561,891)</u>	<u>1,390,516</u>
<b>Capital assets, being depreciated:</b>				
Facilities and improvements.....	9,443,231	321,302	(224)	9,764,309
Machinery and equipment.....	1,456,757	89,204	(22,345)	1,523,616
Infrastructure.....	1,003,194	98,663	-	1,101,857
Property held under lease.....	2,845	86	-	2,931
Easements.....	139,367	-	-	139,367
Total capital assets, being depreciated.....	<u>12,045,394</u>	<u>509,255</u>	<u>(22,569)</u>	<u>12,532,080</u>
<b>Less accumulated depreciation for:</b>				
Facilities and improvements.....	3,400,309	249,231	(224)	3,649,316
Machinery and equipment.....	683,172	80,731	(21,080)	742,823
Infrastructure.....	277,465	30,212	-	307,677
Property held under lease.....	361	106	-	467
Easements.....	66,964	6,955	-	73,919
Total accumulated depreciation.....	<u>4,428,271</u>	<u>367,235</u>	<u>(21,304)</u>	<u>4,774,202</u>
Total capital assets, being depreciated, net.....	<u>7,617,123</u>	<u>142,020</u>	<u>(1,265)</u>	<u>7,757,878</u>
Capital assets, net.....	<u>\$ 8,867,534</u>	<u>\$ 844,016</u>	<u>\$ (563,156)</u>	<u>\$ 9,148,394</u>

\* The increases and decreases include transfers of categories of capital assets from construction in progress to depreciable categories.

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

<b>Governmental activities</b>	
Public protection.....	\$ 12,660
Public works, transportation, and commerce.....	12,529
Human welfare and neighborhood development.....	515
Community health.....	1,116
Culture and recreation.....	30,274
General administration and finance.....	17,144
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis.....	<u>2,097</u>
Total depreciation expense - governmental activities	<u>\$ 76,335</u>
<b>Business-type activities:</b>	
Airport.....	151,122
Water.....	45,958
Power.....	11,021
Transportation.....	102,028
Hospitals.....	7,666
Sewer.....	38,758
Port.....	10,408
Market.....	<u>274</u>
Total depreciation expense - business-type activities.....	<u>\$ 367,235</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Enterprise that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, and pier substructures of the Port, which totaled \$1.6 billion as of June 30, 2008. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled \$4.5 million as of June 30, 2008.

During the fiscal year ended June 30, 2008, the City's enterprise funds incurred total interest expense and interest income of approximately \$273.5 million and \$67.2 million, respectively. Of these amounts, interest expense of approximately \$21.2 million was capitalized, while no interest income was received as part of the cost of constructing proprietary capital assets.

During fiscal year ended June 30, 2008, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed \$7.9 million, \$42.5 million, and \$1.5 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued. The amounts of the write-off were recognized as other operating expenses and as a special item in the accompanying financial statements.

**Component Unit – Redevelopment Agency**

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2008 was as follows (in thousands):

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Property held under lease.....	\$ 111,472	\$ 5,853	\$ -	\$ 117,325
Construction in progress.....	14,997	3,572	(3,645)	14,924
Total capital assets, not being depreciated/amortized.....	<u>126,469</u>	<u>9,425</u>	<u>(3,645)</u>	<u>132,249</u>
Capital assets, being depreciated:				
Facilities and improvements.....	172,934	3,721	-	176,655
Machinery and equipment.....	8,068	35	-	8,103
Leasehold improvements.....	22,202	-	-	22,202
Total capital assets, being depreciated.....	<u>203,204</u>	<u>3,756</u>	<u>-</u>	<u>206,960</u>
Less accumulated depreciation and amortization for:				
Facilities and improvements.....	44,394	4,415	-	48,809
Machinery and equipment.....	7,783	69	-	7,852
Leasehold improvements.....	8,662	444	-	9,106
Total accumulated depreciation and amortization.....	<u>60,839</u>	<u>4,928</u>	<u>-</u>	<u>65,767</u>
Total capital assets, being depreciated, net.....	<u>142,365</u>	<u>(1,172)</u>	<u>-</u>	<u>141,193</u>
Redevelopment Agency capital assets, net.....	<u>\$ 268,834</u>	<u>\$ 8,253</u>	<u>\$ (3,645)</u>	<u>\$ 273,442</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2008

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

**Short-Term Obligations**

The following is a summary of short-term obligations of the City as of June 30, 2008 (in thousands):

<u>Type of Obligation</u>	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities:			
Commercial paper.....	2008	1.3 to 1.6%	\$ 150,000
Enterprise activities:			
Commercial paper			
San Francisco International Airport.....	2008	1.57%	\$ 18,000
San Francisco Wastewater Enterprise.....	2008	1.05 to 2.2%	50,000
			<u>\$ 68,000</u>

**Changes in Short-Term Obligations**

The changes in short-term obligations for governmental and enterprise activities for the year ended June 30, 2008, are as follows (in thousands):

	<u>July 1, 2007</u>	<u>Additional Obligations</u>	<u>Current Maturities</u>	<u>June 30, 2008</u>
Governmental activities:				
Commercial paper.....	\$ 150,000	\$ 150,000	\$ (150,000)	\$ 150,000
Governmental activities short-term obligations.....	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ (150,000)</u>	<u>\$ 150,000</u>
Enterprise activities:				
Commercial paper				
San Francisco International Airport.....	\$ -	\$ 28,000	\$ (10,000)	\$ 18,000
San Francisco Wastewater Enterprise.....	50,000	185,000	(185,000)	50,000
Business-type activities short-term obligations.....	<u>\$ 50,000</u>	<u>\$ 213,000</u>	<u>\$ (195,000)</u>	<u>\$ 68,000</u>

**San Francisco County Transportation Authority Commercial Paper Notes**

In March 2004, the San Francisco County Transportation Authority (the Authority) issued an initial tranche of \$50 million, and in September 2004, the Authority issued the second tranche of \$100 million of a programmed \$200 million aggregate principal amount of commercial paper notes (Limited Tax Bonds), Series A and B. The commercial paper notes are issued to provide an interim source of financing for the Authority's Sales Tax Expenditure Plan until a permanent financing plan is finalized and implemented. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable Letter of Credit (LOC), issued by Landesbank Baden-Württemberg, New York Branch in the amount up to \$217.8 million. On July 12, 2005, the expiration date of the irrevocable LOC was extended from April 14, 2007 to December 29, 2015 through Authority Board Resolution 06-01. The commercial paper notes are secured by a first lien gross pledge of the Authority's sales tax. The principal and interest on the commercial paper notes is payable at each maturity.

As of June 30, 2008, \$150 million in commercial paper notes was outstanding and maturing within 1 to 120 days after year-end with interest rates ranging from 1.3% to 1.6%.

**San Francisco International Airport**

On May 20, 1997, the Airport authorized the issuance of its subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of \$400 million or the stated amount of the letter of credit. On May 9, 2006, the Airport obtained a letter of credit issued by State Street Bank and Trust Company, with a maximum principal amount of \$200 million. Wells Fargo Bank, N.A. is the CP program's issuing and paying agent for fiscal year 2008.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

As of June 30, 2008, the outstanding principal amount of CP was \$18 million. The proceeds of the notes will be used by the Airport to pay capital costs, costs of CP issuance and other incidental costs, certain extraordinary expenditures for which Airport funds are not otherwise available and principal and interest on maturing CP. For fiscal year ended June 30, 2008, interest rates on the taxable CP ranged from 2.45% to 2.65%; interest rate on tax exempt, subject to Alternative Minimum Tax (AMT), CP was 1.57%.

San Francisco Wastewater Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to \$150 million in commercial paper under the voter-approved 2002 Proposition E for the purpose of reconstructing, expanding, repairing or improving the Wastewater Enterprise's facilities. The commercial paper program is supported by a letter of credit issued by BNP Paribas and is dated as of February 2007 with the U.S. Bank Trust N.A., as agent bank. As of June 30, 2008, Wastewater had \$50 million in commercial paper notes outstanding with interest rates ranging from 1.05% to 2.2%.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**Long-Term Obligations**

The following is a summary of long-term obligations of the City as of June 30, 2008 (in thousands):

**GOVERNMENTAL ACTIVITIES**

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
<b>GENERAL OBLIGATION BONDS (a):</b>			
Affordable housing.....	2014	4.0 to 6.75%	\$ 7,930
California Academy of Sciences.....	2025	3.0 to 5.25%	77,895
Laguna Honda Hospital.....	2030	3.25 to 5.0%*	291,005
Branch Libraries.....	2028	2.75 to 5.0%	80,830
Parks and playgrounds.....	2024	2.4 to 5.25%	80,285
Schools.....	2023	2.4 to 5.0%	23,760
Seismic safety loan program.....	2027	5.09 to 5.83%	9,358
Steinhart Aquarium.....	2025	3.0 to 5.0%	26,140
Zoo facilities.....	2025	2.75 to 5.0%	11,480
Refunding.....	2021	2.85 to 5.0%	490,230
General obligation bonds - governmental activities.....			1,098,913
<b>LEASE REVENUE BONDS:</b>			
San Francisco Finance Corporation (b), (e) & (f).....	2030	2.4 to 5.875%**	282,490
Lease revenue bonds - governmental activities.....			282,490
<b>OTHER LONG-TERM OBLIGATIONS:</b>			
Certificates of participation (c) & (d).....	2040	3.0 to 5.3%	412,200
Loans (c), (d) & (f).....	2025	2.0 to 7.498%	12,495
Capital leases payable (c) & (f).....	2025	2.5 to 7.05%	174,149
Settlement Obligation Bonds (d).....	2011	2.4 to 3.05%	20,585
Accrued vacation and sick leave (d) & (f).....			138,203
Accrued workers' compensation (d) & (f).....			204,330
Estimated claims payable (d) & (f).....			114,204
Other postemployment benefits obligation.....			164,786
Other long-term obligations - governmental activities.....			1,240,952
<b>DEFERRED AMOUNTS:</b>			
Bond issuance premiums.....			37,977
Bond issuance discounts.....			(3,967)
Bond refunding.....			(15,444)
Deferred amounts.....			18,566
Governmental activities total long-term obligations.....			\$ 2,640,921

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) Revenues recorded in the General Fund.
- (e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
- (f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.

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

\* Laguna Honda Hospital General Obligation Bonds Series 2005 A and Series 2005 I are fixed rate bonds. Series 2005 B, C and D are variable rate bonds that reset weekly. The remaining interest rates stated above are for Series 2005 A and Series 2005 I. The average interest rate for the variable rate bonds from issuance date of May 26, 2005 through June 30, 2008 was 3.27%. The rate at June 30, 2008 was 6.41%. Series 2005 B, C and D were subsequently refunded by \$118.1 million Government Obligation Bonds (Laguna Honda Hospital) Series 2008-R3 on July 30, 2008 with interest rates ranging from 4.625% to 5.0%

\*\* 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, 2008 was 2.26%. The rate at June 30, 2008 was 6.42%.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**BUSINESS-TYPE ACTIVITIES**

<u>Entity and Type of Obligation</u>	<u>Final Maturity Date</u>	<u>Remaining Interest Rates</u>	<u>Amount</u>
<b>San Francisco International Airport:</b>			
Revenue bonds.....	2032	3.0 to 6.75%*	\$ 3,943,470
<b>San Francisco Water Enterprise:</b>			
Revenue bonds.....	2036	3.125 to 5.0%	946,910
Accreted interest.....	2019	7.0%	3,380
<b>Hetch Hetchy Water and Power:</b>			
Notes, loans, and other payables.....	2011	3.0%	282
<b>Municipal Transportation Agency:</b>			
<b>Parking and Traffic</b>			
Revenue bonds.....	2020	4.20 to 5.0%	15,880
Lease revenue bonds.....	2022	4.0 to 5.5%	7,310
Notes, loans and other payables**.....	2010	3.0 to 5.25%	6,980
Downtown Parking - parking revenue refunding bonds.....	2018	4.0 to 5.375%	9,330
Ellis-O'Farrell - parking revenue refunding bonds.....	2017	3.5 to 4.7%	4,215
Uptown Parking - revenue bonds.....	2031	4.5 to 6.0%	17,450
<b>San Francisco General Hospital Medical Center:</b>			
Capital leases.....	2013	2.4 to 4.0%	3,194
<b>San Francisco Wastewater Enterprise:</b>			
Revenue bonds.....	2026	3.0 to 5.25%	328,325
State of California - Revolving fund loans.....	2021	2.8 to 3.5%	89,101
<b>Port of San Francisco:</b>			
Revenue bonds.....	2010	2.5 to 4.0%	8,505
Notes, loans and other payables.....	2029	4.5%	3,107
<b>Laguna Honda Hospital:</b>			
Capital leases.....	2013	2.4 to 4.0%	649
Accrued vacation and sick leave.....			86,613
Accrued workers' compensation.....			147,276
Estimated claims payable.....			92,738
Other postemployment benefits obligation .....			120,383
<b>Deferred Amounts:</b>			
Bond issuance premiums.....			100,911
Bond issuance discounts.....			(8,428)
Bond refunding.....			(134,847)
Business-type activities total long-term obligations.....			<u>\$ 5,792,734</u>

\* Includes Second Series Revenue Bonds Issue 34 A / B, 36 A / B, 36 C / D, 37 A / B and 37 C / D, which were initially issued as variable rate bonds in a weekly mode. The average interest rate on the Issue 34 A and B was 1.473% and 1.579% respectively for the period April 2008 to June 2008; for Issue 36 A and B was 1.509% and 1.594% respectively for the period May 2008 through June 2008, for Issue 36 C and D was 1.651% and 1.521% respectively for the period May 2008 to June 2008, for Issue 37 A and B was 1.729% for the period May 2008 to June 2008 and for Issue 37 C and D was 1.594% and 1.330% respectively for the period May 2008 to June 2008.

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  
June 30, 2008**

COMPONENT UNIT

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:			
Lease Revenue Bonds:			
Moscone Convention Center (a).....	2025	2.6 to 7.05%	\$ 121,955
Hotel Tax Revenue Bonds (b).....	2026	4.5 to 6.75%	59,725
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c).....	2038	2.0 to 8.3%	663,396
South Beach Harbor Variable Rate			
Refunding Bonds (d).....	2017	Variable (1.57% at 6/30/08)	6,300
Less deferred amounts:			
Bond issuance premiums.....			10,527
Bond issuance discounts.....			(2,721)
Refunding loss.....			(4,927)
Sub-total.....			854,255
California Department of Boating and Waterways Loan (e).....	2037	4.5%	7,992
Accrued interest payable.....			69,746
Accrued vacation and sick leave pay.....			2,077
Other postemployment benefits obligation.....			493
Component unit total long-term obligations.....			<u>\$ 934,563</u>

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/escrow 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/escrow trust funds.
- (d) South Beach Harbor Project cash reserves, property tax increments and project revenues.

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, 2008, the City's debt limit (3% of valuation subject to taxation) was \$4.1 billion. The total amount of debt applicable to the debt limit was \$1.1 billion. The resulting legal debt margin was \$3 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 certificates of participation and has recognized an arbitrage liability of \$2.7 million as of June 30, 2008. This arbitrage liability is reported in deferred credits and other liabilities in the governmental activities of the statement of net assets. The Finance Corporation has evaluated their lease revenue bonds and a liability of \$0.5 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2008. 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

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

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 2026 bearing interest from 6.0% to 6.85%. These bonds do not represent obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Accordingly, the debt has not been included in the basic financial statements. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within 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 issues mortgage revenue bonds for the financing of multifamily rental housing and for below-market rate mortgage financing for first time homebuyers. These obligations are secured by the related mortgage indebtedness and are not obligations of the City. As of June 30, 2008, the aggregate outstanding obligation of such bonds was \$104.1 million.

**Changes in Long-Term Obligations**

The changes in long-term obligations for governmental activities for the year ended June 30, 2008, are as follows (in thousands):

	July 1, 2007	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2008	Amounts Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds.....	\$ 1,155,944	\$ 310,155	\$ (367,186)	\$ 1,098,913	\$ 106,162
Lease revenue bonds.....	249,550	54,320	(21,380)	282,490	23,645
Certificates of participation.....	420,620	-	(8,420)	412,200	10,330
Settlement obligation bonds.....	27,095	-	(6,510)	20,585	6,695
Less deferred amounts:					
For issuance premiums.....	26,997	13,602	(2,622)	37,977	-
For issuance discounts.....	(4,107)	-	140	(3,967)	-
On refunding.....	(10,321)	(6,406)	1,283	(15,444)	-
Total bonds payable.....	1,865,778	371,671	(404,695)	1,832,754	146,832
Loans.....	11,640	1,829	(974)	12,495	1,166
Capital leases.....	185,736	5,147	(16,734)	174,149	15,907
Accrued vacation and sick leave pay.....	134,213	91,665	(87,675)	138,203	73,510
Accrued workers' compensation.....	194,689	50,393	(40,752)	204,330	37,685
Estimated claims payable.....	114,431	23,239	(23,466)	114,204	41,249
Other postemployment benefits obligation.....	-	164,786	-	164,786	-
Governmental activities long-term obligations.....	\$ 2,506,487	\$ 708,730	\$ (574,296)	\$ 2,640,921	\$ 316,349

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 ended June 30, 2008, \$283.5 million of lease revenue bonds, \$0.3 million of capital leases, \$4.0 million of accrued vacation

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

and sick leave pay, \$1.1 million of accrued workers' compensation and \$4.1 million of other postemployment benefits obligation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2008, are as follows (in thousands):

	2007	Net Increases	Net Decreases	2008	One Year
<b>San Francisco International Airport</b>					
Bonds payable:					
Revenue bonds.....	\$ 3,952,300	\$ 1,255,205	\$ (1,264,035)	\$ 3,943,470	\$ 88,205
Less deferred amounts:					
For issuance premiums.....	49,129	10,998	(3,447)	56,680	-
For issuance discounts.....	(11,302)	-	2,874	(8,428)	-
On refunding.....	(80,435)	(30,821)	9,341	(101,915)	-
Total Bonds payable.....	3,909,692	1,235,382	(1,255,267)	3,889,807	88,205
Accrued vacation and sick leave pay.....	12,835	9,375	(9,297)	12,913	6,930
Accrued workers' compensation.....	4,777	2,358	(2,299)	4,836	948
Estimated claims payable.....	40	1,559	(1,562)	37	15
Other postemployment benefits obligation.....	-	15,413	-	15,413	-
Long-term obligations.....	\$ 3,927,344	\$ 1,264,087	\$ (1,268,425)	\$ 3,923,006	\$ 96,098
<b>San Francisco Water Enterprise</b>					
Bonds payable:					
Revenue bonds.....	\$ 966,080	\$ -	\$ (19,170)	\$ 946,910	\$ 25,520
Less deferred amounts:					
For issuance premiums.....	26,912	-	(960)	25,952	-
For issuance discounts.....	-	-	-	-	-
On refunding.....	(15,388)	(119)	1,055	(14,452)	-
Total bonds payable.....	977,604	(119)	(19,075)	958,410	25,520
Accreted interest payable.....	3,155	225	-	3,380	-
Accrued vacation and sick leave pay.....	11,171	7,500	(7,815)	10,856	5,738
Accrued workers' compensation.....	8,346	1,557	(1,768)	8,135	1,512
Estimated claims payable.....	6,934	13,104	(8,784)	11,254	3,011
Other postemployment benefits obligation.....	-	15,048	-	15,048	-
Long-term obligations.....	\$ 1,007,210	\$ 37,315	\$ (37,442)	\$ 1,007,083	\$ 35,781
<b>Hetch Hetchy Water and Power</b>					
Notes, loans, and other payables.....	\$ 390	\$ -	\$ (108)	\$ 282	\$ 110
Accrued vacation and sick leave pay.....	2,315	1,407	(1,351)	2,371	1,330
Accrued workers' compensation.....	2,186	587	(626)	2,147	380
Estimated claims payable.....	4,782	13,713	(3,194)	15,301	4,157
Other postemployment benefits obligation.....	-	2,723	-	2,723	-
Long-term obligations.....	\$ 9,673	\$ 18,430	\$ (5,279)	\$ 22,824	\$ 5,977
<b>Municipal Transportation Agency</b>					
Bonds payable:					
Revenue bonds.....	\$ 51,535	\$ -	\$ (4,660)	\$ 46,875	\$ 1,515
Lease revenue bonds.....	8,405	-	(1,095)	7,310	1,145
Less deferred amounts:					
For issuance premiums.....	874	-	(37)	837	-
Total bonds payable.....	60,814	-	(5,792)	55,022	2,660
Notes, loans, and other payables.....	11,707	-	(4,727)	6,980	4,291
Capital leases.....	19	-	(19)	-	-
Accrued vacation and sick leave pay.....	26,510	20,849	(20,336)	27,023	15,935
Accrued workers' compensation.....	93,911	13,322	(15,117)	92,116	16,857
Estimated claims payable.....	56,942	13,995	(14,956)	55,981	16,222
Other postemployment benefits obligation.....	-	35,438	-	35,438	-
Long-term obligations.....	\$ 249,903	\$ 83,604	\$ (60,947)	\$ 272,560	\$ 55,965

\* Includes an unamortized loan premium of \$0.3 million for Parking and Traffic.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2008, are as follows (in thousands) - continued:

	July 1, 2007	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2008	Amounts Due Within One Year
<b>San Francisco General Hospital Medical Center</b>					
Capital leases.....	\$ 3,363	\$ 1,058	\$ (1,227)	\$ 3,194	\$ 1,139
Accrued vacation and sick leave pay.....	16,186	12,500	(11,529)	17,157	9,894
Accrued workers' compensation.....	19,760	9,428	(7,272)	21,916	3,644
Other postemployment benefits obligation.....	-	30,065	-	30,065	-
Long-term obligations.....	<u>\$ 39,309</u>	<u>\$ 53,051</u>	<u>\$ (20,028)</u>	<u>\$ 72,332</u>	<u>\$ 14,677</u>
<b>San Francisco Wastewater Enterprise</b>					
Bonds payable:					
Revenue bonds.....	\$ 362,825	\$ -	\$ (34,500)	\$ 328,325	\$ 35,665
Less deferred amounts:					
For issuance premiums.....	18,370	-	(1,004)	17,366	-
On refunding.....	(19,944)	-	1,726	(18,218)	-
Total bonds payable.....	361,251	-	(33,778)	327,473	35,665
State of California - Revolving fund loans.....	102,438	-	(13,337)	89,101	13,765
Accrued vacation and sick leave pay.....	4,730	2,829	(2,561)	4,998	2,680
Accrued workers' compensation.....	4,144	1,236	(705)	4,675	822
Estimated claims payable.....	8,711	1,182	(849)	9,044	2,989
Other postemployment benefits obligation.....	-	5,684	-	5,684	-
Long-term obligations.....	<u>\$ 481,274</u>	<u>\$ 10,931</u>	<u>\$ (51,230)</u>	<u>\$ 440,975</u>	<u>\$ 55,921</u>
<b>Port of San Francisco</b>					
Bonds payable:					
Revenue bonds.....	\$ 12,575	\$ -	\$ (4,070)	\$ 8,505	\$ 4,185
Less deferred amounts:					
For issuance premiums.....	152	-	(76)	76	-
On refunding.....	(524)	262	-	(262)	-
Total bonds payable.....	12,203	262	(4,146)	8,319	4,185
Notes, loans, and other payables.....	3,195	-	(88)	3,107	92
Accrued vacation and sick leave pay.....	1,938	3	-	1,941	1,082
Accrued workers' compensation.....	2,747	507	(711)	2,543	393
Estimated claims payable.....	1,100	300	(279)	1,121	821
Other postemployment benefits obligation.....	-	2,805	-	2,805	-
Long-term obligations.....	<u>\$ 21,183</u>	<u>\$ 3,877</u>	<u>\$ (5,224)</u>	<u>\$ 19,836</u>	<u>\$ 6,573</u>
<b>Laguna Honda Hospital</b>					
Capital leases.....	\$ 1,117	\$ -	\$ (468)	\$ 649	\$ 516
Accrued vacation and sick leave pay.....	9,214	140	-	9,354	5,525
Accrued workers' compensation.....	10,568	3,059	(2,719)	10,908	2,017
Other postemployment benefits obligation.....	-	13,207	-	13,207	-
Long-term obligations.....	<u>\$ 20,899</u>	<u>\$ 16,406</u>	<u>\$ (3,187)</u>	<u>\$ 34,118</u>	<u>\$ 8,058</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2008, is as follows (in thousands):

	July 1, 2007	Accretion and Net Increases	Retirements, and Net Decreases	June 30, 2008	Amounts Due Within One Year
<b>Total Business-type Activities:</b>					
Bonds payable:					
Revenue bonds.....	\$ 5,345,315	\$ 1,255,205	\$ (1,326,435)	\$ 5,274,085	\$ 155,090
Lease revenue bonds.....	8,405	-	(1,095)	7,310	1,145
Less deferred amounts:					
For issuance premiums.....	95,437	10,998	(5,524)	100,911	-
For issuance discounts.....	(11,302)	-	2,874	(8,428)	-
On refunding.....	(116,291)	(30,678)	12,122	(134,847)	-
Total bonds payable.....	5,321,564	1,235,525	(1,318,058)	5,239,031	156,235
Accreted interest payable.....	3,155	225	-	3,380	-
State of California - Revolving fund loans.....	102,438	-	(13,337)	89,101	13,765
Notes, loans, and other payables.....	15,292	-	(4,923)	10,369	4,493
Capital leases.....	4,499	1,058	(1,714)	3,843	1,655
Accrued vacation and sick leave pay.....	84,899	54,603	(52,889)	86,613	49,114
Accrued workers' compensation.....	146,439	32,054	(31,217)	147,276	26,573
Estimated claims payable.....	78,509	43,853	(29,624)	92,738	27,215
Other postemployment benefits obligation.....	-	120,383	-	120,383	-
Business-type activities long-term obligations.....	<u>\$ 5,756,795</u>	<u>\$ 1,487,701</u>	<u>\$ (1,451,762)</u>	<u>\$ 5,792,734</u>	<u>\$ 279,050</u>

The changes in long term obligations for the component unit for the year ended June 30, 2008, are as follows (in thousands):

	July 1, 2007	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2008	Amounts Due Within One Year
<b>Component Unit: San Francisco Redevelopment Agency</b>					
Bonds payable:					
Revenue bonds.....	\$ 765,793	\$ 212,400	\$ (133,117)	\$ 845,076	\$ 36,677
Refunding bonds.....	7,700	-	(1,400)	6,300	-
Less deferred amounts:					
For issuance premiums.....	7,908	3,533	(914)	10,527	-
For issuance discounts.....	(733)	(2,099)	111	(2,721)	-
On refunding.....	(3,729)	(1,586)	388	(4,927)	-
Total bonds payable.....	776,939	212,248	(134,932)	854,255	36,677
Accreted interest payable.....	70,041	9,441	(9,736)	69,746	11,836 <sup>(1)</sup>
Notes, loans, and other payables.....	7,999	-	(7)	7,992	7
Accrued vacation and sick leave pay.....	2,544	-	(467)	2,077	1,011
Other postemployment benefits obligation.....	-	493	-	493	-
Component unit - long-term obligations.....	<u>\$ 857,523</u>	<u>\$ 222,182</u>	<u>\$ (145,142)</u>	<u>\$ 934,563</u>	<u>\$ 49,531</u>

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2008, for governmental activities are as follows (in thousands):

Governmental Activities (1) (2)								
Fiscal Year Ending June 30	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2009.....	\$ 106,162	\$ 52,573	\$ 23,645	\$ 15,362	\$ 18,191	\$ 20,239	\$ 147,998
2010.....	101,358	47,544	17,975	14,342	19,446	19,624	138,779	81,510
2011.....	92,295	42,664	16,495	13,532	20,176	18,886	128,966	75,082
2012.....	80,773	38,472	12,925	12,801	13,736	18,075	107,434	69,348
2013.....	71,243	35,298	11,560	12,179	13,353	17,494	96,156	64,971
2014-2018.....	286,924	131,786	50,325	52,351	69,731	77,877	406,980	262,014
2019-2023.....	196,964	75,954	57,820	37,388	63,697	61,851	318,481	175,193
2024-2028.....	124,694	31,907	65,645	19,505	71,535	45,337	261,874	96,749
2029-2033.....	38,500	3,647	26,100	2,316	85,105	26,661	149,705	32,624
2034-2038.....	-	-	-	-	45,710	9,901	45,710	9,901
2039-2043.....	-	-	-	-	24,600	1,693	24,600	1,693
Total.....	<u>\$ 1,098,913</u>	<u>\$ 459,845</u>	<u>\$ 282,490</u>	<u>\$ 179,776</u>	<u>\$ 445,280</u>	<u>\$ 317,638</u>	<u>\$ 1,826,683</u>	<u>\$ 957,259</u>

- (1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.
- (2) Includes the following variable rate demand notes, the Moscone Center Expansion Project Lease Revenue Bonds and Laguna Honda Hospital General Obligation Bonds. The bonds bear interest at a weekly rate. The rate at June 30, 2008 was 6.42%, together with an ancillary fee of 0.242% and 6.41% and ancillary fee 0.255% for Moscone Lease Revenue Bonds and Laguna Honda General Obligation Bonds, respectively, was used to project the interest payment in this table.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2008, for each enterprise fund is as follows (in thousands):

San Francisco International Airport (1)						
Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2009.....	\$ 88,205	\$ 185,543	\$ -	\$ -	\$ 88,205
2010.....	97,715	181,716	-	-	97,715	181,716
2011.....	133,655	177,194	-	-	133,655	177,194
2012.....	145,220	171,142	-	-	145,220	171,142
2013.....	145,315	164,303	-	-	145,315	164,303
2014-2018.....	900,490	707,685	-	-	900,490	707,685
2019-2023.....	1,134,005	468,759	-	-	1,134,005	468,759
2024-2028.....	1,013,310	206,153	-	-	1,013,310	206,153
2029-2033.....	285,555	24,825	-	-	285,555	24,825
Total.....	<u>\$ 3,943,470</u>	<u>\$ 2,287,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,943,470</u>	<u>\$ 2,287,320</u>

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

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2008, for each enterprise fund is as follows (in thousands) - continued:

San Francisco Water Enterprise (1)						
Fiscal Year Ending	Revenue		Other Long-Term		Total	
	Bonds		Obligations			
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2009.....	\$ 25,520	\$ 44,065	\$ -	\$ -	\$ 25,520	\$ 44,065
2010.....	26,605	42,991	-	-	26,605	42,991
2011.....	27,795	41,784	-	-	27,795	41,784
2012.....	29,190	40,401	-	-	29,190	40,401
2013.....	30,610	38,984	-	-	30,610	38,984
2014-2018.....	159,260	171,728	-	-	159,260	171,728
2019-2023.....	152,595	135,624	-	-	152,595	135,624
2024-2028.....	179,985	95,631	-	-	179,985	95,631
2029-2033.....	199,000	50,041	-	-	199,000	50,041
2034-2038.....	116,350	11,308	-	-	116,350	11,308
Total.....	<u>\$ 946,910</u>	<u>\$ 672,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 946,910</u>	<u>\$ 672,557</u>

Hetch Hetchy Water and Power (1)						
Fiscal Year Ending	Revenue		Other Long-Term		Total	
	Bonds		Obligations			
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2009.....	\$ -	\$ -	\$ 110	\$ 8	\$ 110	\$ 8
2010.....	-	-	115	4	115	4
2011.....	-	-	57	1	57	1
Total.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282</u>	<u>\$ 13</u>	<u>\$ 282</u>	<u>\$ 13</u>

Municipal Transportation Agency (1) (2)						
Fiscal Year Ending	Revenue/Lease		Other Long-Term		Total	
	Revenue Bonds		Obligations			
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2009.....	\$ 2,660	\$ 2,770	\$ 4,291	\$ 283	\$ 6,951	\$ 3,053
2010.....	2,170	2,673	2,369	61	4,539	2,734
2011.....	3,260	2,576	-	-	3,260	2,576
2012.....	3,405	2,426	-	-	3,405	2,426
2013.....	3,575	2,267	-	-	3,575	2,267
2014-2018.....	20,120	8,534	-	-	20,120	8,534
2019-2023.....	9,580	3,984	-	-	9,580	3,984
2024-2028.....	4,620	2,164	-	-	4,620	2,164
2029-2033.....	4,795	596	-	-	4,795	596
Total.....	<u>\$ 54,185</u>	<u>\$ 27,990</u>	<u>\$ 6,660</u>	<u>\$ 344</u>	<u>\$ 60,845</u>	<u>\$ 28,334</u>

- (1) The specific year for payment of accreted interest payable, estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.
- (2) Unamortized loan premiums of \$0.3 million (MTA) are not included in principal payments.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2008, for each enterprise fund is as follows (in thousands) - continued:

San Francisco Wastewater Enterprise (1)						
Fiscal Year Ending	Revenue		Other Long-Term		Total	
	Bonds		Obligations			
	June 30	Principal	Interest	Principal	Interest	Principal
2009.....	\$ 35,665	\$ 14,646	\$ 13,765	\$ 2,744	\$ 49,430	\$ 17,390
2010.....	37,130	13,183	14,198	2,307	51,328	15,490
2011.....	26,320	11,827	14,650	1,855	40,970	13,682
2012.....	22,010	10,959	9,594	1,389	31,604	12,348
2013.....	23,095	9,941	8,322	1,099	31,417	11,040
2014-2018.....	115,320	31,915	23,612	2,354	138,932	34,269
2019-2023.....	62,530	11,677	4,960	291	67,490	11,968
2024-2026.....	6,255	674	-	-	6,255	674
<b>Total.....</b>	<b>\$ 328,325</b>	<b>\$ 104,822</b>	<b>\$ 89,101</b>	<b>\$ 12,039</b>	<b>\$ 417,426</b>	<b>\$ 116,861</b>

Port of San Francisco (1)						
Fiscal Year Ending	Revenue		Other Long-Term		Total	
	Bonds		Obligations			
	June 30	Principal	Interest	Principal	Interest	Principal
2009.....	\$ 4,185	\$ 222	\$ 92	\$ 140	\$ 4,277	\$ 362
2010.....	4,320	75	96	136	4,416	211
2011.....	-	-	100	131	100	131
2012.....	-	-	105	127	105	127
2013.....	-	-	110	122	110	122
2014-2018.....	-	-	627	532	627	532
2019-2023.....	-	-	781	377	781	377
2024-2028.....	-	-	974	185	974	185
2029-2033.....	-	-	222	10	222	10
<b>Total.....</b>	<b>\$ 8,505</b>	<b>\$ 297</b>	<b>\$ 3,107</b>	<b>\$ 1,760</b>	<b>\$ 11,612</b>	<b>\$ 2,057</b>

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2008 for business-type activities is as follows (in thousands):

Total Business-type Activities (1) (2)						
Fiscal Year Ending	Revenue/Lease Revenue		Other Long-Term		Total	
	Bonds		Obligations			
	June 30	Principal	Interest	Principal	Interest	Principal
2009.....	\$ 156,235	\$ 247,246	\$ 18,258	\$ 3,175	\$ 174,493	\$ 250,421
2010.....	167,940	240,638	16,778	2,508	184,718	243,146
2011.....	191,030	233,381	14,807	1,987	205,837	235,368
2012.....	199,825	224,928	9,699	1,516	209,524	226,444
2013.....	202,595	215,495	8,432	1,221	211,027	216,716
2014-2018.....	1,195,190	919,862	24,239	2,886	1,219,429	922,748
2019-2023.....	1,358,710	620,044	5,741	668	1,364,451	620,712
2024-2028.....	1,204,170	304,622	974	185	1,205,144	304,807
2029-2033.....	489,350	75,462	222	10	489,572	75,472
2034-2038.....	116,350	11,308	-	-	116,350	11,308
<b>Total.....</b>	<b>\$ 5,281,395</b>	<b>\$ 3,092,986</b>	<b>\$ 99,150</b>	<b>\$ 14,156</b>	<b>\$ 5,380,545</b>	<b>\$ 3,107,142</b>

- (1) The specific year for payment of accreted interest payable, estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.
- (2) Unamortized loan premiums of \$0.3 million (MTA) are not included in principal payments.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2008, for the component unit are as follows (in thousands):

Component Unit: San Francisco Redevelopment Agency (1)								
Fiscal Year Ending	Lease Revenue		Tax Revenue		Other Long-Term		Total	
	Bonds		Bonds		Obligations			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009.....	\$ 5,350	\$ 13,289	\$ 28,682	\$ 32,118	\$ 2,652	\$ 3,627	\$ 36,684	\$ 49,034
2010.....	5,152	13,565	28,586	31,148	2,799	3,423	36,537	48,136
2011.....	5,019	13,776	30,664	30,099	2,877	3,254	38,560	47,129
2012.....	4,881	13,992	32,312	28,256	2,961	3,084	40,154	45,332
2013.....	4,791	14,155	34,383	26,112	3,671	2,891	42,845	43,158
2014-2018.....	62,142	32,762	202,776	96,736	22,070	11,835	286,988	141,333
2019-2023.....	28,610	3,829	125,537	76,411	19,583	7,099	173,730	87,339
2024-2028.....	6,010	309	55,658	78,550	14,063	2,148	75,731	81,007
2029-2033.....	-	-	59,763	46,500	2,110	570	61,873	47,070
2034-2038.....	-	-	65,035	27,373	1,231	101	66,266	27,474
Total.....	\$ 121,955	\$ 105,677	\$ 663,396	\$ 473,303	\$ 74,017	\$ 38,032	\$ 859,368	\$ 617,012

(1) The specific year for payment of accreted interest payable and accrued vacation and sick leave pay 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. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2008, are as follows (in thousands):

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

Authorized and unissued as of June 30, 2007.....	\$ 344,065
Increase in authorization this fiscal year:	
2008 Clean and Safe Neighborhood Parks.....	185,000
Bonds issued:	
Seismic Safety Loan Program (second and third draw).....	(7,695)
Series 2008A, Branch Library Facilities Improvement Bonds.....	(31,065)
Net authorized and unissued as of June 30, 2008.....	<u>\$ 490,305</u>

The increase in authorized amount of \$185 million of General Obligation Bonds 2008 Clean and Safe Neighborhood Parks was approved by at least two-third votes voting on Proposition A at an election held on February 5, 2008, to provide funds to finance the construction, reconstruction, purchase and/or improvement of park and recreation facilities under the jurisdiction of the Recreation and Park Commission and Port Commission and all other structures, improvements and related cost necessary or convenient for these purposes.

In April 2008, the City issued General Obligation Bonds, Branch Library Facilities Improvement, Series 2008A in the amount of \$31.1 million. Interest rates range from 4.0% to 4.5%. The bonds mature from June 2009 through June 2028. The bonds were issued to provide funds to finance the acquisition, renovation and construction of branch libraries and other library facilities other than the San Francisco Main Library and to pay certain cost related to the issuance of the Bonds.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Seismic Safety Loan Program Government Obligation Bonds

The Seismic Safety Loan Program was approved by the voters of the City and County of San Francisco by Proposition A in November 1992 which authorized the issuance of up to a total of \$350 million aggregate principal amount of government obligation bonds to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City for affordable housing and market-rate residential, commercial and institutional purposes and for related administrative costs. Approximately 2,200 privately-owned unreinforced masonry buildings were identified by the City. These buildings are located throughout San Francisco, but are concentrated in Chinatown, the Tenderloin and south of Market Street. In July 1992, the Board of Supervisors passed legislation mandating that these buildings be seismically strengthened within specified periods of time. Most of the buildings have now been seismically retrofitted. The owners of the existing unreinforced masonry buildings are eligible to apply for loans under the Loan Program to finance the required seismic strengthening work and certain other legally-required work.

In February 2007 the Board of Supervisors approved Resolution No. 65-07 which authorized the issuance of indebtedness under Proposition A in the amount not to exceed \$35 million. Such issuance was achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. In March 2007, the City made the first borrowing under the Credit Agreement (Seismic Safety Loan Program, 1992) Series 2007A in the amount of \$2 million. The first borrowing bears an interest rate of 5.69% with principal amortizing from June 2007 through June 2026. Within the first loan account are two loan sub-accounts, the market loan account and the below market rate loan account.

In October 2007, the City made the second borrowing in the amount of \$3.8 million which bears an interest rate of 5.83% with principal amortizing from June 2008 through June 2027. In January 2008, the City made the third borrowing in the amount of \$3.9 million which bears an interest rate of 5.09% with principal amortizing from June 2008 through June 2027. The second and the third borrowings are for below market rate loan account.

Debt service payments of the Seismic Safety Loan Program Government Obligation Bonds are funded through ad valorem taxes on property and principal repayments from borrowers of the loan program.

Current Refundings

In May 2008, the City issued the General Obligation Refunding Bonds, Series 2008-R1 (Series 2008-R1 Bonds) in the amount of \$232.1 million with interest rates ranging from 2.85% to 5.0% (maturing from June 2009 through June 2021) to refund all or a portion of the City's outstanding General Obligation Bonds as follows:

**General Obligation Refunding Bonds, Series R-1**  
(in thousands)

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Series 1997-1 General Obligation Refunding Bonds, 1997	\$ 192,815	5.00% - 5.500%	101.0%	6/30/2008
Series 1999D - Asian Art Museum Relocation Project, 1994	1,605	4.75% - 4.875%	101.0%	6/30/2008
Series 2000D - Affordable Housing, 1996	2,790	4.50% - 4.625%	102.0%	6/30/2008
Series 2001A - Golden Gate Park Improvements, 1992	10,265	4.00% - 4.800%	102.0%	6/15/2009
Series 2001B - Neighborhood Recreation and Park Facilities Improvement Bonds, 2000	8,455	4.00% - 4.800%	102.0%	6/15/2009
Series 2001C - Affordable Housing, 1996	11,190	4.25% - 5.000%	102.0%	6/15/2009
Series 2001E - Branch Library Facilities Improvement Bonds, 2000	11,560	4.20% - 5.000%	102.0%	6/15/2009
Total	<u>\$ 238,680</u>			

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The net proceeds of \$ 243.6 million (including original issue premium of \$12 million, and after payment of \$0.5 million in underwriting fees and other issuance costs) plus \$5.0 million in available debt service funds were used to purchase certain direct obligations of the United States of America (the "escrow securities"). The escrow securities were deposited into an escrow account held by the escrow agent. As the refunded bonds become due for interest payment and /or redemption, the escrow agents will transfer to the Treasurer of the City monies held in the escrow account to pay the principal, redemption premium, and interest due on the refunded bonds. The last of the refunded bonds will mature on June 15, 2009. The refunded bonds of \$41.5 million are considered legally defeased where the debt is legally satisfied based on certain provisions of the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statements of Net Assets.

Although the refunding resulted in the recognition of accounting loss of \$5.2 million for the year ended June 30, 2008, the City in effect reduced its aggregate debt service payments by \$16.4 million and obtained a net present value benefit of \$14.6 million.

In May 2008, the City issued the General Obligation Refunding Bonds, Series 2008-R2 (Series 2008-R2) in the amount of \$39.3 million with interest rates ranging from 4.75% to 5.0% (maturing from June 2009 through June 2018) to refund all or a portion of the City's outstanding General Obligation Bonds as follows:

**General Obligation Refunding Bonds, Series R-2**  
(in thousands)

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Series 1998A - Affordable Housing, 1996	\$ 12,995	6.10% - 6.625%	100.0%	6/30/2008
Series 1999A - Affordable Housing, 1996	14,135	6.75% - 7.000%	101.0%	6/30/2008
Series 2001D - Affordable Housing, 1996	11,565	7.050%	102.0%	6/15/2009
Total	<u>\$ 38,695</u>			

The net proceeds of \$ 39.9 million (including original issue premium of \$0.7 million, and after payment of \$0.1 million in underwriting fees and other issuance costs) plus \$1.1 million in available debt service funds were used to purchase certain direct obligations of the United States of America (the "escrow securities"). The escrow securities were deposited into an escrow account held by the escrow agent. As the refunded bonds become due for interest and /or redemption, the escrow agent will transfer to the Treasurer of the City monies held in escrow account for payment of principal, interest and redemption premium on the refunded bonds. The last of the refunded bonds will mature on June 15, 2009. The refunded bonds of \$11.6 million are considered legally defeased where the debt is legally satisfied based on certain provisions of the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statements of Net Assets.

The refunding resulted in the recognition of accounting loss of \$1.2 million for the year ended June 30, 2008. However, the City in effect reduced its aggregate debt service payments by \$6.4 million and obtained a net present value benefit of \$4.3 million.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2008 were as follows:

**Governmental Activities - Lease Revenue Bonds**  
(in thousands)

Authorized and unissued as of June 30, 2007.....	\$ 127,397
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program.....	2,183
Current year maturities in Finance Corporation's equipment program.....	10,045
Bonds issued:	
Series 2008A, San Francisco Finance Corporation.....	<u>(11,885)</u>
Net authorized and unissued as of June 30, 2008 .....	<u>\$ 127,740</u>

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly 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.

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 an Indenture and Equipment Lease Agreement. 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 purposes.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to \$20 million of equipment through a non-profit corporation using tax-exempt obligations.

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, 2008, the total authorized amount is \$45.8 million. The total accumulated annual authorization since 1990 is \$25.8 million of which \$2.2 million is new annual authorization for the fiscal year ending June 30, 2008.

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 \$147.3 million in equipment lease revenue bonds since 1991. As of June 30, 2008, \$115.1 million has been repaid leaving \$32.2 million in equipment lease revenue bonds outstanding and \$13.6 million available for new issuance.

In April 2008, the Finance Corporation issued its sixteenth Series of equipment lease revenue bonds, Series 2008A in the amount of \$11.9 million with interest rates ranging from 2.75% to 3.375%. The bonds mature from April 2009 to October 2014.

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to \$50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 MHz). The

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Finance Corporation issued two series in January 1998 and February 1999 for \$31.3 million and \$18.7 million, respectively. As of June 30, 2008, the amount authorized and unissued was \$0.1 million. Further, in 1994, the voters approved the issuance of up to \$60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in July 1998 for \$22.6 million and \$23.3 million, respectively. As of June 30, 2008, 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 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. As of end of June 30, 2008, the bonds bear interest at a weekly rate.

(d) Open Space Fund

In 2000, the voters of the City adopted Proposition C amending the Charter by repealing the then existing Park and Office Space Fund, authorizing the creation of a new Park, Recreation and Open Space Fund to purchase open space, acquire property for recreation facilities and develop, and maintain these facilities and authorizing the issuance of revenue bonds for such purpose. A set aside of 2.5% of the City's general 1% property tax is required by the Charter to be deposited in the Open Space Fund.

In November 2006, the Corporation issued Lease Revenue Bonds Series 2006 (Open Space Fund-Variouus Park Projects) in the amount of \$27 million (the "Series 2006 Bonds"). The Series 2006 Bonds were issued to finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates range from 3.75% to 5.5%. The bonds mature from July 2007 through July 2027.

In October 2007, the Corporation issued Lease Revenue Bonds Series 2007 (Open Space Fund-Variouus Park Projects) in the amount of \$42.4 million (the "Series 2007 Bonds"). The Series 2007 Bonds were issued to finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates range from 3.75% to 5.875%. The bonds mature from July 2008 through July 2029.

Hunter's Point Clubhouse Project

In February 2008, the City entered into a contract with the Department of Housing and Urban Development (HUD) for an approved Section 108 Loan in the maximum amount of \$2.2 million. The funds were to finance the rehabilitation of the Hunter's Point Clubhouse Community Center. During the fiscal year 2007-2008, HUD loaned to the City a total of \$1.8 million. In June 2008, the loan was converted into a fixed rate financing in an underwritten public offering. The new loan carries interest rates from 2.62% to 5.19% and matures from August 2009 through August 2023.

***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.

San Francisco International Airport

During the fiscal year 2008, the Airport completed 17 series of refunding through seven bond transactions totaling \$1,255.2 million. However, only \$291.3 million of the bonds was refunded for savings. Present value debt service savings for these refunded bonds was \$4.6 million. The balance of the 2008 refunding bonds were issued in transactions to repair the Airport's outstanding Auction Rate Bonds and Variable Rate Demand Bonds with alternative structures that did not produce any savings.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

These refundings were necessitated by the downgrade of various bond insurance companies by the credit rating agencies in January 2008. Specifically, the Airport's affected bonds all carried credit enhancement either XL Capital or Financial Guaranty Insurance Company (FGIC), which lost their AAA ratings from at least one of the three major rating agencies on January 24 and January 30, 2008 respectively. Once the bond insurers were downgraded, the Airport's floating interest rates increased dramatically above historical levels, exceeding levels at which the Airport had budgeted for variable rate debt service for the year. In order to stabilize rates, the Airport refunded the underlying bonds that allowed the Airport to terminate existing insurance policies and obtain high quality AAA insurance for the new refunded bonds.

Further descriptions are set forth below. A series of refunding bonds (the Issue 35 Bonds) are also expected to be issued in or about February 2010.

In March 2008, the Airport issued \$476.4 million aggregate principal amount of Issue 34C/D/E/F Revenue Bonds, with interest rates ranging from 4.000% to 5.750%. A portion of the proceeds from the Issue 34C/D/E/F Bonds was deposited into an irrevocable trust with an escrow agent to refund certain of the Airport's Second Series Revenue Bonds as follows (in thousands):

<u>Second Series Revenue Bond Issue:</u>	<u>Amount Refunded</u>	<u>Interest Rate</u>	<u>Redemption Price</u>
Issue 10B	\$ 1,450	5.125%	100%
Issue 15A	6,010	5.500%	100%
Issue 15B	14,690	4.600% - 4.700%	102%
Issue 16A	42,970	5.375% - 5.500%	100-101%
Issue 18A	23,085	5.250% - 6.250%	100-101%
Issue 18B	1,335	5.000% - 5.250%	101%
Issue 19	1,200	5.000% - 5.250%	101%
Issue 22	16,310	5.000% - 6.000%	100-101%
Issue 31A	54,950	auction rate	100%
Issue 31B	54,925	auction rate	100%
Issue 31C	60,225	auction rate	100%
Issue 31D	42,350	auction rate	100%
Issue 31E	17,875	auction rate	100%
Issue 33C	57,100	variable rate	100%
Issue 33I	27,800	variable rate	100%
Issue 33J	27,800	variable rate	100%
Total	<u>\$ 450,075</u>		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2009 to May 1, 2026. The refunded bonds are considered legally defeased and are no longer considered outstanding under the 1991 Master Bond Resolution and the debt is considered legally satisfied based on certain provisions in the debt instrument even though most of the refunded bonds have not yet been redeemed. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The Issue 34C/D/E/F Bonds were issued as fixed rate bonds. The net proceeds of \$458.02 million (after payments of \$42.87 million in underwriting fees, insurance and surety bond premiums, costs of issuance, and deposits to the debt service reserve funds) plus bond premium and available debt service funds of \$11 million were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until their respective redemption dates.

The 34C/D/E/F Bonds have final maturity dates between May 1, 2016 and May 1, 2026. Issues 34C and 34F are Non-Callable, while 34D and 34E will be Callable on May 1, 2018.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

In April 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 34A/B in the amount of \$175 million to refund certain Outstanding Issue 33 (B, H) variable rate demand bonds and other outstanding bonds, including portions of Issues 15A, 16A and 18A. The Issue 34A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 34A and 34B Bonds was 1.473% and 1.579% respectively. The final maturity of both issues is May 1, 2029.

The net proceeds of \$161.36 million (after payment of \$16.2 million in underwriting fees, insurance and surety bond premiums and deposit to the reserve fund) plus an additional \$2.6 million in available debt service funds were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the \$157.4 million of refunded bonds until such bonds were called.

(in thousands)			
	Amount Refunded	Interest Rate	Redemption Price
<u>Second Series Revenue Bond Issue:</u>			
Issue 15A	\$ 13,075	4.500% - 5.500%	102%
Issue 16A	33,540	5.000%	101%
Issue 18A	33,510	5.000%	101%
Issue 33B	57,100	variable rate	100%
Issue 33H	20,200	variable rate	100%
Total	\$ 157,425		

The refunded bonds were redeemed on May 1, 2008 (Issues 15A, 16A and 18A), May 9, 2008 (33B and 33H) and June 6, 2008 (33E). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

In May 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 36A/B in the amount of \$140.62 million to purchase and hold in trust for the benefit of the Airport certain Outstanding Issue 32A, 32B and 32C variable rate demand bonds. The Issue 36A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 36A and 36B Bonds through July 2, 2008 was 1.509% and 1.594%, respectively. The final maturity of both issues is May 1, 2026.

The net proceeds of \$141.03 million (after payment of \$1.07 million in underwriting fees, insurance, and costs of issuance), plus \$1.48 million in available debt service funds were deposited in a trust account with a trustee to provide debt service and purchase price payments for the Issues 32A/B/C bonds until such bonds were purchased upon mandatory tender.

(in thousands)			
	Amount Refunded	Interest Rate	Redemption Price
<u>Second Series Revenue Bond Issue:</u>			
Issue 32A	\$ 69,150	auction rate	100%
Issue 32B	35,200	auction rate	100%
Issue 32C	35,200	auction rate	100%
Total	\$ 139,550		

The bonds were purchased on May 23, 2008 (Issue 32A and 32B) and June 13, 2008 (Issue 32C). The Airport will make payments of principal and interest on the Issue 32A/B/C Bonds held in the trust accounts until such time as the Airport directs the trustee to cancel such bonds or remarket them out of the trust. The Airport, as the beneficiary of the trust, receives back the payments of principal and interest that it makes on the Issue 32A/B/C Bonds. As such, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

In May 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 36C/D in the amount of \$68.83 million to refund certain Outstanding Issue 15A fixed rate bonds and 32D and 32E auction rate securities. The Issue 36C/D Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 36C and 36D Bonds through July 2, 2008 was 1.651% and 1.521%, respectively. The final maturity of both issues is May 1, 2026.

The net proceeds of \$61.23 million (after payment of \$7.87 million in underwriting fees, insurance and surety bond premiums and deposits to the debt service reserve fund) plus \$0.18 million in available debt service funds were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

(in thousands)			
	Amount Refunded	Interest Rate	Redemption Price
<u>Second Series Revenue Bond Issue:</u>			
Issue 15A	\$ 535	5.000%	102%
Issue 32D	31,200	auction rate	100%
Issue 32E	29,150	auction rate	100%
Total	\$ 60,885		

The refunded bonds were redeemed on May 1, 2008, May 9, 2008 and June 19, 2008 (Issue 15A), June 6, 2008 (32E) and June 20, 2008 (Issue 32D). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

In May 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 37A/B in the amount of \$284.82 million to refund certain Outstanding Issue 33A, 33D, 33E, 33F, 33G variable rate demand bonds. The Issue 37A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 37A and 37B Bonds through July 2, 2008 was 1.729%. The final maturity of the 37A is May 1, 2019 and for 37B is May 1, 2029.

The net proceeds of \$279.74 million (after payment of \$29.96 million in underwriting fees, insurance and surety bond premiums and deposits to the debt service fund) plus \$24.88 million in available debt service funds were deposited in an irrevocable trust fund to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

(in thousands)			
	Amount Refunded	Interest Rate	Redemption Price
<u>Second Series Revenue Bond Issue:</u>			
Issue 33A	\$ 64,000	variable rate	100%
Issue 33D	64,100	variable rate	100%
Issue 33E	57,000	variable rate	100%
Issue 33F	60,900	variable rate	100%
Issue 33G	31,000	variable rate	100%
Total	\$ 277,000		

The refunded bonds were redeemed on June 6, 2008. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

In May 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 37C/D in the amount of \$109.59 million to refund certain Outstanding Issue 15A, 15B and 16A fixed rate bonds. The Issue 37C/D Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

37C and 37D Bonds through July 2, 2008 was 1.594% and 1.330% respectively. The final maturity of 37C is May 1, 2029 and for 37D is May 1, 2030.

The net proceeds of \$105.95 million (after payment of \$3.64 million in underwriting fees, insurance and surety bond premiums), were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

(in thousands)

<u>Second Series Revenue Bond Issue:</u>	<u>Amount Refunded</u>	<u>Interest Rate</u>	<u>Redemption Price</u>
Issue 15A	\$ 48,270	4.800% - 5.000%	102%
Issue 15B	18,360	4.250% - 5.000%	102%
Issue 16A	36,960	5.000% - 5.125%	101%
Total	<u>\$ 103,590</u>		

The refunded bonds were redeemed on May 1, 2008, May 9, 2008 and June 16, 2008 (Issues 15A and 16A), and May 1, 2008 and June 19, 2008 (Issue 15B). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

Certain of the Second Series Revenue Bonds are subject to optional and mandatory redemption under certain conditions. All Second Series Revenue Bonds are secured by a pledge of, lien on, and security interest in the net revenues of the Airport.

Under the terms of the 1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the common 1991 Reserve Fund, the Airport is required to deposit with the trustee an amount equal to the maximum debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the common 1991 Reserve Fund or substitute a credit facility meeting those requirements. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified insurance.

In December 2004, the Airport entered into seven forward-starting interest rate swaps (the 2004 swaps) in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. On July 26, 2007, the Airport entered into four additional forward-starting interest rate swaps (the 2007 swaps), in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008, and its Variable Rate Revenue Refunding Bonds, Issue 35, on February 1, 2010. Pursuant to these interest rate swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.5% of USD-LIBOR-BBA, plus 0.29%, for the 2004 swaps and 61.85% of USD-LIBOR-BBA, plus 0.34% for the 2007 swaps, times the notional amount of the swap, which is intended to approximate the variable interest rates on the underlying bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. On May 20, 2008, the Airport completed refunding several issues of auction rate and variable rate obligations, including the Issue 32 and Issue 33 bonds. The swaps previously associated with the Issue 32 and 33 bonds now hedge the related San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 36 and 37A respectively.

For the fiscal year ended June 30, 2008, the Airport paid a total of \$14.67 million in fixed rate payments to the swap counterparties and received \$12.57 million in floating rate payments in return, resulting in total net swap payments of \$2.10 million to the counterparties. During the same period, the Airport made variable interest rate payments on the related bonds of \$17.18 million, resulting in the Airport paying

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

\$4.61 million more in interest on the related variable rate bonds than swap receipts from the counterparties. The effective synthetic fixed rate on the related bonds was 4.45% for the year ending June 30, 2008.

The four 2004 swaps now hedging the Issue 36 Bonds went into effect on February 10, 2005, the date of issuance of the refunded Issue 32 Bonds, and the first payments commenced on March 1, 2005. The three 2004 swaps now hedging the Issue 37A Bonds went into effect on February 15, 2006, the date of issuance of the refunded Issue 33 Bonds, and the first payments commenced on March 1, 2006. The two 2007 swaps hedging the Issue 37B/C Bonds went into effect on May 15, 2008, the date of issuance of Issue 37B/C Bonds, and the first payments commenced on June 2, 2008. The two 2007 swaps relating to the Issue 35 Bonds are expected to go into effect on February 1, 2010, the anticipated date of issuance of the Issue 35 Bonds, and the first payments will commence on March 1, 2010. All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The swaps with counterparty Bear Stearns have been acquired by JP Morgan as part of the JP Morgan/Bear Stearns merger in 2008. The Bear Stearns swaps terms and conditions on the swap remain the same under JP Morgan.

The swaps relating to the Issue 35 Bonds terminate by their terms on May 1, 2030, the anticipated final maturity date of the Issue 35 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008 (in thousands):

<u>Counterparty/guarantor</u>	<u>Initial notional amount</u>	<u>Counterparty credit ratings (S&amp;P/Moody's)</u>	<u>Fixed rate payable by Airport</u>	<u>Fair value to Airport</u>
Depfa Bank PLC, New York	\$ 71,793	A+/Aa3	3.925%	\$ (3,385)
Goldman Sachs Capital Markets	143,947	AA-/Aa3	3.925%	(6,768)
(Aggregate notional amount)	<u>\$ 215,740</u>			<u>\$ (10,153)</u>

The swaps hedging the Issue 36 Bonds terminate by their terms on May 1, 2026, the final maturity date for the Issue 36 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008 (in thousands):

<u>Counterparty/guarantor</u>	<u>Initial notional amount</u>	<u>Counterparty credit ratings (S&amp;P/Moody's)</u>	<u>Fixed rate payable by Airport</u>	<u>Fair value to Airport</u>
J.P. Morgan Chase Bank, N.A.	\$ 70,000	AA/Aaa	3.444%	\$ (1,097)
Bear Stearns Capital Markets, Inc.	30,000	AA-/Baa1	3.444%	(470)
J.P. Morgan Chase Bank, N.A.	69,930	AA/Aaa	3.445%	(1,102)
Bear Stearns Capital Markets, Inc.	29,970	AA-/Baa1	3.445%	(472)
(Aggregate notional amount)	<u>\$ 199,900</u>			<u>\$ (3,141)</u>

The swaps hedging the Issue 37A Bonds terminate by their terms on May 1, 2019, the final maturity date for the Issue 37A Bonds. The following is additional information regarding each swap and counterparty as of June 30, 2008 (in thousands):

<u>Counterparty/guarantor</u>	<u>Initial notional amount</u>	<u>Counterparty credit ratings (S&amp;P/Moody's)</u>	<u>Fixed rate payable by Airport</u>	<u>Fair value to Airport</u>
Lehman Brothers Special Financial Inc.	\$ 73,570	A/A1	3.393%	\$ (1,341)
Bear Stearns Capital Markets, Inc.	31,530	AA-/Baa1	3.393%	(574)
Lehman Brothers Special Financial Inc.	100,000	A/A1	3.379%	(1,724)
(Aggregate notional amount)	<u>\$ 205,100</u>			<u>\$ (3,639)</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The swaps hedging the Issue 37B/C Bonds terminate by their terms on May 1, 2029, the final maturity date of the Issue 37B/C Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008 (in thousands):

<u>Counterparty/guarantor</u>	<u>Initial notional amount</u>	<u>Counterparty credit ratings (S&amp;P/Moody's)</u>	<u>Fixed rate payable by Airport</u>	<u>Fair value to Airport</u>
Merrill Lynch Capital Services	\$ 79,684	A/A1	3.898%	\$ (5,432)
Bear Sterns Capital Markets, Inc.	89,856	AA-/Baa1	3.898%	(6,125)
(Aggregate notional amount)	<u>\$ 169,540</u>			<u>\$ (11,557)</u>

**Risks Disclosure**

The aggregate market value to the Airport from time to time, if any, of the interest rate swaps with any single counterparty is the maximum amount of credit exposure the Airport will have to that counterparty. The Airport has limited counterparty credit risk by limiting its exposure to any counterparty. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities for the market value of a swap that exceeds specified thresholds which are linked to the counterparty's credit ratings. Any such collateral will be held by the Airport's custodial bank. Although the Airport attempted to limit basis risk with respect to the interest rate swaps by choosing a variable rate index designed to closely approximate the variable rates payable on the related bonds, the chosen swap index and the actual variable rates on the related bonds diverged for a period of time during early 2008 due to the turmoil in the financial market. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under the interest rate swaps from the following insurers:

<u>Related Swap</u>	<u>Swap insurer</u>	<u>Insurer credit ratings S &amp; P / Moody's</u>
Issue 36	FGIC	BB/B1
Issue 36	FSA	AAA/Aaa
Issue 37A	FSA	AAA/Aaa
Issue 37 B / C	FSA	AAA/Aaa
Issue 35	FSA	AAA/Aaa

Additional termination events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer ratings downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade.

Additional termination events under the swap documents in respect of a counterparty include a ratings downgrade below investment grade followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

**Component Unit Debt – San Francisco Redevelopment Agency**

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

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**(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, and San Francisco Trial Court employees other than judges. 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), agent or cost-sharing multiple-employer, public employee pension plans which cover certain employees in public safety functions, the Port, the Airport, the San Francisco County Transportation Authority 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, 2008 was approximately \$2.16 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership - Membership of the Retirement System at July 1, 2007 the date of the latest actuarial valuation is:

	<u>Police</u>	<u>Fire</u>	<u>Others</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits.....	2,114	1,962	17,040	21,116
Active members:				
Vested.....	1,881	1,318	19,786	22,985
Nonvested.....	210	173	6,822	7,205
Subtotal.....	2,091	1,491	26,608	30,190
Total.....	4,205	3,453	43,648	51,306

As of July 1, 2007 there were 3,096 terminated members entitled to, but not yet receiving benefits.

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 2007-2008 varied from 7% to 8% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2006 actuarial report, the required employer contribution for fiscal year 2007-2008 was 5.91%. In collective bargaining during the year ended June 30, 1994, the City and County agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City and County portion of these contributions has been negotiated through the various unions on a member group basis, and did not exceed 8% of base salary. For fiscal year ended June 30, 2008, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

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, 2006. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.0%; (2) inflation element in wage increases of 3.5%; and (3) salary merit increases of 4.5%. The actuarial value of Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. 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 an open 15 year period. Plan amendments are amortized over 20 years.

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

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2006	\$ 126,533	100%	\$ -
6/30/2007	132,601	100%	-
6/30/2008	134,060	100%	-

**Funded Status and Funding Progress** – As of July 1, 2007, the most recent actuarial valuation date, the actuarial value of assets was \$14.9 billion; the actuarial accrued liability was \$13.5 billion; the total overfunded actuarial accrued liability was \$1.4 billion; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 110.3%; the annual covered payroll was \$2.4 billion; and the ratio of the overfunded actuarial liability to annual covered payroll was 58.4%. The actuarial assumptions used were the same as described in the Annual Pension Cost section above. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**California Public Employees' Retirement System**

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

**Plan Description** - The City contributes to PERS, an agent multiple-employer public employee defined benefit pension plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. Effective with the PERS June 30, 2003 actuarial valuation, PERS mandated that the City's miscellaneous members plan be included in a cost-sharing multiple-employer plan consisting of various government entities with plan memberships of less than 199 active members. 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. A separate report for the City's plan within PERS is not available.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**Miscellaneous Plan**

Funding Policy - Miscellaneous plan - Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2007-2008 contribution rate is 0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Miscellaneous plan - Cost for PERS for fiscal year 2007-2008 was equal to the City's required and actual contributions which was determined as part of the June 30, 2005 actuarial valuation using the entry age actuarial cost method.

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

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2006	\$ -	N/A	\$ -
6/30/2007	-	N/A	-
6/30/2008	-	N/A	-

**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 18.065% because the City is funded at 98.9%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan – The cost for PERS for fiscal year 2007-2008 was equal to the City's required and actual contributions which was determined as part of the June 30, 2005 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2005 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.25% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. The cost-of-living adjustment includes an inflation component of 3.00%. 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 6% of the net unamortized gain/loss is recognized.

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

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2006	\$ 6,736	100%	\$ -
6/30/2007	15,977	100%	-
6/30/2008	15,982	100%	-

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Funded Status and Funding Progress – As of June 30, 2007, the most recent actuarial valuation date, the actuarial value of assets was \$622.9 million; the actuarial accrued liability was \$627.7 million; the total unfunded actuarial accrued liability was \$4.8 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 99.2%; the annual covered payroll was \$85.5 million; and the ratio of the unfunded actuarial liability to annual covered payroll was 5.6%. The actuarial assumptions used were the same as described in the Annual Pension Cost – Safety Plan section above. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**(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, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately \$485.9 million in fiscal year 2007-2008. 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 \$142.6 million to provide postemployment health care benefits for 22,135 retired participants, of which \$114.6 million related to the City employees. The City's liability for both current employee and postemployment health care benefits is enumerated below. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

**(d) Postemployment Health Care Benefits**

***City (excluding the San Francisco County Transportation Authority and the San Francisco Redevelopment Agency)***

Plan Description – The City provides health care benefits to employees, retired employees, and surviving spouses, through the City's Health Service System outlined above. Health care benefits are provided to members of the Health Service System through four plan choices: City Health Plan, PacifiCare Plan, Kaiser, and Blue Shield.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For fiscal year ended June 30, 2008, the City paid approximately \$114.6 million on behalf of its retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefits (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The following table shows the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and changes in the City's net OPEB obligation (dollar amount in thousands):

Annual required contribution	\$ 409,080
Interest on Net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	409,080
Contribution made	(114,640)
Increase in net OPEB obligation	294,440
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 294,440

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year are as follows (dollar amount in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 409,080	28.0%	\$ 294,440

**Funded Status and Funding Progress** – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over a thirty year period, beginning July 1, 2007. As of July 1, 2006, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 0%. The actuarial accrued liability for benefits was \$4 billion, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$2.1 billion and the ratio of the UAAL to the covered payroll was 195.3%.

**Actuarial Methods and Assumptions** – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation as of July 1, 2006, the entry age normal cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age at hire) and assumed exit (maximum retirement age). The actuarial assumptions included a 4.5% investment rate of return on investment; an annual blended healthcare cost trend rate of 9% in the fiscal year ended June 30, 2007, reduced by 0.5% each year to an ultimate rate of 5% in the tenth year and beyond; annual vision cost trend rate of 3%; annual administrative cost trend rate of 4.5%; and a 4.5% annual increase in projected payroll.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

***San Francisco County Transportation Authority***

The San Francisco County Transportation Authority (the Authority) maintains a separate OPEB plan and reported a net OPEB obligation of \$0 as of June 30, 2008. The Authority's most recent actuarial valuation was performed as of January 1, 2008, covering the fiscal year ended June 30, 2008. The Authority's OPEB plan was for retiree healthcare benefits and was 0% funded and the unfunded actuarial accrued liability was \$0.2 million. Details of the Authority's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2008. Financial Statements for the Authority can be obtained from their finance and administrative offices at 100 Van Ness Avenue, 26<sup>th</sup> Floor, San Francisco, CA 94102.

***San Francisco Redevelopment Agency***

The San Francisco Redevelopment Agency (the Agency) maintains a separate OPEB plan and reported a net OPEB obligation of \$0.5 million as of June 30, 2008. The Agency's most recent actuarial valuation was performed as of June 30, 2007, covering the fiscal year ended June 30, 2008. The Agency's OPEB plan was for retiree healthcare benefits and was 0% funded and the unfunded actuarial accrued liability was \$13.8 million. Details of the Agency's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2008. Financial Statements for the Agency can be obtained from their finance and administrative offices at 1 South Van Ness Avenue, 5<sup>th</sup> Floor, San Francisco, CA 94102.

***Proposition B – A City Charter Amendment Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund***

Proposition B was passed by voters on June 3, 2008, and increased the years of service required to qualify for employer-funded retiree health benefits for City employees and certain employees of the San Francisco Unified School District, San Francisco Community College District, and the San Francisco Superior Court who retire under the San Francisco Employees Retirement System and were hired on or after January 10, 2009. Employees hired before January 10, 2009, became eligible to participate in the retirement health care system after 5 years of service and the Employer paid 100% of the contribution. Now it states that between 5-10 years of service, there is no employer contribution, at 10-15 years there is a 50% contribution, between 15-20 years there is 75% contribution and only after 20 years of service will the employer pay 100% of the contribution.

Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City's future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%. The San Francisco Community College District and San Francisco Unified School District have the option to participate in and contribute to this Trust Fund if approved by their governing boards. As of June 30, 2008, the Retiree Health Care Trust Fund had not been created. The City will establish it during the year ending June 30, 2009.

The trust fund will be administered by a Retiree Health Care Board of Administration governed by five trustees, one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees Retirement System, and two elected by the active and retired members of the City's Health Service System. Elections are expected to take place during Spring 2009.

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

The San Francisco County Transportation Authority (the Authority) was established in November 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 administer the voter-approved county-wide transactions and use tax of one-half of one percent to fund essential transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan. The Authority's Expenditure Plan defines 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 November 1990, the Authority was designated under state laws as the Congestion Management Agency for San Francisco, and in that capacity prioritizes State and Federal transportation funds for San

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Francisco while working with the Metropolitan Transportation Commission. Responsibilities also include preparing a county-wide transportation plan to guide the City's future transportation investments, monitoring traffic congestion levels, measuring transportation performance, and developing a travel demand forecasting model.

In June 2002, 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 (TFCA), 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.

In November 2003, the City voters approved Proposition K by a 74.7% affirmative vote, amending the City Business and Tax Code to continue the existing county-wide one-half of one percent sales tax, and replace the 1989 Proposition B Expenditure Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: Transit, Streets and Traffic Safety (including street resurfacing and bicycle and pedestrian improvements); Paratransit services for seniors and persons with disabilities; and Transportation System Management/Strategic Initiatives to fund neighborhood parking management, land use coordination, and beautification efforts. The major capital projects to be funded by the new Expenditure Plan are development of the Bus Rapid Transit/MUNI Metro Network, construction of the MUNI Central Subway (Third Street Light Rail Project – Phase 2), construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal and replacement of the South Access to the Golden Gate Bridge (Doyle Drive Replacement Project). The Authority may modify the Expenditure Plan with voter approval, and the county-wide one-half of one percent sales tax would continue as long as a new or modified plan is in effect. Under the current Proposition K legislation, the Authority directs the use of the sales tax and may spend up to \$485.2 million per year and issue up to \$1.88 billion in bonds, to be repaid from the one-half of one percent sales tax.

The Authority and California Department of Transportation (Caltrans) are working in partnership to implement the Doyle Drive Replacement Project. In April 1988, the Authority and Caltrans signed a Memorandum of Understanding designating the Authority as the lead agency for the environmental study. The Doyle Drive Draft Environmental Impact Statement/Report (DEIS/R) was completed and circulated for public comment in December 2005. On September 1, 2006, Caltrans gave the Authority an authorization to proceed with preliminary engineering for the Doyle Drive Replacement Project. On September 26, 2006, through Resolution 07-17, the Authority selected Alternative 5 (Presidio Parkway) with specified design options, as the Preferred Alternative to be identified in the Final Environmental Impact Statement/Report for the Doyle Drive Replacement Project. A Final Environmental Impact Statement/Report is expected to be circulated in late Fall of 2008. A federal Record of Decision and State Notice of Determination are expected by Winter 2008/09.

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

**(a) San Francisco International Airport**

San Francisco International Airport (Airport), 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 Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2007 from the Airports Council International (ACI), the Airport is one of the largest airports in the United States both in terms of passengers (13th) and air cargo (13th). The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The San Francisco Bay Area Rapid Transit District (BART) extension to the Airport creates a convenient connection between the Airport and the greater San Francisco Bay Area. An intermodal station in the City of Millbrae provides a direct link to Caltrain, offering additional transit options and connections to the southern parts of the Bay Area. Access from the BART station throughout the Airport is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system provides transit

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

service over a “terminal loop” to serve the terminal complex and over a “north corridor loop” to serve the rental car facility and other locations situated north of the terminal complex.

The Airport has developed a revised five-year Capital Plan that better fits the ongoing changes in the aviation industry. The revised Capital Plan was approved in May 2008 and included airfield and groundside improvements, utility infrastructure upgrades, terminal upgrades, health, safety and security enhancements, and cost savings and revenue generating enhancements.

In addition to the long-term obligations discussed in Note 8, there was \$105.8 million of Special Facilities Lease Revenue Bonds outstanding at June 30, 2008, which financed improvements to the Airport’s aviation fuel storage and delivery system that is leased to SFO Fuel Company LLC (SFO Fuel). SFO Fuel is required to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements.

In July 2001, the Federal Aviation Administration (FAA) approved the Airport’s first Passenger Facility Charge application (PFC#1) to impose and use a \$4.50 Passenger Facility Charge (PFC) per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for approximately \$113 million in PFC eligible project development activities and studies associated with the potential runway reconfiguration. In March 2002, the FAA approved the Airport’s PFC Application Number 2 (PFC#2) to impose and use a \$4.50 PFC per enplaning passenger from June 1, 2003 through April 1, 2008, to pay for approximately \$224 million in the principal and interest on bonds issued for certain eligible costs relating to the new International Terminal Complex. In January 2004, the FAA approved the Airport’s amendment to delete PFC#1 as a result of the suspension of the runway reconfiguration project; receipts from PFC#1 were applied to PFC#2. In October 2005, the FAA approved an amendment to PFC #2 charge expiration date to October 6, 2005 due to full collection of the authorized amount. In September 2006, the FAA notified the Airport that the charge expiration date of PFC #2 will be recorded as of November 1, 2005.

In November 2003, the FAA approved the Airport’s third PFC application (PFC#3) to impose and use a \$4.50 PFC per enplaning passenger for approximately \$539 million to pay for debt service costs related to the construction of the new international terminal and boarding areas A and G. The collection period for PFC #3, as originally approved, was from November 1, 2008 to November 1, 2018. In January 2004, the collection period was revised to commence January 1, 2006 with a charge expiration date of January 1, 2016. In October 2005, the collection period for PFC #3 was revised to commence October 6, 2005. Subsequently in July 2006, the FAA approved an amendment to PFC #3 increasing the authorized amount by \$70 million for a revised application of \$609 million. In September 2006, the FAA notified the Airport that the revised date for the start of collections for PFC #3 is recorded as of November 1, 2005 with a revised estimated charge expiration date of January 1, 2017.

For the year ended June 30, 2008, the Airport reported approximately \$69.5 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements. The Airport designated \$54.4 million of PFC revenues as “Revenues” under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2007-2008.

Purchase commitments for construction, material and services as of June 30, 2008 are as follows (in thousands):

Construction.....	\$ 30,108
Operating.....	<u>11,333</u>
Total	<u><u>\$ 41,441</u></u>

**CITY AND COUNTY OF SAN FRANCISCO  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2008**

Due to the Airport'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.

The Airport has entered into a Memorandum of Understanding and supplemental funding agreement with various surrounding communities to insulate residential and nonresidential structures such as schools, churches, and hospitals. This program was funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. In fiscal year 2008, this program was finalized and the Airport received a reimbursement of \$385,000 from the County of San Mateo. In addition, the Airport made a final disbursement of \$214,000 to close the last phase for the City of San Bruno. As of June 30, 2008, approximately \$121.1 million has been disbursed under this program.

Pursuant to the Lease and Use Agreement between the Airport and most of the airlines operating at the Airport, the Airport makes an annual service payment to the City's General Fund equal to 15% of concession revenue, but not less than \$5 million per fiscal year, in order to compensate the City for all indirect services provided to the Airport. The annual service payment for the year ended June 30, 2008 was \$25.9 million. In addition, the Airport compensates the City's General Fund for the cost of certain direct services provided by the City to the Airport, including those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. The cost of direct services paid for by the Airport for the year ended June 30, 2008 was \$92.7 million.

In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. During the year ended June 30, 2008, revenues realized from the following the Airport tenants exceeded five percent of the Airport's total operating revenues:

United Airlines.....	22.7%
New South Parking.....	6.3%

**(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). In February 1969, the Port was transferred in trust to the City under the terms and conditions of State legislation ("Burton Act") ratified by the electorate of the City. Prior to 1969, the Port was owned and operated by the State of California. 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.

The Port's revenues, derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities, are held in a separate enterprise fund and appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, Port revenues may be spent only for uses and purposes of the public trust.

The Port is presently planning various development projects that involve a commitment to expend significant funds. 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, 2008, \$16.7 million has been appropriated and \$1.6 million has been expended for projects under the agreement. The \$16.7 million appropriated includes \$9.0 million received in 2004 from the sale of a portion of Seawall Lot 330 to a developer. Residual receipts totaling \$0.2 million were received during the fiscal year ended June 30, 2008 and recorded as a special item.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

As of June 30, 2008, the Port had purchase commitments for construction-related services, materials and supplies, and other services were \$5.4 million for capital projects and \$2.4 million for general operations.

In November 2002, a maritime vessel known as Drydock #1 broke free from its moorings at Pier 70 and went adrift in very high winds, finally running aground on Yerba Buena Island. The recovered drydock is currently moored at a safer harbor location. The Port continues to evaluate options for the final disposition of this surplus vessel. Engineering consultants have assessed requirements for hazardous materials abatement, including potential remediation of lead-based paints, heavy-metal contaminated sediments, and asbestos. The consulting engineers also performed a preliminary structural assessment and condition survey to assess the viability of towing the vessel from its present location to a location for ultimate disposal. Based on its poor condition, the drydock is most likely only salvageable for scrap metal. Based on the information from various consultants and internal engineering estimates, \$2.8 million was accrued in 2008 for the drydock's final disposition, including the remediation of identified hazardous materials.

Port lands are subject to environmental risk elements typical of sites with a mix of light industrial activities dominated by transportation, transportation-related and warehousing activities. Due to the historical placement of fill of varying quality, and widespread use of aboveground and underground tanks and pipelines containing and transporting fuel, elevated levels of petroleum hydrocarbons and lead are commonly found on Port properties. Consequently, any significant construction, excavation or other activity that disturbs soil or fill material may encounter hazardous materials and/or generate hazardous waste.

There is abandoned construction debris at two industrial sites in the Southern Waterfront, hindering re-leasing and use of the affected premises. A concrete batch plant ceased operations at a site north of Pier 80, abandoning approximately 17,000 cubic yards of concrete debris. The other site at Pier 94 contains approximately 100,000 tons of material, consisting primarily of concrete and asphalt debris, left behind by a bankrupt recycling operation. The Port has assessed various options for processing and removal of the construction debris. Estimated costs totaling \$1.0 million for certain processing and removing have been accrued as of June 30, 2008.

The Port has been conducting a public planning process to produce a preferred master plan for an underutilized 65-acre area commonly known as "Pier 70". A long history of heavy industrial use has turned this area into a "brownfield" – an underutilized property area where reuse is hindered by actual or suspected contamination. Environmental conditions likely exist that require investigation and remediation prior to any rehabilitation or development for adaptive reuse. The lack of adequate information about environmental conditions has hindered previous development proposals for Pier 70. With assistance from a federal grant, the Port intends to proceed in fiscal 2008-2009 with a brownfields site investigation throughout the Pier 70 area and to complete a risk assessment and feasibility study. It is anticipated that the grant will also fund the removal or abatement of certain identified hazardous building materials (i.e. asbestos, lead-based paint). The amount of hazardous building materials abatement that can be accomplished will depend on the amount of funds available.

**(c) San Francisco Water Enterprise**

The San Francisco Water Enterprise (Water Enterprise) was established in 1930. The Water Enterprise, 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. The Water Enterprise delivers water, approximately 90,566 million gallons annually, to a total population of approximately 2.5 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The San Francisco Public Utilities Commission (the Commission), established in 1932, provides the operational oversight for the Water Enterprise, Hetch Hetchy Enterprise, and the San Francisco Wastewater Enterprise (Wastewater Enterprise). The Commission consists of five members appointed by

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The Water Enterprise purchases water from Hetch Hetchy Enterprise. This amount, totaling approximately \$21 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2007-2008, water sales to suburban resale customers were \$115.9 million. As of June 30, 2008, the suburban resale customers owed the Water Enterprise approximately \$13.9 million under the Water Rate Agreement.

As of June 30, 2008, the Water Enterprise had outstanding commitments with third parties of \$135 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 Enterprise to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Enterprise. 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. The cost of cleanup associated with the Plan was estimated to be \$22.7 million and was accrued in fiscal year 2000-2001. As of June 30, 2008, the outstanding estimated liability is \$2.7 million.

**(d) Hetch Hetchy Water and Power Enterprise**

Hetch Hetchy Water and Power Enterprise (Hetch Hetchy Enterprise) 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 Enterprise 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 half 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 General Hospital, street lighting, Moscone Center, and the San Francisco Public Utilities Commission Water and Wastewater enterprises). Also a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to Modesto and Turlock Irrigation Districts (the Districts) to cover their pumping municipal load needs and any remaining energy either sold to other Municipalities and/or Government Agencies (not for resale) or deposited into an account under the City's agreement with PG&E.

Hetch Hetchy Enterprise 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.

Hetch Hetchy Enterprise also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the California Independent System Operator (CAISO) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy Enterprise serves as the City's representative at CPUC, CAISO and FERC forums and continues to monitor regulatory proceedings.

Charges for services for the year ended June 30, 2008 include \$60.8 million in sales of power by Hetch Hetchy Enterprise to other City Departments. Income from Hetch Hetchy Enterprise is available for certain operations of the City.

As of June 30, 2008, Hetch Hetchy Enterprise had outstanding commitments with third parties of \$20.3 million for various capital projects and other purchase agreements for materials and services.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Hetch Hetchy Enterprise facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy Enterprise facilitates and coordinates the terms and payment for the service connections that are performed by PG&E. As of June 30, 2008, there were no outstanding amounts from City departments related to this work. However, Hetch Hetchy Enterprise may receive money from PG&E after project completion, which is then refunded back to City Departments.

Hetch Hetchy Enterprise 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.

Effective September 2007, the City renegotiated the Interconnection Agreement (agreement) with PG&E to provide transmission and distribution services on PG&E's system where needed to deliver the Enterprise's power to its customers. In addition, the PG&E agreement provides supplemental power and energy banking and other support services to Hetch Hetchy Enterprise. The PG&E agreement provides audit rights to allows PG&E to review past billings paid by Hetch Hetchy Enterprise and to retroactively (up to two years) adjust these payments as determined necessary. During fiscal year 2007-2008, Hetch Hetchy Enterprise purchased \$13.6 million of transmission, distribution services, 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 Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of \$4.4 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 1988, Hetch Hetchy Enterprise entered into a long-term power sales agreement (the Agreement) with the Districts. In June 2003, Hetch Hetchy Enterprise amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to December 31, 2007. The agreement with MID was renegotiated and became effective January 1, 2008 which removed Hetch Hetchy Enterprise's obligation to provide firm power and eliminated MID's rights to excess energy from the Project. This agreement expires June 30, 2015. In April 2005, Hetch Hetchy Enterprise amended the terms of the agreement with Turlock Irrigation District (TID). The settlement agreement between Hetch Hetchy Enterprise and TID restates and amends the power sales agreement and terminates Hetch Hetchy Enterprise's obligation to provide firm power at below market costs to TID to the end of the agreements term on June 30, 2015. The Hetch Hetchy Enterprise will continue to comply with the Raker Act by making Hetch Hetchy water system generated hydropower available at cost to MID and TID for its agricultural pumping and municipal loads as energy is available. For fiscal year 2007-2008, energy sales to the Districts totaled 386,568 MWhrs or \$9.9 million.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed in January 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received (i) four gas turbine generator sets valued at approximately \$33 million for use at two power plants, one within the City and one at the San Francisco International Airport, (ii) future funding from a State administered fund (the Fund) to assist with the costs of sitting and developing electric generating equipment in the City, and (iii) payment to the City of \$0.5 million for attorney's fees and other expenses of litigation.

Effective January 23, 2003, the City entered into an implementation agreement with the Attorney General of the State of California (the Attorney General), the California Consumer Power and Conservation

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Financing Authority (the Financing Authority), and the California Department of Water Resources, outlining the terms of execution of the settlement agreement.

In December 2002, the City entered into an agreement (the Power Purchase Agreement) with the California Department of Water Resources in anticipation of the settlement and implementation agreements. Under the terms of the Power Purchase Agreement, the California Department of Water Resources has agreed to purchase power and rated capacity.

During the fiscal year 2007-2008, the City selected a design-build contractor, negotiated the contract terms and conditions and was actively working with General Electric (GE) to get the turbines upgraded and shipped. GE was also being considered for the operations maintenance contract.

The California Department of Water Resources, Hetch Hetchy Enterprise and the Developers are proceeding to secure all agreements by the end of this year. The preliminary objective was to have the Power Plant constructed and operating by the end of 2009.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first \$10.8 million from the defendants, and deposited that amount into the Fund. The City has eligible costs incurred in the development of the facility of about \$17.9 million. As of June 30, 2008, the City has requested and received a total of \$14.1 million for reimbursement from the Fund. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred and limited to reimbursement schedule. As such, the corresponding revenue will be recognized as eligible costs are incurred. Hetch Hetchy Enterprise has recognized \$4.9 million of revenue from the Fund as of June 30, 2008.

At the end of fiscal year 2007-2008, the San Francisco Public Utilities Commission made a decision to terminate the project, withdrawing project approval, and recommending sale of the combustion turbine generator sets.

On July 22, 2008, the San Francisco Public Utilities Commission rescinded project approval and recommended to the Mayor and the Board of Supervisors to cease development of the two power plants, in-City and at the San Francisco International Airport, and take any necessary steps to initiate the sales of the projects in accordance with the Implementation Agreement. Consequently, the project was written down by \$41.2 million to its net realizable values of approximately \$10 million as of June 30, 2008. The write down was recorded as a special item.

The City is investigating other reliability alternatives including retrofitting the Mirant-owned Potrero Power Plant to natural gas, and pursuing transmission from Newark to San Francisco. The City's license with the California Energy Commission to build and operate the City power plant is valid through October 2011 if no other solution to the power reliability issue can be found. If the City determines that it still has the need for in-City generation later, it will require new authorization from the Commission. The State of California has been fully appraised of the current status.

Hetch Hetchy Enterprise is exposed to risks that could negatively impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy Enterprise. For this reason, the financial results of Hetch Hetchy Enterprise are sensitive to variability in watershed hydrology and market prices.

**(e) Municipal Transportation Agency**

The Municipal Transportation Agency (MTA) is responsible for overseeing the City's public transportation operations, including those of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the Department of Parking and Traffic (DPT), which includes the Parking Authority and its five parking garages operated by separate nonprofit corporations organized by the City. Created in November 1999, with the passage of Proposition E, by the voters, the

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

MTA replaced the San Francisco Public Transportation Commission as the oversight agency for the operations of MUNI and SFMRIC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of DPT.

The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the MTA (in thousands), net of eliminations for \$0.3 million deferred charge and deferred credit, and revenues and expenses of \$21.9 million and transfers of \$142.4 million.

	MUNI	DPT	Parking Garages	Eliminations	Total
<b>Assets</b>					
Current assets.....	\$ 251,518	\$ 42,602	\$ 3,940	\$ -	\$ 298,060
Noncurrent assets.....	1,928,621	26,050	102,041	(274)	2,056,438
<b>Total assets.....</b>	<b>2,180,139</b>	<b>68,652</b>	<b>105,981</b>	<b>(274)</b>	<b>2,354,498</b>
<b>Liabilities</b>					
Current liabilities.....	152,244	21,453	29,816	(274)	203,239
Current liabilities payable from restricted assets...	1,497	-	-	-	1,497
Noncurrent liabilities.....	170,078	45,984	30,343	-	246,405
<b>Total liabilities.....</b>	<b>323,819</b>	<b>67,437</b>	<b>60,159</b>	<b>(274)</b>	<b>451,141</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt.....	1,900,644	(4,053)	35,749	-	1,932,340
Restricted net assets.....	26,480	1,539	31,780	-	59,799
Unrestricted net assets (deficit).....	(70,804)	3,729	(21,707)	-	(88,782)
<b>Total net assets (deficit).....</b>	<b>\$ 1,856,320</b>	<b>\$ 1,215</b>	<b>\$ 45,822</b>	<b>\$ -</b>	<b>\$ 1,903,357</b>
<b>Operating Revenues and Expenses</b>					
	MUNI	DPT	Parking Garages	Eliminations	Total
Operating revenues.....	\$ 165,055	\$ 68,599	\$ 45,653	\$ (21,966)	\$ 257,341
Operating expenses.....	703,501	100,570	45,078	(21,966)	827,183
Net operating income (loss).....	(538,446)	(31,971)	575	-	(569,842)
Nonoperating income (loss).....	111,977	124,527	(850)	-	235,654
Capital contributions.....	107,509	-	-	-	107,509
Transfers in.....	337,461	53,726	-	(142,364)	248,823
Transfers out.....	(4,171)	(150,272)	-	142,364	(12,079)
Change in net assets.....	14,330	(3,990)	(275)	-	10,065
Net assets (deficit) at beginning of year.....	1,841,990	5,205	46,097	-	1,893,292
Net assets (deficit) at end of year.....	<b>\$ 1,856,320</b>	<b>\$ 1,215</b>	<b>\$ 45,822</b>	<b>\$ -</b>	<b>\$ 1,903,357</b>

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was \$204 million (\$155 million for MUNI and \$49 million for DPT).

**Municipal Railway**

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2008, MUNI had approved capital grants with unused balances amounting to \$365 million. Capital grants receivable as of June 30, 2008 totaled \$24.7 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, 2008, MUNI had various operating grants receivable of \$10.9 million.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

These capital grants and operating assistance include funds from the San Francisco County Transportation Authority (SFCTA). During the year ended June 30, 2008, the SFCTA approved \$28.2 million in new capital grants and \$13.7 million in new operating grants for MUNI. During the same period, MUNI received total payments of \$48.6 million for capital grants and \$15.6 million in operating grants from the Authority. As of June 30, 2008, MUNI had \$1 million due from the SFCTA for capital grants and \$0.4 million due from the SFCTA for operating grants reported in due from other funds.

Proposition 1B is a ten-year \$20 billion transportation infrastructure bond that was approved by voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) that is funding solely for public transit projects. MUNI received \$50 million in FY2008 for eight different projects. Proposition 1B funds do not require matching funds. These funds must be obligated within three years. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. The State Office of Homeland Security also approved funding for MUNI transit security projects in the amount of \$7 million under Prop 1B. The grant award letter is dated April 22, 2008 but the cash advance of \$7 million was received in August 2008.

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 \$46.7 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 \$16.3 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. The San Francisco Municipal Railway Improvement Corporation's (SMFRIC) Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling \$2.3 million.

Leveraged Lease-Leaseback of BREDA Vehicles

***Tranches 1 and 2***

The Municipal Transportation Agency board of directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback transaction 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 an upfront economic benefit in return for entering into a lease-leaseback transaction involving the Breda light rail vehicles, without impairing the day-to-day operations of the transit system.

In April 2002 and in September 2003, following the approval of the Federal Transit Administration Transportation Agency and the City and County's board of supervisors, MUNI entered into the leveraged lease-leaseback transactions for over 118 and 21, respectively, Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment). Each transaction, also referred to as "sale in lease out" or "SILO", was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. Each sublease provides MUNI with an option to purchase the Tranche 1 and Tranche 2 Equipment in approximately 26 and 27 years, respectively, following the scheduled expiration dates of the subleases. During the terms of the subleases, MUNI maintains custody of the Tranche 1 and Tranche 2 Equipment and is obligated to insure and maintain the Tranche 1 and Tranche 2 Equipment throughout the life of each sublease.

MUNI received an aggregate of \$388.2 million and \$72.6 million, respectively in 2002 and 2003, from the head lessors in full prepayment of the head lease. MUNI deposited a portion of these head lease payments into an escrow and paid a portion to a debt payment undertaker whose repayment obligations

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

are guaranteed by Financial Security Assurance (FSA), an "AAA/Aa3" rated bond insurance company. The terms of the SILO documents require the City to replace FSA as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1. FSA is currently rated AAA/Aa3 – which is rated above the applicable ratings trigger of FSA in its role as debt payment undertaker guarantor. In addition, FSA provided a surety policy with respect to each leveraged lease transaction to guarantee potential payments in the event such transaction is terminated in whole or in part prior to the sublease expiration date. The terms of the SILO documents require the City to replace FSA as surety provider if its ratings are downgraded below "AA-/Aa3." Although S&P has placed FSA on "credit watch with negative implications," and Moody's indicated that FSA's outlook is "developing," it is not known whether or to what level downgrades, if any, may occur. Failure of the City to replace FSA following a downgrade within a specified period of time could allow the equity investors, in effect, to issue a default notice to the City. Because replacement of FSA in either of its roles as a debt payment undertaker guarantor or surety will either be difficult or very expensive in the current economic climate, the City could be liable to pay a termination cost as provided in certain schedules of the transaction documents. These termination costs are in the nature of liquidated damages as a result of early termination. The scheduled net termination costs as of December 1, 2008, after giving effect to the market value of the securities in the escrow account, would approximate \$86.1 million. The scheduled termination costs increase over the next several years.

The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease.

Although these transactions do not represent a legal defeasance of MUNI's obligations under the subleases, management believes that these transactions are structured in such a way that it is not probable that MUNI will need to access other monies to make sublease payments. Therefore, the assets and sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2008.

As a result of the cash transactions above, MUNI recorded deferred revenue of \$35.5 million and \$4.4 million in fiscal years 2002 and 2003, respectively, for the difference between the amounts received of \$388.2 million and \$72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of \$352.7 million and \$67.5 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were \$1.3 million and \$0.2 million in fiscal years 2008.

As of June 30, 2008, the outstanding payments to be made on the subleases through fiscal years 2027 and 2030 are \$105.3 million and \$53.4 million, for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be \$680.8 million and \$154.2 million. These payments are to be funded from the amounts in escrow and by the payment undertaker. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The data below reflect the operations of the five parking garages operated by separate nonprofit corporations organized by the City, which are under the Parking Authority. Information about these nonprofit corporations for the year ended June 30, 2008 follows (in thousands), including advances of \$0.3 million to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis - O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues.....	\$ 16,525	\$ 16,986	\$ 2,848	\$ 5,852	\$ 3,442	\$ 45,653
Depreciation.....	788	1,072	240	366	154	2,620
Operating income.....	261	(29)	59	234	50	575
Interest and other non-operating revenues (expenses).....	(112)	(704)	-	(66)	32	(850)
Change in net assets.....	149	(733)	59	168	82	(275)
Capital assets, additions.....	152	168	508	5	55	888
Capital assets, deletions.....	(140)	-	-	-	(8)	(148)
Net working capital (deficit).....	(12,294)	(12,536)	(175)	(2,200)	1,329	(25,876)
Total assets.....	33,441	51,595	2,820	14,742	3,383	105,981
Total liabilities.....	21,838	31,253	347	6,366	355	60,159
Net assets.....	11,603	20,342	2,473	8,376	3,028	45,822
Total debt outstanding.....	\$ 9,504	\$ 18,077	\$ -	\$ 4,220	\$ -	\$ 31,801

**(f) Laguna Honda Hospital**

**General Fund Subsidy**

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's General Fund. 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. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the fiscal year ended June 30, 2008, the subsidy for LHH was approximately \$54.6 million.

**Net Patient Services Revenue**

Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include contractual allowances, allowances for bad debt, and administrative write-offs. These allowances are based on closed account history.

**Third Party Payor Agreements**

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. Laws and regulations governing the Medicare and Medi-Cal programs are complex and

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

subject to interpretation. LHH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the fiscal year ended June 30, 2008, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net				
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	\$ 30,418	\$ 2,757	\$ 1,572	\$ 34,747
Less:				
Provision for Contractual Allowances	(11,210)	(1,334)	(356)	(12,900)
Total, net	\$ 19,208	\$ 1,423	\$ 1,216	\$ 21,847

Net Patient Service Revenue				
	Medi-Cal	Medicare	Other	Total
Gross Revenue	\$ 218,616	\$ 14,931	\$ 1,267	\$ 234,814
Less:				
Provision for Contractual Allowances	(88,280)	(6,854)	(891)	(96,025)
Provision for Bad Debt			(798)	(798)
Total, net	\$ 130,336	\$ 8,077	\$ (422)	\$ 137,991

Because Medi-Cal reimbursement rates are less than LHH's established charges rates, LHH is eligible to receive supplemental federal funding. During fiscal year ended June 30, 2008, LHH accrued approximately \$11 million revenue as a result of matching federal funds to local funds.

***Deferred Credits and Other Liabilities***

As of June 30, 2008, LHH recorded approximately \$666,000 in deferred credits and other liabilities, which was comprised \$652,000 in third party settlements payable and \$14,000 in deferred revenue.

***Replacement Project***

The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted, postponing the deadline to 2013.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to issue general obligation bonds 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 (the Replacement Project). Proposition A requires an increase in property taxes to pay for the bonds. In addition, 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 some construction of the Replacement Project, as well as to offset the

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

cost to property owners of repaying the bonds. As of June 30, 2008, General Obligation Bonds in the amount of \$299 million have been sold to fund the Replacement Project. During fiscal year ended June 30, 2008, LHH recognized \$17.9 million in tobacco settlement revenues.

As of June 30, 2008, LHH has entered into various purchase contracts totaling approximately \$50.5 million that are related to future construction for the Replacement Project.

**(g) San Francisco General Hospital Medical Center**

***General Fund Subsidy***

San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. 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. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2008, the subsidy for SFGH was \$135.1 million.

***Net Patient Services Revenue***

Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractual allowances, allowances for bad debt and administrative write-offs. These allowances are based on closed account history.

***Third Party Payor Agreements***

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, and the State of California through the Medi-cal Hospital/Uninsured Care Demonstration Project and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. SFGH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

During the fiscal year ended June 30, 2008, SFGH's patient receivables and charges for services were as follows:

Patient Receivables, net				
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	\$ 136,928	\$ 44,289	\$ 84,371	\$ 265,588
Less:				
Provision for Contractual Allowances	(116,442)	(35,596)	(40,224)	(192,262)
Provision for Bad Debt	-	-	(25,987)	(25,987)
<b>Total, net</b>	<b>\$ 20,486</b>	<b>\$ 8,693</b>	<b>\$ 18,160</b>	<b>\$ 47,339</b>

  

Net Patient Service Revenue				
	Medi-Cal	Medicare	Other	Total
Gross Patient Service Revenue	\$ 606,234	\$ 266,838	\$ 598,231	\$ 1,471,303
Less:				
Contractual Allowances	(497,501)	(152,892)	(347,781)	(998,174)
Bad Debt Allowance	-	-	(67,126)	(67,126)
<b>Total, net</b>	<b>\$ 108,733</b>	<b>\$ 113,946</b>	<b>\$ 183,324</b>	<b>\$ 406,003</b>

California's Medi-cal Hospital/Uninsured Care Demonstration Project (Demonstration) is the current system used for paying selected hospitals for hospital care provided to Medi-cal and uninsured patients and replaces funding previously provided through California State Senate Bills 855 and 1255. The Demonstration was negotiated between the State of California's Department of Health Services and the Federal Centers for Medicare and Medicaid Services, and covers the period from July 1, 2005 to June 30, 2010. Under the Demonstration, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursement for inpatient hospital services; 2) Disproportionate Share Hospital payments; and 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP). The nonfederal share of these three payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Demonstration approximated \$98.5 million for the fiscal year ended June 30, 2008. Beginning in fiscal year 2008, the State created the Health Care Coverage Initiative (HCCI), allowable under the Demonstration, to expand healthcare coverage for eligible low-income, uninsured individuals using an annual allotment of federal funds from the SNCP. On September 1, 2007, the City entered in to a contract with the State to participate in HCCI and was allocated \$73.1 million over 3 years. As of June 30, 2008, SFGH has accrued and recognized \$8.2 million. The HCCI covers a subset of the Healthy San Francisco population, primarily those individuals at or below 200% of the federal poverty level and who meet citizenship requirements. Refer to the Healthy San Francisco Program footnote.

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, 2008, reimbursement under the Short-Doyle Program amounted to approximately \$5.7 million and is included in other operating revenue.

***Deferred Credits and Other Liabilities***

As of June 30, 2008, SFGH recorded approximately \$55.2 million in deferred credits and other liabilities, which was comprised of \$41.7 million in deferred credits and \$13.5 million in Third Party Settlements Payable.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

***Charity Care***

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 \$211 million and estimated costs and expenses to provide charity care were \$93 million in fiscal year 2007-2008.

***Other Non-Operating Revenues***

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 \$59.1 million as other non-operating revenue for the year ended June 30, 2008, for realignment funding.

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, 2008, amounted to \$1.3 million and is included in other non-operating revenue.

***Contract with the University of California San Francisco***

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, 2008, was approximately \$99.5 million.

***SFGH Rebuild***

In 1996, California passed Senate Bill 1953, mandating that all California acute care hospitals meet new seismic safety standards by 2013. In January 2001, the San Francisco Health Commission approved a resolution to support a rebuild effort for the hospitals, and the Department of Public Health conducted a series of planning meetings to review its options. It became evident that rebuilding rather than retrofitting was required, and that rebuilding SFGH presented a unique opportunity for the Department of Public Health to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond.

In October 2005, the San Francisco Health Commission accepted the Mayor's Blue Ribbon Committee recommendation to rebuild the hospital at its current Potrero Avenue location. A site feasibility study was concluded in September 2006 and showed a compliant hospital can be built on the west lawn without demolishing the historic buildings or other buildings. An institutional master plan, a hazardous materials assessment, a geotechnical analysis and rebuild space program were completed in fiscal year 2007. Schematic design of the new building is complete and the project cost is estimated at \$887.4 million.

Majority of the funding will be through issuance of bonds. During the November 2008 election, Proposition A, which authorize the issuance of bonds for the rebuild of the hospital was approved by San Francisco voters.

***HEALTHY SAN FRANCISCO Program***

In July 2007, the City and County of San Francisco Department of Public Health implemented Healthy San Francisco (HSF). HSF is a program to provide health care for the uninsured residents using a medical home model, with an emphasis on wellness and preventive care. Persons between the ages of 18-64 are eligible and persons whose income is at or below 500% of the federal poverty level are eligible for a subsidy.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

As of August 2008, approximately 27,000 participants have enrolled in the program, representing 46% of the estimated 60,000 potential population. Fifty-nine (59%) of the participants have selected a medical home within the Department of Public Health.

**(h) San Francisco Wastewater Enterprise**

The San Francisco Wastewater Enterprise (Wastewater Enterprise), formerly known as the San Francisco Clean Water Program, was established in 1977 following the transfer of all sewage-system-related assets and liabilities of the City to the Wastewater enterprise pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

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

As of June 30, 2008, Wastewater Enterprise had outstanding commitments with third parties for capital projects and for materials and services totaling \$33.9 million.

**(i) San Francisco Market Corporation**

The San Francisco Market Corporation is a non-profit corporation organized to acquire, construct, finance, and operate a produce market. The information about this non-profit corporation is presented in the financial statements of the proprietary funds as a non-major fund.

**(12) SAN FRANCISCO REDEVELOPMENT AGENCY**

The Redevelopment Agency of the City and County of San Francisco (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 areas are now underway. In addition, the Agency has completed a feasibility study on the Mid Market Survey Area and the redevelopment plan has been submitted to the Board of Supervisors for review. A feasibility study is underway for the Visitation Valley and Bayview Hunters Point Survey Area designated by the Board of Supervisors.

The Agency acts as the lead Agency for the City in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is a program funded by a grant from the U.S. Department of Housing and Urban Development.

In 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, Tax Allocation Agreements, and related ordinances and resolutions. The two project areas total 303 acres. In June 2005, the Board of Supervisors approved ordinance to adopt the Transbay project area as a new redevelopment area which consists of 40 acres and is located south of the San Francisco financial district. The project area is bounded by Mission Street in the north, Main Street in the east, Folsom Street in the south and Second Street in the west. The future development of a new transit terminal and a concept plan which includes high-density, transit-oriented residential development are the highlights of this project.

In May 2006, the Board of Supervisors approved an amendment to the Hunters Point Redevelopment Project Area to include two distinct geographic areas: the existing Hunters Point Redevelopment Area and an additional 1361 acres. The new project name is now "Bayview Hunters Point Redevelopment Area". The Redevelopment Plan became effective September 2006.

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 \$102.6 million.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The Public Initiatives Development Corporation (PIDC) was formed in May of 2002 to develop affordable housing on the Agency's behalf. On November 12, 2004, PIDC and Wincopin Circle, LLLP formed a limited partnership, Plaza Apartments Associates, L.P. (the partnership). PIDC is the managing general partner and owns a 0.01% interest in the partnership. Wincopin Circle, LLLP is a limited partner and owns a 99.99% interest. Wincopin Circle, LLLP transferred its interest in the Partnership to the Housing Outreach Fund XL Limited Partnership, effective December 24, 2004. The Partnership completed construction of a 106-unit affordable housing project in the South of Market project area in January 2006. As of June 30, 2008, 100% of the units were leased. The Agency reports the investment in the Partnership under the equity method, based on the value of the assets and liabilities transferred to the Partnership.

On November 8, 2007, the Authority issued \$118.3 million in Taxable Tax Allocation Revenue Bonds 2007 Series A (2007 Series A Bonds) and \$94.1 million in Tax Allocation Refunding Revenue Bonds Series B (2007 Series B Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenue derived from related project areas.

The 2007 Series A Bonds consist of \$118.3 million in terms bonds that mature through August 1, 2037 with interest rates ranging from 5.50% to 5.75%. The net proceeds of \$110.8 million from the 2007 Series A Bonds will be used for general redevelopment purposes, including financing the development, rehabilitation and preservation of low and moderate income housing.

The 2007 Series B Refunding Bonds net proceeds were used to refund all the outstanding bonds of the Tax Allocation Revenue Bonds Series 1999 Series A in the amount of \$43.8 million; and 1999 Series B in the amount of \$13.6 million; and 2000 Series A in the amount of \$9.7 million; and 2001 Series A in the amount of \$29.4 million.

The net proceeds of \$87.6 million from the 2007 Series B Refunding Bonds, together with transfers from existing reserve accounts in the amount of \$10.6 million, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the debt service payments on the refunded bonds identified above on December 13, 2007. As a result, the refunded bonds described above are considered defeased and the liability for the refunded bonds has been removed from the accompanying statement of net assets. Although the advances refunding resulted in the recognition of a deferred accounting loss of \$1.6 million, the Agency in effect reduced its aggregate debt service payments by approximately \$4.3 million over the next 15 years and obtained an economic gain of \$3.9 million. The 2007 Series B Refunding bonds mature through August 1, 2022 with interest rates ranging from 4% to 5%.

In order to facilitate construction and rehabilitation in the City, various construction loan notes, promissory notes, community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately \$628 million as of June 30, 2008 have been issued by the Agency on behalf of various developer and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Agency or the City and are therefore not included in the accompanying 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 on these funds 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 budgeted \$530.9 million for such expenditures since its inception. The Agency has expended \$366 million for low- and moderate-income housing since its inception.

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

The Agency had commitments under contracts for capital improvements of approximately \$74.4 million as of June 30, 2008.

**(13) TREASURE ISLAND DEVELOPMENT AUTHORITY**

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

The mission of TIDA is to redevelop the former Naval Station Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California Tidelands Trust) to maximize revenues to the City's General Fund; to create new job opportunities for San Francisco residents, including assuring job opportunities for homeless and economically disadvantaged residents; to increase recreational and bay access venues for San Francisco and Bay Area residents; and to promote the welfare and well being of the citizens of San Francisco.

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 2002-2003, TIDA received Navy agreement to initiate the process of early transfer and entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base. TIDA completed an Environmental Impact Report (EIR) for the transfer in June 2006.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**(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, 2008, is as follows (in thousands):

**Due to/from other funds (in thousands):**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 9,229
	Internal Service Funds	303
	Laguna Honda Hospital	7,358
		<u>16,890</u>
Nonmajor Governmental Funds	Nonmajor Governmental Funds	682
	Internal Service Funds	10,891
	Municipal Transportation Agency	5
		<u>11,578</u>
San Francisco International Airport	Nonmajor Governmental Funds	87
		<u>87</u>
San Francisco Water Enterprise	Nonmajor Governmental Funds	105
	Municipal Transportation Agency	145
		<u>250</u>
Hetch Hetchy Water and Power Enterprise	General Fund	1,139
	Nonmajor Governmental Funds	10,835
	Port of San Francisco	83
	San Francisco International Airport	21
	General Hospital Medical Center	1,869
		<u>13,947</u>
Municipal Transportation Agency	General Fund	136
	Nonmajor Governmental Funds	1,611
		<u>1,747</u>
Port of San Francisco	General Fund	226
		<u>226</u>
San Francisco Wastewater Enterprise	Nonmajor Governmental Funds	26
		<u>26</u>
Total		<u>\$ 44,751</u>

**Due to/from primary government and component units:**

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government - governmental	Component Unit - San Francisco Redevelopment Agency	\$ 9,160
		<u>9,160</u>
Hetch Hetchy Water and Power Enterprise	Component Unit - Treasure Island Development Authority	\$ 2,599
		<u>2,599</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

Transfers In (in thousands):

Transfers Out: Funds	Funds							Total
	General Fund	Nonmajor Governmental	Internal Service Funds	Municipal Transportation Agency	San Francisco General Hospital Medical Center	Laguna Honda Hospital		
General Fund.....	\$ -	\$ 138,047	\$ 2,061	\$ 204,087	\$ 142,240	\$ 57,205		\$ 543,640
Nonmajor governmental funds.....	5,773	23,675	-	44,736	-	106,348		180,532
San Francisco International Airport.....	25,942	-	-	-	-	-		25,942
Hetch Hetchy Water and Power Enterprise.....	-	-	-	-	450	-		450
Municipal Transportation Agency.....	-	12,079	-	-	-	-		12,079
San Francisco General Hospital Medical Center.....	39,254	-	-	-	-	175		39,429
<b>Total transfers out.....</b>	<b>\$ 70,969</b>	<b>\$ 173,801</b>	<b>\$ 2,061</b>	<b>\$ 248,823</b>	<b>\$ 142,690</b>	<b>\$ 163,728</b>		<b>\$ 802,072</b>

The \$543.6 million General Fund transfer out includes a total of \$393.7 million in operating subsidies to the Municipal Transportation Agency, San Francisco General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of \$138.0 million from the General Fund to the nonmajor governmental funds are to provide support to various City programs such as the Public Library and the Children and Families Fund, as well as to provide resources for the payment of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

The General Fund received transfers in of \$39.3 million from the San Francisco General Hospital Medical Center for the SB 855 matching program reimbursement (note 11(g)), and \$25.9 million from the San Francisco International Airport, representing a portion of concession revenue (note 11 (a)). The \$44.7 million transferred to Municipal Transportation Agency from nonmajor governmental funds represented capital and operating transfers from the San Francisco County Transportation Authority. The \$106.3 million transfer from nonmajor governmental funds to Laguna Honda Hospital is for capital transfers funded by the Laguna Honda Hospital General Obligation Bond in the City Facilities Improvement Fund.

**(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.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**(b) Operating Leases**

The City has noncancellable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments (in thousands):

**Primary Government**

**Governmental Activities**

	<u>Fiscal Years</u>	
2009.....	\$	19,857
2010.....		17,601
2011.....		12,720
2012.....		10,492
2013.....		4,854
2014-2018....		2,296
Total.....	<u>\$</u>	<u>67,820</u>

Operating lease expense incurred for fiscal year 2007-2008 was approximately \$20.9 million.

**Business-type Activities**

<u>Fiscal Years</u>	<u>San Francisco International Airport</u>	<u>Port of San Francisco</u>	<u>Municipal Transportation Agency (MTA)</u>	<u>San Francisco General Hospital Medical Center (SFGH)</u>	<u>Total Business-type Activities</u>
2009.....	\$ 4,702	\$ 3,214	\$ 7,484	\$ 1,139	\$ 16,539
2010.....	80	3,214	7,353	1,017	11,664
2011.....	75	3,214	6,434	662	10,385
2012.....	-	3,214	6,520	250	9,984
2013.....	-	3,214	6,668	126	10,008
2014-2018.....	-	15,685	35,717	-	51,402
2019-2023.....	-	15,273	40,598	-	55,871
2024-2028.....	-	15,273	46,733	-	62,006
2029-2033.....	-	15,274	54,383	-	69,657
2034-2038.....	-	15,273	-	-	15,273
2039-2043.....	-	15,273	-	-	15,273
2044-2048.....	-	15,274	-	-	15,274
2049-2053.....	-	3,309	-	-	3,309
Total.....	<u>\$ 4,857</u>	<u>\$ 126,704</u>	<u>\$ 211,890</u>	<u>\$ 3,194</u>	<u>\$ 346,645</u>

Operating lease expense incurred for the Airport, Port, MTA, and SFGH for fiscal year 2007-2008 was \$5.2 million, \$3.1 million, \$9.0 million, and \$5.0 million, respectively.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**Component Unit – San Francisco Redevelopment Agency**

The San Francisco Redevelopment Agency (The Agency) has noncancelable operating leases for its office sites, which require the following minimum annual payments (in thousands):

Fiscal Years		Fiscal Years
2009.....	\$	1,793
2010.....		1,774
2011.....		1,775
2012.....		1,775
2013.....		1,775
2014-2018.....		8,321
2019-2023.....		4,119
2024-2028.....		4,119
2029-2033.....		4,119
2034-2038.....		4,119
2039-2043.....		4,119
2044-2048.....		4,119
2049-2050.....		1,853
Total.....	<b>\$</b>	<b>43,780</b>

Rent payments totaling \$1.3 million are included in the Agency's financial statements for the year ended June 30, 2008.

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		Fiscal Years
2009.....	\$	2,358
2010.....		2,057
2011.....		1,867
2012.....		1,679
2013.....		1,452
2014-2018.....		6,326
2019-2023.....		390
2024-2028.....		166
Total.....	<b>\$</b>	<b>16,295</b>

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

**Business-type Activities**

Fiscal Years	San Francisco						Total Business-type Activities
	San Francisco International Airport	Port of San Francisco	General Hospital Medical Center	Municipal Transportation Agency	Market Corp		
2009.....	\$ 72,148	\$ 28,467	\$ 1,666	\$ 3,575	\$ 884	\$ 106,740	
2010.....	55,706	24,863	1,716	3,131	825	86,241	
2011.....	36,555	21,141	1,767	2,607	745	62,815	
2012.....	18,930	19,733	1,820	2,326	754	43,563	
2013.....	15,706	18,237	1,875	1,403	754	37,975	
2014-2018.....	-	78,951	1,931	2,641	120	83,643	
2019-2023.....	-	67,381	-	-	-	67,381	
2024-2028.....	-	52,431	-	-	-	52,431	
2029-2033.....	-	48,296	-	-	-	48,296	
2034-2038.....	-	42,623	-	-	-	42,623	
2039-2043.....	-	28,985	-	-	-	28,985	
2044-2048.....	-	22,165	-	-	-	22,165	
2049-2053.....	-	13,496	-	-	-	13,496	
2054-2058.....	-	9,698	-	-	-	9,698	
2059-2063.....	-	9,170	-	-	-	9,170	
2064-2068.....	-	6,846	-	-	-	6,846	
2069-2073.....	-	1,537	-	-	-	1,537	
2074-2078.....	-	307	-	-	-	307	
Total.....	<u>\$ 199,045</u>	<u>\$ 494,327</u>	<u>\$ 10,775</u>	<u>\$ 15,683</u>	<u>\$ 4,082</u>	<u>\$ 723,912</u>	

The Airport and Port have certain rental agreements with concessionaires, which specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees for the Airport and Port were approximately \$23.5 million and \$11.7 million, respectively, in fiscal year 2007-2008.

**Component Unit – San Francisco Redevelopment Agency**

The Agency leases various facilities within the Yerba Buena Center, Western Addition, Hunters Point, South of market, and Mission Bay North areas. The minimum future rental income to be received on the leases (excluding variable rents calculated as a percentage of retail sales) (in thousands):

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

<u>Fiscal Years</u>		
2009.....	\$	4,607
2010.....		4,657
2011.....		4,686
2012.....		4,593
2013.....		4,525
2014-2018.....		22,781
2019-2023.....		21,759
2024-2028.....		22,236
2029-2033.....		24,051
2034-2038.....		21,950
2039-2043.....		21,329
2044-2048.....		15,889
2049-2053.....		2,065
2054-2058.....		735
2059-2063.....		513
2064-2068.....		364
2069-2073.....		250
2074-2078.....		198
2079-2083.....		150
2084-2088.....		150
2089-2093.....		150
2094-2098.....		128
Total.....	\$	<u>177,766</u>

For the year ended June 30, 2008, operating lease rental income for noncancelable operating leases was \$11.2 million.

**(c) Other Lease Commitments**

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately \$18.5 million per year through July 1, 2024. The lease payments are intended to approximate the debt service requirements of the corresponding lease revenue bonds that were issued by the Agency to finance the construction and expansion of the Moscone Convention Center which are recorded as a long term obligation of the Agency. Together with financing from the City through appropriation of a portion of the hotel tax and through the issuance of lease revenue bonds by the Finance Corporation, the total cost of approximately \$371.4 million was included in the City's asset class of facilities and improvements.

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 for capital leases are as follows (in thousands):

<u>Fiscal Years</u>	<u>Moscone Convention Center</u>	<u>Other</u>	<u>Total</u>
2009.....	\$ 18,639	\$ 1,151	\$ 19,790
2010.....	18,717	1,078	19,795
2011.....	18,794	67	18,861
2012.....	18,873	-	18,873
2013.....	18,946	-	18,946
2014-2018.....	94,904	-	94,904
2019-2023.....	32,439	-	32,439
2024-2028.....	6,319	-	6,319
Total minimum lease payments.....	227,631	2,296	229,927
Less amounts representing interest.....	(55,655)	(123)	(55,778)
Present value of maximum lease payments.....	<u>\$ 171,976</u>	<u>\$ 2,173</u>	<u>\$ 174,149</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**(d) Other Commitments**

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$1.3 billion at June 30, 2008.

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, 2008, the City contributed approximately \$7.1 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

The San Francisco Redevelopment Agency (the Agency) provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development (HUD) guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is \$48.7 million. As of June 30, 2008, management has designated \$4.9 million for standby payment agreements. It is management's intent to designate 10% of the estimated maximum obligation.

**(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); 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 Airport carries general liability insurance coverage of \$750 million, subject to a deductible of \$10,000 per single occurrence and commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport subject to a deductible of \$0.5 million per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general liability insurance in various amounts naming the Airport as additional insured. The Airport does not carry insurance for losses due to land movement or seismic activity and losses for war, terrorism and hijacking. The Airport carries public official liability and employer's liability coverage of \$5 million, subject to deductible of \$100,000 per single occurrence for each wrongful act other than employment practices' violations, and \$200,000 per each occurrence for employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire and rescue vessels. The Port carries commercial insurance for all risks of loss except workers' compensation, property damage to Port-owned vehicles and employee health and accident. The Port's property insurance does not cover losses due to seismic events. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums. 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.

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 \$20 million per occurrence and a deductible of \$50,000 self-insurance retention per occurrence.

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

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 and related loss adjustment expenses. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

***Estimated Claims Payable***

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City's liability as of June 30, 2008 has been actuarially determined and includes an estimate of incurred but not reported losses and related loss adjustment expenses.

Changes in the reported estimated claims payable since June 30, 2006, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2006-2007	\$ 147,260	\$ 84,049	\$ (38,369)	\$ 192,940
2007-2008	192,940	67,092	(53,090)	206,942

Breakdown of the estimated claims payable at June 30, 2008 is as follows (in thousands):

<u>Governmental Activities:</u>		
Current portion of estimated claims payables.....		\$ 41,249
Long-term portion of estimated claims payable.....		72,955
<u>Business-type activities:</u>		
Current portion of estimated claims payables.....		27,215
Long-term portion of estimated claims payable.....		65,523
Total.....		<u>\$ 206,942</u>

The Airport is a defendant in various legal actions and claims that arise during the normal course of business. In June 2007, a jury from San Mateo County Superior Court rendered a verdict finding the Airport in breach of covenant of good faith and fair dealing and awarded the plaintiffs \$1.1 million in damages. In February 2008, the Court vacated the judgment against the Airport and ordered the judgment be entered in the Airport's favor. The ruling rendered the \$1.1 million verdict against the Airport null and void. It also nullifies the Airport's liability for the \$0.5 million in expenses and \$5 million in attorneys' fees that plaintiffs were seeking. As the prevailing party, the Airport is entitled to recover its costs associated with the litigation. Those costs, excluding attorneys' fees, total \$0.4 million. The Airport may also recover its attorneys' fees totaling \$3.4 million. Plaintiffs are expected to appeal the Court's ruling in the Airport's favor.

In August of 2007 and May of 2008, two lawsuits were brought against the City of San Francisco Uptown Parking Corporation by physically-challenged individuals, who claimed that the Union Square Garage design discriminates against such individuals. These matters were referred to the Corporation's insurance carrier, who denied coverage. The Corporation then directed the lawsuits to their attorneys. At

**CITY AND COUNTY OF SAN FRANCISCO  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2008**

this time, it is too early to assess the extent of liability for the Corporation, if any, or to forecast the possible extent of the damage.

During the year ended June 30, 2008, the Retirement System was involved in one class action type lawsuit filed by the Veteran Police Officers Association (VPOA). This lawsuit involves issues related to "final compensation" as defined by the Plan. The VPOA lawsuit alleges that the Retirement System should include Police Officer Standard Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. The Retirement System was successful in defending the VPOA lawsuit in the trial court and on appeal to the California Supreme Court. The California Supreme Court ruled on VPOA's Petition for Review and issued its denial during the year ended June 30, 2008.

During the year ended June 30, 2008, the Retirement System was a plaintiff in two securities fraud lawsuits. In the first lawsuit, the Retirement System joined a coalition of government pension funds in a securities fraud suit against various investment banks for losses relating to WorldCom bonds. The second lawsuit was an "opt out" case against Qwest Corporation. Both of these lawsuits, including recoveries, have been concluded during the year ended June 30, 2008.

The Retirement System is involved in various other petitions, lawsuits, and threatened lawsuits relating to individuals' benefits due under the Retirement System which management does not expect to have a material impact on the net assets available for pension benefits. The results of such actions are included in the Retirement System's experience factors used in its actuarial valuations and accordingly, are eventually considered in establishing the City and County's required annual contributions.

***Workers' Compensation***

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2008 has been actuarially determined and includes an estimate of incurred but not reported losses and related loss adjustment expenses. The total amount estimated to be payable for claims incurred as of June 30, 2008 was \$351.6 million which is reported in the appropriate individual funds in accordance with the City's accounting policies (note 2).

Changes in the reported accrued workers' compensation since June 30, 2006, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2006-2007	\$ 364,135	\$ 43,753	\$ (66,760)	\$ 341,128
2007-2008	341,128	82,447	(71,969)	351,606

Breakdown of the accrued workers' compensation liability at June 30, 2008 is as follows (in thousands):

<u>Governmental Activities:</u>	
Current portion of accrued workers' compensation liability.....	\$ 37,685
Long-term portion of accrued workers' compensation liability.....	166,645
 <u>Business-type activities:</u>	
Current portion of accrued workers' compensation liability.....	26,573
Long-term portion of accrued worker's compensation liability.....	120,703
Total.....	<u>\$ 351,606</u>

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

**(17) SUBSEQUENT EVENTS**

**Long-term Debt**

In July 2008, the City issued the General Obligation Refunding Bonds (Laguna Honda Hospital) Series 2008-R3 in the amount of \$118.1 million. The proceeds of the bonds were used to refund all the outstanding general obligation bonds originally issued as variable rate demand obligations to finance improvements to Laguna Honda Hospital (the "Prior Laguna Honda Bonds"). A portion of the proceeds of the Refunding Bonds were also used to pay the costs incurred in connection with the issuance of the Refunding Bonds. The Prior Laguna Honda Bonds were approved by the voters of the City by passage of Proposition A at the election held on November 2, 1999, and issued in three series in 2005 as City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999), Series 2005B, 2005C and 2005D. The Series 2008-R3 were issued with interest rates ranging from 4.625% to 5% and mature from June 2022 through June 2030. Unamortized Prior Laguna Honda Bonds bond issuance costs were \$1.8 million at the date of the refunding. The City estimates that aggregate debt service payment were reduced by approximately \$15.5 million and that net present value present savings of approximately \$11.5 million were obtained through the refunding. Debt service payments are funded through ad valorem taxes on property and other available funds of the City not restricted by law to specific uses.

In August 2008, the City issued the General Obligation Bonds (Clean and Safe Neighborhood Parks Bonds 2008) Series 2008B ("the Bonds") in the amount of \$42.5 million to finance the construction, reconstruction, purchase and/or improvement of park and recreation facilities under the jurisdiction of the Recreation and Park Commission and the Port Commission, and all other structures, improvements and related costs necessary or convenient for those purposes. The Bonds constitute the first series of bonds to be issued from an aggregate authorized amount of \$185 million, duly approved by at least two-thirds of the voters voting on Proposition A at an election held on February 5, 2008. Interest rates range from 3% to 5% and mature from June 2009 through 2028. Debt service payments are funded through ad valorem taxes on property.

In September 2008, the City through the City and County of San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Moscone Center Project Expansion Project) Series 2008-1 and 2008-2 for \$72.7 million and \$72.7 million (the "Refunding Moscone Bonds") respectively to refund the Lease Revenue Bonds Series 2000-1, 2000-2 and 2000-3 (collectively the "Prior Moscone Bonds") with outstanding amount of \$144.3 million to address the concerns regarding the credit enhancement provided by the bond insurer. A portion of the proceeds of the Refunding Bonds were also used to pay the cost incurred in connection with issuance of the Refunding Bonds.

The Prior Moscone Bonds were insured by Ambac Assurance Corporation by a municipal bond insurance policy that insured the payment of principal and interest when due. Morgan Stanley Guaranty Trust Company of New York and State Street Bank and Trust Company (collectively the "Liquidity Provider") provided liquidity in connection with the exercise of put options by bond holders pursuant to standby bond purchase agreement among the Corporation and Liquidity Provider. The deteriorating credit quality of the insurer caused an increased in the resets of the Prior Moscone Bonds, increasing from an average of 3.46% in fiscal year 2006-2007 (peak of 3.78%) to an average of 3.65% in fiscal year 2007-2008 (peak of 6.42%).

The Refunding Moscone Bonds are secured by a direct-pay letter of credit provided by State Street Bank and Trust Company and Bank of America, N.A. (collectively the "Credit Provider") pursuant to a reimbursement agreement and purchase contract. By refunding the Prior Bonds, the City extinguished the bond insurance policy. Moody's, Standard & Poor's and Fitch Ratings have assigned long term ratings on the Refunding Bonds of Aaa/AAA/AA+ and short term ratings of VMIG 1/A-1+/F1+ respectively. The long term ratings are based on the rating agencies' analyses of the credit strength of both the Credit Provider and the City. The short term credit ratings are based on analyses of the credit strength of only the Credit Provider.

In September 2008, Assembly Bill (AB) 1389 of the California State Legislature was signed into law requiring redevelopment agencies statewide to shift a one-time \$350 million of property tax increment to the State of California's (the State) Educational Revenue Augmentation Fund (ERAF) as a way to reduce

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

the State's \$24.3 billion budget deficit for fiscal year 2008-2009. The ERAF money will then be paid to schools and community colleges, relieving the State of payments. The Redevelopment Agency of the City and County of San Francisco's share of this revenue shift is approximately \$5.9 million and the payment is to be made by May 10, 2009.

In November 2008, the City made the fourth borrowing under the Credit Agreement (Seismic Safety Loan Program, 1992) Series 2007A in the amount of \$1.3 million. The fourth borrowing bears an interest rate of 4.35% with principal amortizing from June 2009 through June 2028. The fourth borrowing is for below market rate loan account.

The San Francisco Water Enterprise (Water Enterprise) is authorized to issue \$250 million in commercial paper (CP), none of which was outstanding as of June 30, 2008. The Water Enterprise issued \$150 million in July 2008. In October 2008, \$59 million matured and reissue was delayed until November 2008 due to market conditions. The remaining outstanding balance of \$91 million is currently being remarketed by JP Morgan.

In November 2008, Hetch Hetchy Water and Power Enterprise (Hetch Hetchy) issued \$6.3 million in Clean Renewable Energy Bonds (CREBs) to finance the installation of solar energy equipment on selected City-owned facilities. Hetch Hetchy has not previously issued debt and has instead up to this point relied on revenue from ratepayers to fund renewable energy projects, CREBs provide the San Francisco Public Utilities Commission with low-cost access to capital to further its green power projects. Hetch Hetchy will begin making principal payments in the amount of \$422 thousand in December 2008 and continuing annually for fifteen years until December 2022. Funding for these payments will be guaranteed by Hetch Hetchy net revenues. Interest payments will not be made, since interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

The San Francisco Wastewater Enterprise had \$50 million in CP outstanding as of June 30, 2008, \$14.5 million of which matured on various dates between September and October 2008. The reissue of the \$14.5 million was delayed until November 25, 2008 due to market conditions.

**Bond Rating Upgrade**

In August 2008, Moody's Investors Services upgraded the City's government obligation bond rating to Aa2 from Aa3 and revised the rating outlook to stable from positive. They also upgraded by one notch their ratings on the City's various general fund obligations, including its abatement leases and settlement obligation bonds.

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

Subsequent to June 30, 2008, the global investment markets have been experiencing unprecedented, adverse events. The markets continue to suffer significant turmoil from a general uncertainty about how to best address the expanded global credit crisis and losses that financial institutions are facing.

As of December 31, 2008, the approximate, unaudited 20% decline in the fair value of the Retirement System portfolio since June 30, 2008 is consistent with overall financial market declines. However, the Retirement System portfolio is structured to focus on long-term performance and is designed to weather periods of market turbulence.

The Retirement System actively manages the investment portfolio, including periodic reviews of its investment policy and asset allocation strategy. Subsequent to June 30, 2008 as part of its regular operations, the Retirement System has reviewed its investment and asset allocation policies and continues to rely on an investment policy which is consistent with the principles of diversification and the search for long-term value. Because the values of individual investments fluctuate based on volatile market conditions, the amount of losses that the Retirement System will recognize in its future financial statements, if any, cannot be determined. Market fluctuations are an expected investment risk for a pension fund and the value of the Retirement System investment portfolio changes periodically.

Extraordinary circumstances that occurred subsequent to June 30, 2008, but prior to the issuance of financial statements, are disclosed because they could have a material impact on the value of

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

investments after the date of the financial statements. Negative returns on Retirement System assets will affect the funded status of the plan; however, the ultimate impact of the current market turmoil on the funded status of the Retirement System will be determined based on market conditions in effect when the actuarial annual valuation for the year ended June 30, 2009 is performed.

**The Retirement System Received a New Valuation Report**

On January 13, 2009, subsequent to the issuance of the Retirement System's audited financial statements, the Retirement System received the July 1, 2008 actuarial valuation report. This report showed an overfunded actuarial accrued liability (i.e., a funding excess) of \$582.6 million, as compared to the July 1, 2007 overfunded actuarial accrued liability of \$1.4 billion. This reflected a funding ratio of 103.8% compared to the 110.2% in July 2007. In addition, the new net employer contribution rate increased to 9.49%, effective July 1, 2009, from the 4.99% contribution rate in effect during the year ending June 30, 2009.

**Elections**

On November 4, 2008, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

**Proposition A – San Francisco General Hospital and Trauma Center Earthquake Safety Bonds** This ordinance authorizes the City to borrow \$887.4 million by issuing general obligation bonds for building and/or rebuilding San Francisco General Hospital to improve earthquake safety. The bond proceeds will primarily fund the construction of a new building on the current SFGH site. The building, as described in the City's environmental impact report, will meet the state's new higher standards for seismic safety for acute care hospitals. It will provide 284 beds for acute care treatment and will house the SFGH emergency department, operating rooms, obstetrics, pediatrics and intensive care and nursing units. Construction will begin in 2010, and it is estimated that the new building will be complete in 2015. Patient treatment will continue during construction. Proposition A will require the Citizen's General Obligation Bond Oversight Committee to provide independent oversight of the spending of the funds. One tenth of one percent (0.1%) of the bond funds will pay for the Committee's audit and oversight functions. The principal and interest on general obligation bonds will be paid with property tax revenues.

Fiscal Impact: In fiscal year 2009-2010, following issuance of the first series of bonds, and the year with the lowest tax rate, the estimated annual costs of debt service will be \$3.4 million and result in a property tax rate of \$0.00251 per \$100 (\$2.51 per \$100,000) of assessed value. In fiscal year 2013-2014, following the issuance of the last series of bonds, and the year with the highest tax rate, the estimated annual costs of debt service will be \$78.5 million and result in a property tax rate of \$0.05032 per \$100 (\$50.32 per \$100,000) of assessed valuation. The best estimate of the average tax rate for these bonds from fiscal year 2009-2010 through 2033-2034 is \$0.0337 per \$100 (\$33.70 per \$100,000) of assessed valuation. Based on these estimates, the highest estimated annual property tax cost for the owner of a home with an assessed value of \$400,000 will be approximately \$197.77. Landlords will be allowed to pass through 50% of the annual property tax cost of the bond to tenants as permitted in the City Administrative Code. Based on these estimates, the highest estimated annual cost for a tenant in unit with an assessed value of approximately \$131,000 will be \$32.96.

**Proposition D – Financing Pier 70 Waterfront District Development Plan upon Board of Supervisors' Approval** This is a Charter Amendment that will provide City funds to develop Pier 70 if the Board of Supervisor approves a financial and land use plan for Pier 70 (Pier 70 Plan). The amendment allows for creation of a development district and plan at Pier 70, a 65-acre site on the southern waterfront.

Fiscal Impact: A Pier 70 development plan will require significant expenditures by the Port of San Francisco (Port), however, new and increased revenues resulting from the development, including property tax increment financing, lease revenues, and payroll and hotel tax increment financing will pay for these expenditures. The Port currently projects that expenditures for infrastructure such as roads, utilities and repair of historic structures for the Pier 70 project will total approximately \$635 million in current dollars and will support approximately \$2.0 billion of private investment over a 15-20 year period. The amendment provides that the Board of Supervisors can appropriate to the Port up to 75% of

**CITY AND COUNTY OF SAN FRANCISCO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2008**

increased payroll and hotel tax revenues that are attributable to the Pier 70 development for a 20-year period. The remaining 25% of the increased payroll and tax revenues, as well as other increased tax revenues resulting from the development, will remain available for public purpose. The Controller and the Tax Collector will determine the base tax revenue amounts and the projected incremental tax revenue amounts resulting from the development.

**Proposition N – Changing Real Property Transfer Tax Rates** This is an ordinance that will increase the transfer tax rate to 1.5% for the sale of real estate worth \$5 million or more. The Board of Supervisors can exempt the sale of affordable housing projects from this increase. Proposition N will extend the transfer tax to real estate leases of 35 years or more. In addition, Proposition N will reduce the transfer tax for the sale of residential property by up to 1/3 if, after January 1, 2009, the person selling the real estate had either installed a solar energy system or made improvements to increase earthquake safety.

**Fiscal Impact:** The ordinance will change the property tax rate for properties with sale price of over \$5 million from 0.75% to 1.5%. This will result in an estimated net annual tax revenue increase to the City of approximately \$29 million.

**Proposition O - Replacing the Emergency Response Fee with an Access Line Tax and Revising the Telephone Users Tax** This ordinance will replace the Emergency Response Fee with a general tax (Access Line Tax) at the same rates and with the same exemptions. Revenue from this tax will go to the City's General Fund.

**Fiscal Impact:** The current 911 fee rate is \$2.75 per month per phone line with higher rates on commercial lines and generates approximately \$42 million annually. These revenues are budgeted for costs associated with the City's emergency response (911) service. The replacement tax will be at the same rates with the same exemptions and is projected to generate the same amount of revenue. These revenues will be available for any public purpose. The ordinance will also update and modernize the City's telephone users' tax which generates approximately \$40 million annually. The proposal will modernize the tax to specifically apply to new and future technologies. The projected revenue amount will not significantly change over time because while emerging services would be subject to the tax, these services are likely to replace classic telephone services which are gradually decreasing.

**Proposition Q - Modifying the Payroll Expense Tax** This ordinance specifies that the City's 1.5% payroll expense tax applies to compensation paid to shareholders of professional corporations, members of limited liability companies, and owners of partnerships for their services. It will also expand the payroll tax exemption for small businesses. Beginning January 1, 2009, small businesses with annual payroll expenses of \$250 thousand or less will not have to pay the City's payroll expense tax. Every two years, the City will adjust the \$250 thousand ceiling to reflect inflation.

**Fiscal Impact:** The net annual revenue to the City is estimated to increase by approximately \$10.5 million and change the number and type of businesses in the City that pay the payroll tax. The ordinance will require the payroll tax to be paid on all partner compensation, excluding returns on investment and will result in additional gross annual tax revenues of approximately \$17 million. Currently, businesses with a payroll of up to \$167 thousand do not have to pay the payroll tax. The ordinance will raise this limit to \$250 thousand exempting additional businesses and resulting in decreased gross tax revenue of approximately \$6.5 million.

**Proposition S – Policy Regarding Budget Set-Asides and Identification of Replacement Funds**

This is an ordinance that will make it a City policy that voters will only approve measures authorizing new set-asides or spending mandates if the measure also identifies a new source of funding.

**Fiscal Impact:** The impact on the cost of government is minimal. The policy will limit the annual growth of new set-asides to no more than 2% of the prior year's amount, and the duration of the approved set-asides to ten years after the effective date of their adoption. The ordinance will require the Controller to prepare a statement informing the voters of the new policy, funding sources identified for the new or expanded set-asides, and the impact of the set-asides on the City's budget and finances during its term.