

January 30, 2009

The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
Citizens of the City and County of San Francisco
San Francisco, California

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the fiscal year ended June 30, 2008 (FY 2007-2008), with the independent auditor's report. The report is submitted in compliance with City Charter sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The Office of the Controller prepared the CAFR in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB).

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

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

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

Key CAFR Sections

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

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

The financial statements of several enterprise activities and of all component units of government are included in this CAFR. Some component units' financials are blended with the City's, such as: the San Francisco County Transportation Authority, the San Francisco Finance Corporation, and the San Francisco Parking Authority. The reason for this is that the primary government is financially accountable for the operations of these agencies. In other instances, namely, for the San Francisco Redevelopment Agency and the Treasure Island Development Authority, financial reporting is shown separately.

Supplemental combining statements and schedules for non-major governmental funds, internal service funds and fiduciary funds are also presented in the financial section.

The **Statistical Section** includes up to ten years of historical financial data and miscellaneous social and economic information that conforms to GASB standards for reporting—Statement No. 44. This section may be of special interest to prospective investors in our bonds.

Profile of San Francisco's Government

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

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

San Francisco's Budgetary Process

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

San Francisco's Economy: Outperforming the State

San Francisco's economy outperformed most other jurisdictions in California, and the State itself, during fiscal year 2007-2008. Since June 30, 2008, the rate of economic growth has slowed, and in several sectors actual losses versus the prior year have appeared. While unemployment remains well below that of the State, it increased to 6.6% by December 2008. Housing prices have also shown more significant declines, and after a strong first quarter of fiscal year 2008-2009, hotel room and occupancy rates decreased in November 2008.

To place San Francisco's economic performance in context, the State of California has seen a progressive deterioration in its economic performance since 2006. The clearest indication of this distress is the state's employment situation. During FY 2007-2008, California's unemployment rate rose by over one and one-half percentage points, from 5.3 percent (June 2007) to 7.0 percent (June 2008)¹. By December 2008, it has risen to 9.3 percent.

The fundamental cause of the recession in California, as well as several other states in the United States, has been the downturn in the housing market. Housing prices in California have rapidly declined after more than a decade of double-digit annual appreciation.

Outside of San Francisco, this appreciation in housing prices was largely driven more by low-cost and widely-available home mortgages, than by a growth in incomes or any other fundamental indicator of housing demand. In particular, the proliferation of so-called sub-prime mortgages led to a great expansion in speculative home-building, and home-buying, in some areas of the state. Rising home prices also led to an expansion in home equity lines of credit, which also stimulated consumer spending and the retail sector in these areas.

Although San Francisco also experienced high levels of housing price appreciation for most of the past decade, there was a fundamental difference in the City's housing market and those in the fast-growing suburban areas of the state. Consequently, San Francisco's economy experienced a downturn much later than other parts of the state. While low mortgage rates certainly contributed to rising housing prices in San Francisco during the early years of the decade, the City has relatively few sub-prime mortgages, and its default rate on those mortgages has been far below the state average. During FY 2007-2008, San Francisco recorded 1,424 Notices of Default, which was only 0.4 percent of the state total of 389,138². By contrast, San Francisco has approximately 2 percent of the state's population, suggesting a per capita default rate that was only one-fifth of the state average.

Furthermore, San Francisco's affluent population has been much less dependent on home equity lines of credit to supplement consumer spending, and the overall quality of consumer debt in San Francisco remains relatively strong. Finally, as a developed urban area, home building in San Francisco is a fairly expensive and time consuming process compared to suburban areas. Consequently, the City's rate of home construction has been comparatively low, and supply has arguably not kept pace with demand.

For these reasons, while San Francisco's housing prices have fallen, the rate of decline has been lower than the state average. Between June 2007 and June 2008, housing prices in California have fallen by an average of 16.2 percent, whereas in the San Francisco metropolitan division, they fell by only 5.9 percent during the same period³. Since June 30, 2008, housing price declines have accelerated in both the state and the City, but the drops have remained lower in San Francisco.

At the time of writing, the sub-prime mortgage crisis has evolved into a broader credit crisis with economy-wide impacts far beyond the housing industry. Nevertheless, the historic resiliency of San Francisco's economy is likely to continue, suggesting a milder downturn locally than that experienced by either the state or nation. San Francisco's tax and fee revenues are similarly likely to be more stable than those of other jurisdictions.

It is, nevertheless, important to emphasize that San Francisco's strong economic performance during FY 2007-2008 is highly unlikely to continue throughout FY 2008-09. The credit crisis will likely affect the city's financial services and construction industries, in particular. Tourism has been a major source of strength, but a rising U.S. dollar and a global recession will lead to cutbacks in discretionary spending, including on tourism.

San Francisco's long-term economic fundamentals—the quality of its workforce, environment, technological base, and cultural amenities—are among the strongest of any city in the United States. These competitive advantages are likely to secure the City's continued prosperity during and after the economic recovery. Commercial property investors and developers agree; according to a recent report from the Urban Land Institute and PriceWaterhouseCoopers, San Francisco is the second best multifamily and office investment market in the country, ahead of New York, Washington D.C., San Jose, and Los Angeles⁴. According to the same report, San Francisco leads the nation in residential and commercial development potential.

Key Economic Outcomes

Several aspects of San Francisco's recent economic performance over the past several years are discussed in more detail in the following sections.

Population: Continuing Recovery Since 2005

Since 2000, the California Department of Finance and the U.S. Census Bureau have released significantly different estimates of San Francisco's population. In 2007, for the first time since 2000, both sources indicated a rise in San Francisco's population over 2006 levels. The California Department of Finance reported the City's population at 824,525 as of January 1, 2008, a 1.5 percent increase over

2007. (U.S. Census figures for 2008 were not yet available at the time of publication, but the 2007 estimate of 764,976 was 2.8% higher than 2006).

Employment: Job Growth Rate Through March 2008 the 16th Highest in the U.S.

The wage and salaried employment base of San Francisco grew by 17,500 jobs between March 2007 and March 2008, the latest data available⁵. This 2.9 percent growth is the fastest rate of job increase since 1999-2000, and ranked San Francisco 16th in job growth among over 3,000 U.S. counties.⁵ San Francisco's recent job growth rate surpassed every other major county in the Bay Area.

Unemployment: Rising, but Far Below State Levels

San Francisco's average monthly unemployment rate for FY 2007-2008 rose to 4.6 percent, though the City remained far below the state's average monthly rate of 6.0 percent. Annual job growth remained positive in the San Francisco metropolitan division until December 2008, indicating that the rising unemployment could be partly caused by an in-migration of unemployed from nearby areas that have been harder-hit by the recession.

Bond Ratings: Moody's Upgrades San Francisco's General Obligation Bond Rating

The City's fiscal health remains strong, as reflected in investment grade bond ratings on the City's municipal debt. In August 2008, Moody's upgraded the City's general obligation bond rating to Aa2 and the rating outlook to Stable. Standard & Poor's and Fitch affirmed the City's general obligation bond ratings of AA and AA-, respectively. According to Moody's, "Among San Francisco's strengths were an above-average resident socioeconomic profile, a highly diverse and robust revenue base, an exceptionally strong balance sheet at close of fiscal year 2006-2007, and a moderate debt burden with relatively rapid, direct debt retirement."

San Francisco's Major Industries

San Francisco's economy is dependent on the global competitiveness of two sets of industry clusters: knowledge-based businesses centered around professional, financial, and information services, and experience-based businesses centered on tourism. San Francisco's continuing economic strength has been due to the competitiveness of these key elements of its economy, particularly in the tourism industry. In addition, a new set of emerging technology-based industries are diversifying the City's economy.

Financial, Professional, and Business Services: Local Growth in the Face of National Declines

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

San Francisco's job growth rate is more than twice the national average

In March 2008, San Francisco held 188,084 jobs in financial activities and business and professional services⁶. As a group, employment in these industries grew at a 3.4 percent rate in San Francisco between March 2007 and March 2008, adding close to 6,000 jobs. Nationally, the same industries declined by a 0.2 percent rate during the same period. Later monthly data for San Francisco County is not available, but it is likely that that growth rates have significantly slowed since then.

Tourism and Hospitality: Hotel and Airport Data Remain Strong

The other major segment of San Francisco's economic base is the tourism and hospitality industry. Like the downtown office services, tourism has experienced a very strong recovery since the recession of the early 2000s. Even as tourism and associated retail spending has declined across the state and country,

San Francisco continued to see growth in its airport enplanements, hotel occupancy and daily rates, visitor spending and sales tax up until November, 2008.

Employment growth far outpacing the national average

There were 76,400 people working in arts, recreation, cultural services, accommodation, and food services in San Francisco at the end of 2007. This represents an increase of 2,600 jobs over CY 2006, for a 3.5 percent increase.¹ San Francisco's growth rate outpaced the national growth rate of 2.2 percent during that time.⁵

Visitor spending rose 5.7 percent in the past year

After a 0.4 percent increase in visitors between 2005 and 2006, the San Francisco Convention and Visitors Bureau (SFCVB) reported a 1.9 percent increase in San Francisco visitors between 2006 and 2007, with a total of 16.1 million visitors in 2007⁷. These visitors spent an estimated \$8.2 billion in the City in 2007, a 5.7 percent increase in spending compared to 2006.

Hotel sector outperforming other areas

In line with the increasing number of visitors, the hotel sector continued its recovery, with both occupancy and average daily rate (ADR) increasing in FY 2007-2008, compared to the previous fiscal year. Hotels city-wide reported an ADR of \$192 in FY 2007-2008, an 8.7 percent increase from the prior fiscal year. During this same period, occupancy rates increased 2 percentage points, to 79 percent⁸. The hotel sector continued its strong performance until November 2008, at which point both occupancy and average daily rates began to show annual declines.

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

San Francisco International Airport (SFO) also continued to experience rising usage during the past year. From July 2007 to June 2008, the airport served 36.7 million passengers, up 8.6 percent from the previous fiscal year. International passengers increased 5.9 percent over the prior year, emphasizing San Francisco's established role as an international business and leisure destination, as well as an expanding array of direct international connections. Domestic traffic increased nearly 10 percent over last fiscal year, largely due to three new low-cost carriers starting up SFO service in the past year (JetBlue, Virgin America and Southwest Airlines). In the early months of fiscal year 2008-2009, passenger growth has slowed and begun to show annual declines. International capacity should increase with the expansion of several international airline routes, including Aer Lingus' nonstop service between Dublin and SFO, Cathay Pacific Airways expansion of its SFO-Hong Kong route, several Indian airlines gearing up for service, including Kingfisher, and Dubai-based Emirates Airlines, which began non-stop daily service from Dubai to SFO on the new Airbus A380 in December 2008.

Port of San Francisco: complementing the City's tourism industry

The Port of San Francisco is a major west coast cruise ship destination. Passenger boardings, which increased significantly in recent years (nearly doubling between 2003 and 2006 to 223,605 passengers), saw a decline to about 185,000 passengers in 2007.

Retail sales growth outperforms the state

Retail sales are closely tied to the visitor industry in San Francisco. Sales growth was a strong 3.2 percent in FY 2007-2008, evidence of the strong tourism sector and overall economy during the fiscal year. San Francisco's positive gains are running counter to the State and most other Bay Area cities, which experienced flat or negative year-over-year growth. San Francisco's status as a destination city and a strong tourism sector contributed to this retail attraction.

Emerging Technology Industries

Information and digital media

Since the mid-1990s, the Information sector⁹—consisting of software products, traditional and internet-based media publishing, film, music, digital media, and television—has emerged as an important component of San Francisco's economic base. The sector has fully recovered from the recession, posting

a 0.7 percent growth rate between March 2007 and March 2008. In March 2008, San Francisco had 19,322 jobs in the information sector, according to the U.S. Bureau of Labor Statistics.

Many information and digital media businesses have moved or expanded in San Francisco in the past year, including: LinkedIn, the social networking site, which opened a satellite office in the financial district in July; Meraki, a wireless networking firm, moved its headquarters from Mountain View bringing about 30 workers; and, Zinio Systems, which provides digital versions of magazines on the web, expanded its San Francisco footprint by 50%. Finally, in late 2007, Microsoft expanded its San Francisco presence when it relocated into 92,000 square feet in the Mid-Market area.

Clean Technology

Several early-stage clean technology firms have located in San Francisco in the past year, including: Potenco, a clean energy firm which hopes to bring clean and cheap energy to Third World countries with its people-powered "pull-cord generators"; Trina Solar, a leading Chinese manufacturer of solar photovoltaic products; Kaco Solar, a German-based company which makes inverters for solar power systems, expanded in the Presidio, and Suntech America, the China-based solar manufacturer which chose San Francisco for its North American headquarters in late 2007, expanded its workforce in 2008.

Biotechnology

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

Until recently, however, few biotechnology companies were located in San Francisco itself. This has begun to change with the growth of the Mission Bay redevelopment area. Mission Bay now houses a new UCSF campus, and growing amounts of lab and incubator space for researchers and start-up companies.

Significant activity by businesses in this sector include Sirna Therapeutics, which expanded into 40,000 square feet at 1700 Owens Street, a speculative building in Mission Bay that is now fully leased. Merck Pharmaceuticals bought Sirna for \$1.1 billion in 2006, bringing a global player into the heart of the City's biotech cluster. The world's largest drugmaker, Pfizer Inc. made its first play in Mission Bay in mid-2008 with an equity investment and drug-discovery deal with Five Prime Therapeutics Inc., which relocated its headquarters from South San Francisco in late 2004. Pfizer then announced it will move about 100 employees, including the headquarters of its new Biotherapeutics and Bioinnovation Center (or BBC), into a new structure in Mission Bay in 2010. FibroGen will relocate its corporate headquarters from South San Francisco to a new 450,000 square foot laboratory building in Mission Bay, bringing 250 employees by year-end, making it the largest biotech company to date to commit to the City.

As Mission Bay continues to develop, it is expected that San Francisco's biotechnology industry will continue to grow.

Key Economic Foundations and Government Initiatives

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

Housing and Commercial Development

San Francisco continued to make significant progress in developing new residential, commercial, and transportation infrastructure in FY 2007-2008.

Housing: continuing investment, and planning for future growth

The Mayor's 15/5 initiative (15,000 new units in five years) is addressing San Francisco's chronic housing shortage. In calendar year (CY) 2007, 2,567 housing units were constructed, indicating the continuing strength of San Francisco's housing market in the face of the national downturn. Another 1,969 units have been constructed in the first half of 2008, with 1,412 units authorized for construction. This totals 12,600 units authorized for construction and 8,300 completed in the past 3 1/2 years, making the Mayor's 15/5 goal well within reach.

Also in CY 2007, the Planning Department entitled 2,612 new residential units, down from previous years. These entitlements are laying the groundwork for strong housing production in the next few years. In total, there are about 54,000 residential units in various stages of planning, including the redevelopment of the former Naval Shipyard at Hunters Point, and the former Naval Station at Treasure Island.

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

The office market also continued its recovery in FY 2007-2008, with the vacancy rate declining from 11.4 percent in the third quarter of 2007 to 10.2 percent in the second quarter of 2008. During the same period, office rental rates increased 6.5 percent to \$50.98 as of the second quarter of 2008. In addition, the market experienced about 750,000 square feet of net absorption during this time period. Office developers took advantage of this strong market: in FY 2007-2008 there was 1.4 million square feet of commercial space under construction, including a 33-story office tower at 555 Mission Street, the first high-rise office completed in San Francisco in five years.

Real estate investors have confidence in the City as well: more than half of downtown's office inventory traded hands in 2006 and 2007. However, the transaction pace has slowed dramatically: as of June 2008, there had been about \$1.5 billion in sales, compared to \$6.1 billion in sales in 2007. The slowing pace is due to tightening credit markets and the fact that much of the City's office inventory recently sold.

Treasure Island: a pioneering model for urban sustainable development

Over the last year, a forward-thinking plan for Treasure Island has emerged. By leveraging private capital and the City's entitlement power, the City will transform a closed military base into one of the greenest, most sustainable development projects in U.S. history, elements of which include a system of storm-water treatment wetlands, rigorous "green" building standards and maximization of renewable energy. The Treasure Island Plan will add 6,000 new residential units, including 1,800 at below market rate. In addition, without using any General Fund monies, a vibrant mixed-use commercial district, including 250,000 square feet of retail and commercial space, 450 hotel rooms, entertainment venues and cultural exhibitions, and a 300-acre park in the middle of San Francisco Bay will be created.

Bayview and Hunters Point: environmental restoration and economic development

A similar opportunity exists along San Francisco's southern waterfront, at Candlestick Point and the Hunters Point Shipyard. Current plans include up to 10,000 housing units, permanent artist studios, over 2,000,000 square feet of research and development space targeted to digital arts, green technology and biotech, and over 350 acres of open space and waterfront park land. A new 49ers stadium could be an element of that revitalization effort; plans are proceeding with, and without, a stadium alternative. Revitalizing these unique waterfront sites will create badly-needed jobs, affordable housing and parks and open space for the Hunters Point community, and the broader region.

On June 3, 2008 City voters overwhelmingly approved Proposition G, supporting the combined Hunters Point Shipyard Candlestick Point redevelopment project, affirming the actions of both the Redevelopment Agency Commission and the Board of Supervisors, who in mid-2007 endorsed the conceptual framework to plan for an integrated, mixed-use project in the southeast corner of the City. In addition, the Navy's

cleanup and transfer of the Shipyard parcels to the City are speeding up: the latest federal appropriation contained \$82 million for Navy cleanup at Hunters Point Shipyard - a 33% increase over what the government has committed annually over the past several years.

Transportation Infrastructure

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

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

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

The Transbay Center will include a mixed use Transit Tower, whose development will fund much of the transit infrastructure. That project's design and development competition resulted in five teams responding, including some of the world's most prominent architects and developers. In May 2008, the Transbay Joint Powers Authority Board of Directors officially agreed to hire Pelli Clarke Pelli Architects and its partner Hines to design the proposed Transbay Transit Center.

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

San Francisco International Airport: planned capital improvements

Anticipating a rise in air travel, San Francisco airport commissioners gave the green light to reopening the airport's former international wing, Terminal 2. SFO expect to spend \$383 million renovating the terminal thereby expanding the gate capacity for domestic airlines by 25 percent. Terminal 2, has been closed since 2000 when SFO finished construction of its \$2.85 billion international terminal. Plans to reopen Terminal 2 as a domestic facility were grounded when air travel slowed following the 2001 terrorist attacks and a softening economy. Virgin America already confirmed as the first tenant of Terminal 2.

Quality of Life

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

New museums broaden San Francisco's tourism appeal and improve the quality of life

Several museums recently opened or are currently in the works, broadening the base of cultural amenities for both visitors and residents alike. Chief among them is the new California Academy of Sciences in Golden Gate Park. Renzo Piano's 410,000-square foot facility, across from the de Young Museum, has an undulating living roof covered with plants; this and other green building features earned the museum LEED platinum status when it opened in September 2008. In June 2008, the Contemporary

Jewish Museum opened its new 63,000-square-foot Daniel Libeskind-designed facility in the heart of downtown San Francisco's Yerba Buena cultural district.

Designs for the San Francisco Museum and Historical Society's development of the historic Old Mint building are nearing completion; a third of the \$90 million fundraising goal has been met. Doris and Donald Fisher, co-founders of The Gap, plan to build a 100,000-square-foot Contemporary Art Museum of the Presidio to display their collection of contemporary art. Construction of the Walt Disney Family Museum and Library on the Presidio's Main Post started in September 2007 and is expected to open to visitors in September 2009. Finally, the renowned science museum The Exploratorium has started an environmental impact review for its anticipated move from the Palace of Fine Arts to Piers 15-17, a move that would allow the museum to double its footprint to 200,000 square feet.

Building a greener and more livable city

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

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

Governance: Expanding the City's Enterprise Zone

In 2007, San Francisco expanded its enterprise zone along the eastern edge of the City, allowing potentially thousands more businesses to apply for millions of dollars in state tax breaks, including hiring tax credits, tax credits for purchasing machinery, and the ability to carry over operating losses from previous tax years. In 2008, the City strengthened its Enterprise Zone program to increase its utilization by (1) removing the requirement that a new job be created and, (2) expanding the list of qualifications to remove more barriers to employment.

Award

Certificate of Achievement

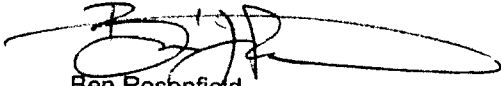
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. This was the twenty-sixth consecutive year (fiscal years ended June 30, 1982 – 2007) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



Ben Rosenfield
Controller

¹ Source: California Employment Development Department, Labor Market

² Source: DataQuick.

³ Source: Office of Federal Housing Enterprise Oversight Housing Price Index. The San Francisco Metropolitan Division includes San Francisco, San Mateo, and Marin counties.

⁴ *Emerging Trends in Real Estate 2009*, Urban Land Institute and PriceWaterhouseCoopers

⁵ Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

⁶ Including NAICS codes 52, 53, 54, 55, and 56. Source: Bureau of Labor Statistics.

⁷ Source: San Francisco Convention and Visitor Bureau, *Visitor Industry Economic Impacts, 2007*.

⁸ Source: PKF Consulting.

⁹ NAICS 51.