

In the opinion of Hawkins Delafield & Wood LLP, San Francisco, California and Leslie M. Lava, Esq., Sausalito, California, Co-Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Co-Bond Counsel to the City, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.



\$69,000,000
CITY AND COUNTY OF SAN FRANCISCO
GENERAL OBLIGATION BONDS
(LAGUNA HONDA HOSPITAL, 1999)
SERIES 2005I

Dated: Date of Delivery**Due: June 15, as shown below**

The \$69,000,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005I (the "Bonds") are being issued under the Constitution of the State of California and the Charter of the City and County of San Francisco (the "City"). The specific terms and conditions for issuance and sale of the Bonds are contained in Ordinance No. 24-04 adopted by the Board of Supervisors of the City (the "Board") on February 10, 2004, and approved by the Mayor of the City (the "Mayor") on February 19, 2004 and Resolution No. 585-05 adopted by the Board on August 9, 2005, and approved by the Mayor on August 12, 2005. The issuance of general obligation bonds in the maximum principal amount of \$299,000,000 was approved under a proposition approved by the voters of the City at an election held on November 2, 1999 ("Proposition A"). The Bonds are being issued under this authorization, as were \$230,000,000 of bonds issued by the City in May 2005 (the "Other Proposition A Bonds"). See "FINANCING PLAN—Authority for Issuance" and "Purpose." The proceeds of the Bonds, together with the proceeds of the Other Proposition A Bonds, will be used for the acquisition, improvement, construction or reconstruction of a new health care, assisted living or other type of continuing care facility or facilities to replace the City's Laguna Honda Hospital. Proceeds of the Bonds will also be used to pay costs of issuing the Bonds. The Bonds will be issued in accordance with the terms and conditions of a Declaration of Trust of the Treasurer of the City, dated as of September 1, 2005 (the "Declaration of Trust").

The Bonds will be issued only as fully registered bonds without coupons and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Payments of principal of and interest on the Bonds will be made by the Treasurer of the City, as paying agent, to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. See APPENDIX E—"DTC AND THE BOOK-ENTRY ONLY SYSTEM." The Bonds will be dated and bear interest from their date of delivery. Interest on the Bonds will be payable semiannually on June 15 and December 15 of each year, commencing December 15, 2005. The Bonds will be subject to redemption prior to their respective stated maturities as described herein. See "THE BONDS—Redemption Provisions."

The Bonds are secured by and payable solely from the ad valorem taxes levied for the Bonds under the Ordinance and disbursed under the Declaration of Trust and from certain other legally available funds. The Board has the power and is obligated to annually levy ad valorem property taxes upon all property subject to taxation by the City without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds. See "SECURITY FOR THE BONDS."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc.

**MATURITY SCHEDULE**

(Base CUSIP Number†: 7976456E)

Maturity Date (June 15)	Principal Amount	Interest Rate	Yield	CUSIP Suffix†	Maturity Date (June 15)	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
2008	\$1,780,000	4.000%	2.95%	B8	2018	\$2,790,000	4.000%	4.06%	M4
2009	1,855,000	5.000	3.10	C6	2019	2,905,000	4.125	4.14	N2
2010	1,945,000	5.000	3.23	D4	2020	3,025,000	4.125	4.17	P7
2011	2,040,000	4.000	3.35	E2	2021	3,150,000	4.125	4.21	Q5
2012	2,125,000	4.000	3.49	F9	2022	3,280,000	4.125	4.25	R3
2013	2,210,000	5.000	3.62	G7	2023	3,415,000	4.125	4.29	S1
2014	2,320,000	5.000	3.75*	H5	2024	3,555,000	4.250	4.33	T9
2015	2,435,000	5.000	3.88*	J1	2025	3,705,000	4.250	4.37	U6
2016	2,555,000	5.000	3.95**	K8	2026	3,865,000	4.250	4.41	V4
2017	2,685,000	4.000	4.01	L6					

\$17,360,000 5.000% Term Bonds due June 15, 2030 Priced to Yield 4.20%*** CUSIP 7976456EW2

The Bonds are offered when, as, and if issued by the City and accepted by the purchasers, subject to the approval of legality by Hawkins Delafield & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, Co-Bond Counsel with respect to the Bonds. Certain legal matters will be passed upon for the City by its City Attorney. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about September 8, 2005.

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision.

Dated: August 23, 2005

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* Priced to call on June 15, 2012 at 102%

** Priced to call on June 15, 2013 at 101%

*** Priced to call on June 15, 2014 at 100%

CITY AND COUNTY OF SAN FRANCISCO

Gavin Newsom, *Mayor*

BOARD OF SUPERVISORS

Aaron Peskin, *President, District 3*

Michela Alioto-Pier, *District 2*

Tom Ammiano, *District 9*

Chris Daly, *District 6*

Bevan Dufty, *District 8*

Sean Elsbernd, *District 7*

Fiona Ma, *District 4*

Sophie Maxwell, *District 10*

Jake McGoldrick, *District 1*

Ross Mirkarimi, *District 5*

Gerardo Sandoval, *District 11*

CITY AND COUNTY OFFICIALS

Jose Cisneros, *Treasurer*

Edward M. Harrington, *Controller*

Dennis J. Herrera, *City Attorney*

SPECIAL SERVICES

Treasurer of the City and County of San Francisco

Paying Agent and Registrar

Hawkins Delafield & Wood LLP

San Francisco, California

Leslie M. Lava, Esq.

Sausalito, California

Co-Bond Counsel

Public Financial Management

San Francisco, California

Kitahata & Company

San Francisco, California

Co-Financial Advisors

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchaser or purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein other than that provided by the City, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. Further, a wide variety of information, including financial information, concerning the City is available from the City, City publications and City websites. No such information is part of or incorporated into this Official Statement, except as expressly noted herein. Any such information that is inconsistent with the information in this Official Statement should be disregarded.

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained under the caption “Bond Insurance” and Appendix G “Specimen Municipal Bond Insurance Policy” herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)2 for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE PURCHASERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$69,000,000
CITY AND COUNTY OF SAN FRANCISCO
GENERAL OBLIGATION BONDS
(LAGUNA HONDA HOSPITAL, 1999)
SERIES 2005I

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City and County of San Francisco (the "City") of its \$69,000,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005I (the "Bonds"). The Bonds are secured by and payable solely from the *ad valorem* taxes levied for the Bonds under the Ordinance (as defined below) and disbursed under the Declaration of Trust of the Treasurer of the City (the "Declaration of Trust") and from certain other legally available funds. The Board of Supervisors of the City (the "Board") has the power and is obligated to annually levy ad valorem property taxes upon all property subject to taxation by the City without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES." For information on the City's tax base, tax collection system, property tax revenues, investment policy and outstanding debt, see "SECURITY FOR THE BONDS" and APPENDIX A—"CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy (the "Policy") to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc. See "BOND INSURANCE" herein and APPENDIX G—"SPECIMEN MUNICIPAL BOND INSURANCE POLICY" hereto.

FINANCING PLAN

Authority for Issuance

The Bonds are issued under the Constitution of the State of California (the "State") and pursuant to the Charter of the City (the "Charter") and the Declaration of Trust.

The Bonds are authorized under Proposition A, which was approved by at least two-thirds of the voters of the City at an election held on November 2, 1999. Proposition A authorized a total of \$299,000,000 in aggregate principal amount of bonds. The text of Proposition A is as follows:

LAGUNA HONDA HOSPITAL, 1999. Shall the City and County incur bonded debt and/or other evidences of indebtedness and/or undertake lease financing, in an aggregate principal amount not exceeding \$299,000,000, for 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, and reduce the property tax impact by requiring the application of available tobacco settlement revenues received by the City and County, and any state and/or federal grants or funds received by the City and County that are required to be used to fund these facilities, (a) to finance the acquisition, improvement, construction and/or reconstruction costs of such facilities, and (b) to pay the principal and redemption price of, interest on, reserve fund deposits, if any, and/or financing costs for the obligations authorized thereby?

The specific terms and conditions for issuance and sale of the Bonds are contained in Ordinance No. 24-04 adopted by the Board of Supervisors of the City (the "Board") on February 10, 2004, and approved by the Mayor of the City (the "Mayor") on February 19, 2004 (the "Ordinance") and Resolution No. 585-05 adopted by the Board on August 9, 2005, and approved by the Mayor on August 12, 2005.

In May 2005, the City issued one series of fixed rate bonds under Proposition A in the aggregate principal amount of \$110,000,000 (the "Fixed Rate Bonds") and three series of variable rate bonds under Proposition A in the aggregate principal amount of \$120,000,000 (the "Variable Rate Bonds" and, together with the Fixed Rate Bonds, the "Other Proposition A Bonds"). After the issuance of the Bonds, all authorized bonds will have been issued under Proposition A.

Purpose

The net proceeds of the Bonds and the Other Proposition A Bonds will be used for the "Project," as set forth in the ordinance authorizing the election that approved Proposition A, which defines the Project as follows:

"Project" is defined to include, without limitation, all works, property and structures necessary or convenient for 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, including, without limitation, infrastructure or other improvements in the areas appurtenant to, or which provide access to, such new facility or facilities.

Laguna Honda Hospital originally opened in 1866 and currently provides over 1,000 residents with long-term care regardless of their ability to pay, including skilled nursing, AIDS and dementia services, hospice, rehabilitation, and acute care. The hospital also provides adult day health care and senior nutrition programs. See "SOURCES AND USES OF FUNDS" herein.

THE BONDS

Description of the Bonds

The Bonds are issued in the principal amounts set forth on the front cover hereof, in the denomination of \$5,000 each or any integral multiple thereof, and will be dated and bear interest from their date of delivery. The Bonds are issued as fully registered bonds, without coupons, with interest payable on each June 15 and December 15 in each year, commencing December 15, 2005. The City Treasurer (the “Treasurer”) will act as paying agent and registrar for the Bonds. Payments of principal of and interest on the Bonds will be made by the Treasurer, as paying agent, to the registered owners whose names appear on the bond registration books of the Treasurer as of the close of business on the last day of the month immediately preceding each Interest Payment Date (the “Record Date”), whether or not such day is a business day. The Bonds will be initially registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, which is required to remit payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX E—“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Redemption Provisions

Optional Redemption

The Bonds maturing on or before June 15, 2012, shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after June 15, 2013 are subject to optional redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (with the maturities to be redeemed to be determined by the City and by lot within a maturity) on or after June 15, 2012, at the following redemption prices (each expressed as a percentage of the principal amount of Bonds to be redeemed), together with accrued interest to the date fixed for redemption:

<u>Redemption Period</u>	<u>Redemption Prices</u>
June 15, 2012 through June 14, 2013	102%
June 15, 2013 through June 14, 2014	101
June 15, 2014 and thereafter	100

Optional redemption of Bonds and notice thereof may be rescinded under certain circumstances. See “Conditional Notice; Right to Rescind Notice of Optional Redemption” below.

Mandatory Sinking Fund Redemption

The Bonds maturing on June 15, 2030 (the “Term Bonds”) are also subject to redemption prior to their stated maturity date, in part, by lot, from mandatory sinking fund payments, at the principal amount thereof, but without premium, on June 15 in each of the years in the amounts set forth below (except that if the Term Bonds have been optionally redeemed as described above, the amounts of such mandatory sinking fund payments will be reduced by the principal amount of all the Term Bonds so optionally redeemed).

<u>Mandatory Sinking Fund Payment Date (June 15)</u>	<u>Sinking Fund Payment Amount</u>
2027	\$4,030,000
2028	4,230,000
2029	4,440,000
2030*	4,660,000

* Maturity.

Selection of Bonds for Redemption

Whenever less than all the Outstanding Bonds maturing on any one date are called for redemption on any one date, the Treasurer shall select the Bonds or portions thereof (in denominations of \$5,000 or any integral multiple thereof) to be redeemed from the Outstanding Bonds maturing on such date not previously selected for redemption, by lot, in any manner which the Treasurer deems fair.

Notice of Redemption

Notice of any redemption of Bonds shall be mailed, postage prepaid, to the respective registered Owners thereof at the addresses appearing on the bond registration books not less than thirty (30) nor more than sixty (60) days prior to the redemption date. The notice of redemption shall (a) state the redemption date; (b) state the redemption price; (c) state the dates of maturity of the Bonds and, if less than all of any such maturity is called for redemption the distinctive numbers of the Bonds of such maturity to be redeemed, and in the case of Bonds redeemed in part only, the respective portions of the principal amount thereof, to be redeemed; (d) state the series and the CUSIP number, if any, of each Bond to be redeemed; (e) require that such Bonds be surrendered by the Owners at the office of the Treasurer; and (f) give notice that further interest on such Bonds will not accrue after the designated redemption date.

The actual receipt by the Owner of any Bond of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice or any defect in such notice shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

No less than thirty (30) days nor more than sixty (60) days before the redemption date, notice of the redemption shall be given by (i) registered or certified mail, postage prepaid, (ii) confirmed facsimile transmission or (iii) overnight delivery service, to each of the Securities Depositories and each of the Information Services.

The notice or notices required for redemption shall be given by the Treasurer. A certificate by said Treasurer that notice of call and redemption has been given to Owners of the Bonds as herein provided shall be conclusive as against all parties, and no Owner whose Bond is called for redemption may object thereto or object to the cessation of interest on the fixed redemption date by any claim or showing that said Owner failed to actually receive such notice of call and redemption. Any notice of redemption may be cancelled and annulled if for any

reason funds are not or will not be available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation and annulment shall not be a default hereunder.

Conditional Notice; Right to Rescind Notice of Optional Redemption

The City shall have the right to provide a conditional notice of redemption to the Owner of any Bond and to rescind any optional redemption by written notice to the Owner of any Bond previously called for redemption prior to the redemption date. Notice of rescission of redemption shall be provided in the same manner notice of redemption was originally provided. The actual receipt by the Owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Defeasance

Any Bonds may be defeased prior to maturity in the following ways:

(a) By irrevocably depositing an amount of cash which together with amounts then on deposit in the Bond Account, is sufficient, without reinvestment, to pay and discharge all of the Outstanding Bonds (including all principal, interest and premium, if any) at or before their stated maturity date; or

(b) By irrevocably depositing Federal Securities not subject to call, together with cash, if required, in such amount as will, without reinvestment, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the appropriate Bond Account together with the interest to accrue thereon, be fully sufficient to pay and discharge all of the Bonds (including all principal and interest and premium, if any) at or before their stated maturity date;

then, notwithstanding that any of the Bonds shall not have been surrendered for payment, all obligations of the City with respect to all said outstanding Bonds shall cease and terminate, except only the obligation of the City to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the Owners of said Bonds not so surrendered and paid all sums due with respect thereto; provided that the City shall have received an opinion of bond counsel to the effect that said Bonds have been defeased.

If cash or Federal Securities have been set aside and are held for the payment of principal of any particular Bonds at the maturity date thereof and all interest installments and any redemption premium thereon in accordance with the preceding paragraph, then such Bonds shall be deemed defeased within the meaning and with the effect as provided in the preceding paragraph.

For purpose of the above-described provisions, "Federal Securities" means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf

of the Trustee or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and “pre-refunded” municipal obligations rated in the highest rating category by Moody’s and S&P or any security issued by an agency or instrumentality of the United States of America which is selected by the Director of Public Finance that results in escrow fund being rated AAA by S&P and Aaa by Moody's at the time of initial deposit to the escrow fund and upon any substitutions or subsequent deposit to the escrow fund.

SOURCES AND USES OF FUNDS

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

Sources	
Principal Amount of Bonds	\$69,000,000.00
Original Issue Premium	<u>1,907,137.80</u>
TOTAL SOURCES OF FUNDS	<u>\$70,907,137.80</u>
Uses	
Deposit to the Bond Account	\$ 1,403,660.32
Deposit to the Project Account	68,650,000.00
Purchaser's Discount ⁽¹⁾	503,477.48
Cost of Issuance ⁽²⁾	<u>350,000.00</u>
TOTAL USES OF FUNDS	<u>\$70,907,137.80</u>

⁽¹⁾ Also includes premium for the Policy.

⁽²⁾ Includes fees for services of rating agencies, Co-Financial Advisors and Co-Bond Counsel, costs of the City, printing costs and other miscellaneous costs associated with the issuance of the Bonds.

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DEBT SERVICE SCHEDULE

Debt service payable with respect to the Bonds and the Other Proposition A Bonds is as follows:

Period Ending	Series 2005I Bonds			Other Proposition A Bonds			Total Debt Service	Total Fiscal Year Debt Service
	Principal	Interest	Total	Fixed Rate Bonds	Variable Rate Bonds ⁽¹⁾	Total		
June 15, 2005	-	-	-	-	\$75,100.45	\$ 75,100.45	\$75,100.45	\$75,100.45
December 15, 2005	-	\$839,139.25	\$839,139.25	\$2,972,997.81	2,253,419.18	5,226,416.99	6,065,556.24	-
June 15, 2006	-	1,557,165.63	1,557,165.63	2,689,143.75	2,252,580.82	4,941,724.57	6,498,890.20	12,564,446.44
December 15, 2006	-	1,557,165.63	1,557,165.63	2,689,143.75	2,253,419.18	4,942,562.93	6,499,728.56	-
June 15, 2007	-	1,557,165.63	1,557,165.63	2,689,143.75	2,252,580.82	4,941,724.57	6,498,890.20	12,998,618.76
December 15, 2007	-	1,557,165.63	1,557,165.63	2,689,143.75	2,253,419.18	4,942,562.93	6,499,728.56	-
June 15, 2008	\$1,780,000	1,557,165.63	3,337,165.63	8,904,143.75	2,253,000.00	11,157,143.75	14,494,309.38	20,994,037.94
December 15, 2008	-	1,521,565.63	1,521,565.63	2,533,768.75	2,253,000.00	4,786,768.75	6,308,334.38	-
June 15, 2009	1,855,000	1,521,565.63	3,376,565.63	8,998,768.75	2,252,580.82	11,251,349.57	14,627,915.20	20,936,249.58
December 15, 2009	-	1,475,190.63	1,475,190.63	2,372,143.75	2,253,419.18	4,625,562.93	6,100,753.56	-
June 15, 2010	1,945,000	1,475,190.63	3,420,190.63	9,092,143.75	2,252,580.82	11,344,724.57	14,764,915.20	20,865,668.76
December 15, 2010	-	1,426,565.63	1,426,565.63	2,204,143.75	2,253,419.18	4,457,562.93	5,884,128.56	-
June 15, 2011	2,040,000	1,426,565.63	3,466,565.63	9,159,143.75	2,252,580.82	11,411,724.57	14,878,290.20	20,762,418.76
December 15, 2011	-	1,385,765.63	1,385,765.63	2,091,125.00	2,253,419.18	4,344,544.18	5,730,309.81	-
June 15, 2012	2,125,000	1,385,765.63	3,510,765.63	9,291,125.00	2,253,000.00	11,544,125.00	15,054,890.63	20,785,200.44
December 15, 2012	-	1,343,265.63	1,343,265.63	1,911,125.00	2,253,000.00	4,164,125.00	5,507,390.63	-
June 15, 2013	2,210,000	1,343,265.63	3,553,265.63	9,361,125.00	2,252,580.82	11,613,705.82	15,166,971.45	20,674,362.08
December 15, 2013	-	1,288,015.63	1,288,015.63	1,724,875.00	2,253,419.18	3,978,294.18	5,266,309.81	-
June 15, 2014	2,320,000	1,288,015.63	3,608,015.63	9,469,875.00	2,252,580.82	11,722,455.82	15,330,471.45	20,596,781.26
December 15, 2014	-	1,230,015.63	1,230,015.63	1,531,250.00	2,253,419.18	3,784,669.18	5,014,684.81	-
June 15, 2015	2,435,000	1,230,015.63	3,665,015.63	9,586,250.00	2,252,580.82	11,838,830.82	15,503,846.45	20,518,531.26
December 15, 2015	-	1,169,140.63	1,169,140.63	1,329,875.00	2,253,419.18	3,583,294.18	4,752,434.81	-
June 15, 2016	2,555,000	1,169,140.63	3,724,140.63	9,724,875.00	2,253,000.00	11,977,875.00	15,702,015.63	20,454,450.44
December 15, 2016	-	1,105,265.63	1,105,265.63	1,120,000.00	2,253,000.00	3,373,000.00	4,478,265.63	-
June 15, 2017	2,685,000	1,105,265.63	3,790,265.63	9,885,000.00	2,252,580.82	12,137,580.82	15,927,846.45	20,406,112.08
December 15, 2017	-	1,051,565.63	1,051,565.63	900,875.00	2,253,419.18	3,154,294.18	4,205,859.81	-
June 15, 2018	2,790,000	1,051,565.63	3,841,565.63	10,055,875.00	2,252,580.82	12,308,455.82	16,150,021.45	20,355,881.26
December 15, 2018	-	995,765.63	995,765.63	672,000.00	2,253,419.18	2,925,419.18	3,921,184.81	-
June 15, 2019	2,905,000	995,765.63	3,900,765.63	10,242,000.00	2,252,580.82	12,494,580.82	16,395,346.45	20,316,531.26
December 15, 2019	-	935,850.00	935,850.00	432,750.00	2,253,419.18	2,686,169.18	3,622,019.18	-
June 15, 2020	3,025,000	935,850.00	3,960,850.00	10,482,750.00	2,253,000.00	12,735,750.00	16,696,600.00	20,318,619.18
December 15, 2020	-	873,459.38	873,459.38	181,500.00	2,253,000.00	2,434,500.00	3,307,959.38	-
June 15, 2021	3,150,000	873,459.38	4,023,459.38	7,441,500.00	5,557,072.49	12,998,572.49	17,022,031.87	20,329,991.25
December 15, 2021	-	808,490.63	808,490.63	-	2,191,450.15	2,191,450.15	2,999,940.78	-
June 15, 2022	3,280,000	808,490.63	4,088,490.63	-	13,305,743.18	13,305,743.18	17,394,233.81	20,394,174.59
December 15, 2022	-	740,840.63	740,840.63	-	1,983,008.88	1,983,008.88	2,723,849.51	-
June 15, 2023	3,415,000	740,840.63	4,155,840.63	-	13,397,787.80	13,397,787.80	17,553,628.43	20,277,477.94
December 15, 2023	-	670,406.25	670,406.25	-	1,768,934.05	1,768,934.05	2,439,340.30	-
June 15, 2024	3,555,000	670,406.25	4,225,406.25	-	13,784,938.33	13,784,938.33	18,010,344.58	20,449,684.88
December 15, 2024	-	594,862.50	594,862.50	-	1,543,305.00	1,543,305.00	2,138,167.50	-
June 15, 2025	3,705,000	594,862.50	4,299,862.50	-	13,859,759.54	13,859,759.54	18,159,622.04	20,297,789.54
December 15, 2025	-	516,131.25	516,131.25	-	1,312,616.67	1,312,616.67	1,828,747.92	-
June 15, 2026	3,865,000	516,131.25	4,381,131.25	-	14,229,686.66	14,229,686.66	18,610,817.91	20,439,565.83
December 15, 2026	-	434,000.00	434,000.00	-	1,070,374.11	1,070,374.11	1,504,374.11	-
June 15, 2027	4,030,000	434,000.00	4,464,000.00	-	14,588,350.89	14,588,350.89	19,052,350.89	20,556,725.00
December 15, 2027	-	333,250.00	333,250.00	-	816,864.45	816,864.45	1,150,114.45	-
June 15, 2028	4,230,000	333,250.00	4,563,250.00	-	14,935,904.17	14,935,904.17	19,499,154.17	20,649,268.62
December 15, 2028	-	227,500.00	227,500.00	-	551,985.00	551,985.00	779,485.00	-
June 15, 2029	4,440,000	227,500.00	4,667,500.00	-	14,971,482.30	14,971,482.30	19,638,982.30	20,418,467.30
December 15, 2029	-	116,500.00	116,500.00	-	281,677.40	281,677.40	398,177.40	-
June 15, 2030	4,660,000	116,500.00	4,776,500.00	-	15,301,989.28	15,301,989.28	20,078,489.28	20,476,666.68
Totals	\$69,000,000	\$49,111,792.54	\$118,111,792.54	\$164,429,579.06	\$215,371,449.98	\$379,801,029.04	\$497,912,821.58	\$497,912,821.58

⁽¹⁾ Includes interest payable on the Variable Rate Bonds through each such date calculated at an assumed rate of 3.50%, with ancillary fees of 0.255% also included.

SECURITY FOR THE BONDS

General

The Bonds are secured by and payable solely from the *ad valorem* taxes levied for the Bonds under the Ordinance and disbursed under the Declaration of Trust and from certain other legally available funds. The Board has the power and is obligated to annually levy ad valorem property taxes upon all property subject to taxation by the City without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds. The Bonds and the Other Proposition A Bonds are payable on a parity basis from *ad valorem* taxes levied pursuant to Proposition A.

The annual tax rate will be based on the assessed value of taxable property in the City and the scheduled debt service on the Bonds in each year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the City may cause the annual tax rate for the Bonds to fluctuate. Economic and other factors beyond the City's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, including, without limitation, earthquake, flood, toxic dumping, terrorism and similar events or occurrences, could cause a reduction in the assessed value of taxable property within the City and necessitate a corresponding increase in the annual tax rate. See APPENDIX A—"CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES—Assessed Valuations, Tax Rates and Tax Delinquencies" for information on the City's tax base, tax collection system, and property tax revenues.

For a discussion of the City's overall organization, finances and economic information, see, generally APPENDIX A—"CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES" and APPENDIX B—"CITY AND COUNTY OF SAN FRANCISCO—ECONOMY AND GENERAL INFORMATION."

Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization (the "SBE"). See Table A-5 "Principal Property Taxpayers--Fiscal Year Ended June 30, 2005", set forth in APPENDIX A—"CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES." State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year.

Ongoing changes in the California electric utility industry structure and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The City is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets, or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the City.

Use of Other Available Funds to Pay Debt Service

Under the Declaration of Trust, the City may also transfer available "Tobacco Revenues" to pay or redeem the Bonds. The Declaration of Trust defines "Tobacco Revenues" as amounts the City receives, if any, under the master settlement agreement dated November 23, 1998 (the "Master Settlement Agreement"), by and among the Attorneys General and other representatives of 46 states of the United States (including California), Puerto Rico, the U.S. Virgin Islands, American Samoa, the Northern Mariana Islands, Guam, the District of Columbia and five tobacco manufacturers (Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company, Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Commonwealth Tobacco, and Liggett & Myers).

Under Proposition A the City is required to "reduce the property tax impact" of the Bonds "by requiring the application of available tobacco settlement revenues received by the City and County." The ordinance authorizing the election that approved Proposition A provides as follows:

The first \$100,000,000 of available tobacco settlement revenues and/or any state and/or federal funds or grants received by the City and County that are required to be used to fund the Project shall first be applied to finance the costs of acquisition, construction and/or reconstruction of the Project. Any additional amounts from such sources received by the City and County shall be applied to reduce the amount of the outstanding obligations authorized hereby.

"Available tobacco settlement revenues" is defined as the total payments the City and County receives under the 1998 Master Settlement Agreement (the 'Agreement') over the term of any lease financing, bonded debt and/or other evidences of indebtedness authorized hereby that the City and County may use for the Project under applicable law, less \$1,000,000 of the amount the City and County receives each year under the Agreement during the term of any obligations authorized hereby, which amount the City and County will use for tobacco education, prevention and control purposes.

However, no assurance can be given that the City will receive any additional funds under the Master Settlement Agreement, or if any such additional funds are received, that they will be sufficient to result in "available tobacco settlement revenues" within the meaning of Proposition A. Factors that could reduce or eliminate altogether the City's share of revenues under the Master Settlement Agreement include, among others, the following: termination of the

Master Settlement Agreement (to which the City is not a party); permitted reductions in, disputes about or recalculations of the amounts payable under the Master Settlement Agreement; a continuing decline in nationwide cigarette consumption; increased or additional regulation of the tobacco industry, public smoking, or the labeling or advertising of cigarettes; a material loss of market share by the tobacco manufacturers who are parties to the Master Settlement Agreement; and a decline in the City's population relative to other participating jurisdictions under the Master Settlement Agreement. Consequently, no assurance can be given that any Tobacco Revenues will become available to pay or contribute to the payment of debt service on or redemption of any of the Bonds.

For a discussion of certain litigation with respect to Tobacco Revenues, see "LITIGATION-Lawsuits Related to the Use of Tobacco Revenues" below.

Outstanding Indebtedness

Issuance of general obligation bonds of the City is limited under Section 9.106 of the City Charter to a principal amount equal to 3% of the assessed value of all real and personal property within the City's boundaries which is subject to City taxes. Pursuant to this provision of the Charter, the City's general obligation debt limit for fiscal year 2005-06 is \$3,342,185,705 based on a net assessed valuation (net of non-reimbursable and homeowner exemptions) of \$111,406,190,157. As of August 1, 2005, the City had outstanding \$1,236,475,000 aggregate principal amount of general obligation bonds, which equals 1.11% of the net assessed valuation (net of non-reimbursable and homeowner exemptions) for fiscal year 2005-06. As of August 1, 2005, the City had voter approval to issue up to \$415,065,000 in aggregate principal amount of new general obligation bonds (including the Bonds offered hereunder). See APPENDIX A—"CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES—Statement of Direct and Overlapping Bonded Debt" and "—Tax Supported Debt Service."

The City has also entered into a number of long term lease obligations secured by revenues of the General Fund represented by lease revenue bonds and certificates of participation. As of August 1, 2005, the aggregate amount of principal payments and the total amount of payments due on outstanding lease obligations through fiscal year 2033-34 was \$695,720,077 and \$1,166,827,952, respectively. See APPENDIX A—"CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES—Statement of Direct and Overlapping Bonded Debt," "—Tax Supported Debt Service" and "—Lease Payments and Other Long-Term Obligations."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2005, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,321,918,000 and its total unearned premium reserve was approximately \$1,672,672,000 in accordance with statutory accounting principles. At March 31, 2005, Financial Security's total shareholder's equity was approximately \$2,726,667,000 and its total net unearned premium reserve was approximately \$1,356,678,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. With respect to the City's general obligation bonds, the State Constitution, the Charter and the Ordinance impose a duty on the Board to levy a property tax sufficient to pay debt service coming due in each year. The City has pledged such taxes as security for payment of the City's general obligation bonds, including the Bonds. The legislative power of the State cannot be used to reduce or repeal the authority for such levy, the obligation to levy such taxes, or to otherwise interfere with performance of the duties of the City with respect to such taxes. While not affecting the City's general obligation bonds, these constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to

raise revenue, or maintain existing revenue sources, in the future. A summary of the currently effective limitations is set forth below.

Article XIII A of the California Constitution

Article XIII A of the State Constitution, known as Proposition 13, was approved by California voters in June 1978. It limits the amount of *ad valorem* tax on real property to 1% of “full cash value,” as determined by the county assessor. Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment period. Furthermore, all real property valuation may be increased to reflect the inflation rate, as shown by the consumer price index, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on: (1) any bonded indebtedness approved by the voters prior to July 1, 1978, (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, such as the Bonds, or (3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

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

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

Article XIII B of the California Constitution

Article XIII B of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on the bonds existing or authorized by January 1, 1979 or subsequently authorized by voters. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years. See APPENDIX C—“EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2004” for information on the City’s appropriations limit.

Articles XIII C and XIII D of the California Constitution

Proposition 218, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes on voter-approved debt, such as the Bonds, once such debt has been approved by the voters. However, Proposition 218 impacts the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval either have been reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to deal with fiscal problems by raising revenue through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which are not levied to repay bonded indebtedness and which could be reduced by initiative under Article XIII C. No assurance can be given that the voters of the City will not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. However, the initiative powers granted by Article XIII C could not be utilized by voters to reduce any tax levied to pay principal and interest on voter-approved indebtedness, such as the Bonds. See APPENDIX A—"CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES—Other City Tax Revenues" for a discussion of other City taxes that could be affected by Proposition 218.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which, among other matters, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of

the authority to obtain a two-thirds vote for the levy of a “special tax” as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively. In *McBrearty v. City of Brawley* (1997) 59 Cal. App. 4th 1441, the Fourth District Court of Appeal concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, the question of the applicability of Proposition 62 to charter cities. The City is a charter city. Cases decided by the California Court of Appeals have held that certain provisions of Proposition 62 did not apply to charter cities. See, *Fiedler v. City of Los Angeles* (1993) 14 Cal. App. 4th 137 and *Fisher v. County of Alameda* (1993) 20 Cal. App. 4th 120.

Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State’s electorate. Since it is a statute, Proposition 62 is subordinate to the authority of charter cities, derived from the State Constitution, to impose taxes. Proposition 218, however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution. For a discussion of taxes affected by Proposition 218 see “Articles XIII C and XIII D of the California Constitution” above.

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure would be insignificant. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to a requirement in Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since the remaining taxes were adopted prior to August 1, 1985, and have not been increased, such taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city. No court decision regarding the applicability of Proposition 62 to the City would impact the obligation of the City to levy *ad valorem* property taxes to pay debt service on the Bonds. See “APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO—Other City Tax Revenues.”

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state

financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the VLF rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

TAX MATTERS

Opinion of Co-Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, Co-Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering their opinion, Co-Bond Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Bonds, and Co-Bond Counsel have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Co-Bond Counsel to the City, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Co-Bond Counsel express no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Co-Bond Counsel render their opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update their opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Co-Bond Counsel express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond

determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax exempt status or market price of the Bonds.

A copy of the proposed form of opinion of Co-Bond Counsel is attached hereto as APPENDIX F.

LEGAL OPINIONS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Hawkins Delafield & Wood LLP, San Francisco, California and Leslie M. Lava, Esq., Sausalito, California, Co-Bond Counsel. A complete copy of the proposed form of Co-Bond Counsel opinion is contained in APPENDIX F hereto, and will be made available to the purchaser of the Bonds at the time of the original delivery of the Bonds. Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by the City Attorney.

PROFESSIONALS INVOLVED IN THE OFFERING

Public Financial Management, San Francisco, California, and Kitahata & Company, San Francisco, California, have served as Co-Financial Advisors to the City with respect to the sale of the Bonds. The Co-Financial Advisors have assisted the City in the review of this Official Statement and in other matters relating to the planning, structuring, and sale of the Bonds. The Co-Financial Advisors have not independently verified any of the data contained herein nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors will receive compensation from the City contingent upon the sale and delivery of the Bonds. Co-Bond Counsel will also receive compensation from the City contingent upon the sale and delivery of the Bonds. The Treasurer of the City is acting as paying agent and registrar with respect to the Bonds.

LITIGATION

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, the corporate existence of the City, or the entitlement to their respective offices of the officers of the City who shall execute and deliver the Bonds and other documents and certificates in connection therewith. The City will furnish to the purchaser of the Bonds a certificate of the City as to the foregoing as of the time of the original delivery of the Bonds.

Lawsuits Related to the Use of Tobacco Revenues

On July 15, 2003 the Board adopted, and on July 25, 2003 the City's Mayor approved, Ordinance No. 191-03, which among other things provided for the transfer of approximately \$25 million of Tobacco Revenues received prior to the first issuance of Proposition A bonds to pay Department of Public Health operating costs. The adoption of Ordinance 191-03 was predicated upon the analysis that Tobacco Revenues received by the City prior to bond issuance do not fall within the definition of "available tobacco settlement revenues" under Proposition A because such revenues were not received over the term of any Proposition A bonds.

On December 9, 2003 the Board adopted, and on December 12, 2003 the City's Mayor approved, Resolution 789-03, which approved the settlement of an unlitigated claim of Louise Renne, former City Attorney, and others regarding the Tobacco Revenues transfer authorized under Ordinance No. 191-03. The claimants agreed to release any claims they might file regarding the matter and covenanted not to sue or join in any lawsuit regarding the transfer. In return the City agreed, among other matters, to provide up to \$25 million to purchase certain furniture, fixtures and equipment for the Project upon its completion, as the cost of such items would not be payable from Proposition A bond funds. In settling this unlitigated claim the City maintained its position that Ordinance 191-03 is consistent with the terms of Proposition A.

On November 23, 2004, Sean Patrick Monette-Shaw filed a petition for a writ of mandamus in San Francisco Superior Court. Mr. Monette-Shaw's petition sought the return of the Tobacco Revenues transferred pursuant to Ordinance 191-03, as well as a court order requiring the City to build a 1,200-bed long-term care facility to replace Laguna Honda Hospital. On April 4, 2005, the Superior Court denied Mr. Monette-Shaw's petition for a writ of mandate with prejudice, and entered a judgment for the City. On May 3, 2005, Mr. Monette-Shaw filed an appeal of the Superior Court's decision with the California Court of Appeal. Mr. Monette-Shaw filed his opening brief in the appeal on July 27, 2005. The City anticipates filing its opposition brief in early September 2005.

In addition to pursuing his appeal of the April 4 Superior Court decision, Mr. Monette-Shaw filed a petition for writ of mandamus with the California Court of Appeal, which includes substantially similar arguments to those he made in his petition for mandamus which was denied by the Superior Court. On July 18, 2005, the Court of Appeal denied the petition for writ of madamus. As of August 11, 2005, Mr. Monette-Shaw had not sought review of the Court of Appeal's decision.

The City Attorney will continue to vigorously defend these lawsuits and the City does not believe that these lawsuits will adversely impact the security for or validity of the Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the “Annual Report”) not later than 270 days after the end of the City’s fiscal year (which currently ends on June 30), commencing with the report for Fiscal Year 2004-05, which is due not later than March 27, 2006, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. The notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board and, in either case, the State Repository, if any. The City may satisfy its obligations to file any notice, document or information with a Nationally Recognized Municipal Securities Information Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such Nationally Recognized Municipal Securities Information Repository or State Repository, to the extent permitted by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX D—”FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the purchaser of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

The City may, from time to time, but is not obligated to, post its Comprehensive Annual Financial Report and other financial information on the Controller’s web site at www.sfgov.org/controller. Information on the website is not incorporated herein by reference.

RATINGS

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

SALE OF THE BONDS

The Bonds were sold at competitive bid on August 23, 2005. The Bonds were awarded to Merrill Lynch & Co. (the "Purchaser"), at a purchase price of \$70,624,960.32. The Purchaser's compensation with respect to the Bonds is \$282,177.48. The Official Notice of Sale provided that all Bonds would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Co-Bond Counsel, and certain other conditions. The Purchaser of the Bonds has represented to the City that the Bonds have been re-offered to the public at the yields stated on the cover page hereof.

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

CITY AND COUNTY OF SAN FRANCISCO

By: _____/s/Edward M. Harrington
Controller

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

Government and Organization

San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the “State”), the only consolidated city and county in the State. San Francisco can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted to the City and County of San Francisco (the “City”). Under its original charter, the City committed itself to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. The San Francisco International Airport (“SFO”), although located fourteen miles south of downtown San Francisco in San Mateo County, is owned and operated by the City. In 1969, the City acquired the Port of San Francisco (the “Port”) in trust from the State. Substantial expansions and improvements have been made to these enterprises since their respective dates of original acquisition.

In November 1995, the voters of the City approved a new charter, which went into effect in most respects on July 1, 1996 (the “Charter”). As compared to the previous charter, the Charter generally expands the roles of the Mayor and the Board of Supervisors (the “Board”) in setting policy and determining budgets, while reducing the authority of the various City commissions, which are composed of appointed citizens. Under the Charter, the Mayor’s appointment of commissioners is subject to approval by a two-thirds vote of the Board. The Mayor appoints department heads from nominations submitted by the commissioners.

The City has an elected Board consisting of eleven members and an elected Mayor who serves as chief executive officer, each serving a four-year term. The City Attorney, Assessor-Recorder, District Attorney, Treasurer-Tax Collector, Sheriff and Public Defender are also elected directly by the citizens. School functions are carried out by the San Francisco Unified School District and the San Francisco Community College District: each is a separate legal entity with a separately elected governing board. The Charter provides a civil service system for City employees.

Gavin Newsom was elected the 42nd Mayor of the City on December 9, 2003 and was sworn into office on January 8, 2004. Mayor Newsom had been elected to the Board three times and served on the Board from 1997 until he was elected Mayor. Mayor Newsom grew up in the San Francisco Bay Area and graduated from Santa Clara University in 1989 with a Bachelor of Arts degree in Political Science. Prior to and during his tenure on the Board, Mayor Newsom was also a successful small business owner opening his first local business, the PlumpJack Wine Shop, in 1992. Over the years, Mayor Newsom expanded his business, creating over 700 jobs in San Francisco.

Aaron Peskin, president of an environmental non-profit organization, was elected to the Board in 2000 and re-elected in November 2004. He was elected President of the Board by a majority of the Supervisors in January 2005. Tom Ammiano, former member of the Board of Education, was elected to the Board in 1994 and re-elected in 1998, 2000 and 2004. The following Supervisors were elected in November 2000: Jake McGoldrick, a college English teacher; Chris Daly, an affordable housing organizer; Sopenia (Sophie) Maxwell, an electrician; and Gerardo Sandoval, a deputy public defender. Chris Daly and Sophie Maxwell were re-elected in November 2002. Bevan Dufty, a former Congressional aide and Neighborhood Services Director of the City, and Fiona Ma, a licensed certified public accountant, were elected to four-year terms on the Board on December 10, 2002. Michela Alioto-Pier was appointed to the Board in January 2004. She previously served on the San Francisco Port Commission. Sean Elsbernd was appointed to the Board in August 2004. He previously served as liaison to the Board in the Mayor’s Office, a legislative aide to the Board, and Co-Director of the Congressional Human Rights Caucus. The following

Supervisors were also re-elected in November 2004: Jake McGoldrick, Michela Alioto-Pier, Sean Elsbernd and Gerardo Sandoval. Ross Mirkarimi, an investigator for the District Attorney's Office, was elected to the Board in November 2004.

Dennis J. Herrera, City Attorney, was elected to a four-year term on December 11, 2001 and assumed office on January 8, 2002. Before becoming City Attorney, Mr. Herrera was a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the U.S. Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission. Mr. Herrera received his law degree from George Washington University School of Law and became a member of the California Bar in 1989.

Edward M. Harrington serves as the City Controller. Mr. Harrington was appointed to a 10-year term as Controller in March 1991 by then-Mayor Art Agnos and was re-appointed to a new ten-year term in 2000, by then-Mayor Willie L. Brown, Jr. As Chief Fiscal Officer and Auditor, he monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds, including those in the \$5.0 billion fiscal year 2004-05 budget. The Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for the City's employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Harrington had been the Assistant General Manager and Finance Director of the San Francisco Public Utilities Commission (the "PUC"). He was responsible for the financial activities for the Municipal Railway (public transit), Water Department and Hetch Hetchy Water and Power System. Mr. Harrington worked with the PUC from 1984 to 1991. From 1980 to 1984, Mr. Harrington was an auditor with KPMG Peat Marwick, specializing in government, non-profit and financial institution clients, and was responsible for the audit of the City and County of San Francisco. While working for KPMG, Mr. Harrington became a certified public accountant.

Jose Cisneros was appointed Treasurer-Tax Collector for the City by Mayor Newsom and was sworn in on September 8, 2004. Prior to being appointed Treasurer-Tax Collector, Mr. Cisneros served as Deputy General Manager, Capital Planning and External Affairs for the San Francisco Municipal Transportation Agency (the "MTA").

Philip Y. Ting was appointed Assessor-Recorder for the City by Mayor Newsom and was sworn in on July 21, 2005. Mr. Ting's professional experience includes positions as senior consultant for Arthur Andersen where he assessed complex real estate properties, Associate Director of Governmental and Community Relations at San Francisco State University and former Executive Director of the Asian Law Caucus.

Under the Charter, the City Administrator (formerly the Chief Administrative Officer) is a non-elective office appointed by the Mayor for a five-year term and confirmed by the Board. On April 26, 2005, Mr. Edwin Lee, then the City's Director of Public Works, was appointed by Mayor Gavin Newsom as the City Administrator. He has previously worked as the City's Director of Purchasing and as the Director of the Human Rights Commission. Mr. Lee has also served as Deputy Director of Employee Relations Division and coordinator for the Mayor's Family Policy Task Force.

City Budget and Finances

General

The Controller's Office is responsible for processing all payroll, accounting and budget information for the City. All payments to City employees and to parties outside the City are processed and controlled by this office. No obligation to expend City funds can be incurred without a prior certification by the Controller that sufficient revenues are or will be available in the current fiscal year to meet such obligation as it becomes due. The Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the Controller may freeze

department appropriations or place departments on spending “allotments” which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board. The City’s annual expenditures are often different from the estimated expenditures in the Annual Appropriation Ordinance or “budget” due to supplemental appropriations, continuing appropriations of prior years and unexpended current year funds.

Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. The Controller issues a Six-Month and Nine-Month Budget Status Report to apprise the City’s policy makers of the current budgetary status and projected year-end revenues and expenditures. On November 1994, voters approved Proposition F. Proposition F requires the Controller, the Mayor’s Budget Director and the Budget Analyst for the Board of Supervisors to issue a Three-Year Budget Projection annually to report on the City’s financial condition.

Budget Process

The City’s budget process begins in the middle of the preceding fiscal year as departments prepare their budgets and seek approval thereof by the various City commissions. Departmental budgets are consolidated by the Controller, and then transmitted to the Mayor no later than the first working day of March. Pursuant to the Administrative Code, the Mayor is required to submit a proposed budget for selected enterprise departments to the Board on May 1, thereby providing the Board with additional time to review departmental budgets. The Mayor is required to submit the complete (all departments) budget to the Board on June 1.

Following the June 1 submission of the Mayor’s proposed budget, the Controller provides an opinion to the Board regarding the accuracy of economic assumptions underlying the revenue estimates and the reasonableness of such estimates and revisions in the proposed budget. During its budget approval process, the Board has the power to reduce or augment any appropriation in the proposed budget, provided the total budgeted appropriation amount is not greater than the budgeted appropriation amount submitted by the Mayor. The Board must adopt the “original budget” no later than the last working day of July each year.

Following the adoption of the budget, the City makes various revisions throughout the fiscal year (the “original budget” plus any changes made are collectively referred to as the “revised budget”). A “final revised budget” is prepared at the end of the fiscal year reflecting the year-end’s final revenue and expenditure appropriation for such fiscal year. The Board adopted the fiscal year 2005-06 original budget (Ordinance No. 203-05) on July 26, 2005, and Mayor Newsom signed the budget on August 4, 2005.

The Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire budget ordinance, the Charter directs the Mayor to promptly return the budget ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any budget ordinance so disapproved by the Mayor shall become effective only if, subsequent to its return, passed by a two-thirds vote of the Board of Supervisors as required by Section 2.106 of the Charter.

Overall, the fiscal year 2005-06 budget assumes a gradual recovery in discretionary general fund revenues from fiscal year 2004-05 levels. The achievement of the revenue estimates is dependent upon a variety of known and unknown factors, including the general economy of the Bay Area and the State, and certain State budget decisions, which could have either a positive or negative economic impact on City revenues. These conditions and circumstances may cause the actual results achieved by the City to be materially different from the estimates and projections described herein. The Controller has also in the past issued Six- and Nine-Month Budget Status Reports during the fiscal year. The most recent reports can be viewed at Controller’s website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.)

Under provisions of the Administrative Code, the Treasurer-Tax Collector, upon recommendation of the Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in the pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other funds of the City. Any such transfers must be repaid within one year of the transfer, together with interest at the then current interest rate earned on the pooled funds. See "Investment Policy" below. Additionally, in November 2003, voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated Cash Reserve was incorporated.

In the past, the City has funded its General Fund cash flow deficits through the annual issuance of tax and revenue anticipation notes ("TRANs"); however, the City has not issued TRANs since fiscal year 1996-97. The City does not anticipate issuing TRANs for the fiscal year 2005-06.

General Fund Results

The fiscal year 2005-06 original budget totals \$5.4 billion, of which \$2.5 billion is in the General Fund. All other funds total \$2.9 billion and include expenditures of other governmental funds and enterprise fund departments such as the Airport (SFO), the Municipal Transportation Agency, the Water Department, the Wastewater Program, Hetch Hetchy Water and Power System, the Port, and the Hospitals (San Francisco General and Laguna Honda).

The Controller's Nine-Month Budget Status Report for fiscal year 2004-05 was released on May 3, 2005. The Report projected the General Fund year-end balance to be a \$124.2 million surplus, primarily attributed to the additional fund balance available from the prior year due to the timing of vehicle license fee remittances from the State, as well as expenditure savings largely driven by the Mayor's \$97.0 million, 18-month savings plan. As published in the Nine-Month Report, fiscal year 2004-05 General Fund revenues and transfers were projected to be \$45.3 million or 2.0 percent better than revised budget. Revenue surplus is primarily due to higher real property transfer tax, property tax, hotel room tax, health and welfare realignment, and sales tax revenues; offset by weakness in payroll tax, voter disapproval of two proposed taxes in November 2004 (i.e. Propositions J and K, as described below), property sale delays, and delays in anticipated court penalty revenues.

The fiscal year 2005-06 budget includes an annual service payment from SFO to the City of \$21.9 million for indirect services. However, separate from this indirect service payment, on March 31, 2004, the Office of the Inspector General (OIG) of the U.S. Department of Transportation released the results of its audit of certain payments made by SFO to the City for direct services during fiscal years 1997-98 through 2001-02. The OIG's audit found that the City had received approximately \$12.5 million of excess revenue from SFO during fiscal years 1997-98 through 2001-02 with respect to reimbursement for direct services from the City to SFO. In response to this finding, the audit recommends further review of SFO's payments to the City for direct services over the past five fiscal years. A final determination of the level of disallowance is still pending management review and possible appeal of up to the entire \$12.5 million for the five-year period.

On March 21, 2005, the City Controller, the Mayor's Budget Director and the Budget Analyst to the Board issued the Three-Year Budget Projection (the "Budget Projection") as required by the Administrative Code. The Budget Projection forecast a \$102.2 million General Fund budget shortfall for fiscal year 2005-06, which reflected the estimated cost of providing the current level of City services through current business practices for General Fund supported operations, including the strategies implemented by the Mayor's \$97.0 million, 18-month savings plan for the period from January 1, 2005 through June 30, 2006. This plan was designed to backfill the revenue losses stemming from the voters disapproval of Proposition J (¼ percent sales tax) and Proposition K (temporary 1/10th of 1 percent gross receipts business tax package) in the November 2004 election. On May 31, 2005, the Mayor issued his FY 2005-06 Proposed Budget to the Board balancing the forecasted \$102.2 million shortfall employing among other things the following solutions: position reductions, programmatic changes, operation consolidations, one-time revenues, and savings from debt refinancing.

Table A-1 shows revised budgeted revenues and appropriations for fiscal years 2001-02, 2002-03, and 2003-04 and the original budget for fiscal year 2004-05 and 2005-06 for the General Fund portion of the City's budget.

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2001-02 through 2005-06
(000s)

	FY 2001-02 Final Revised Budget	FY 2002-03 Final Revised Budget	FY 2003-04 Final Revised Budget	FY 2004-05 Original Budget	FY 2005-06 Original Budget
Prior-Year Actual Budgetary Fund Balance	\$489,347	\$385,027	\$207,167	\$62,830	\$120,483
<u>Budgeted Revenues</u>					
Property Taxes	\$461,715	\$513,203	\$527,767	\$645,495	\$696,660
Business Taxes	275,669	282,230	288,619	295,230	288,320
Other Local Taxes	459,814	387,955	371,251	381,446	413,712
Licenses, Permits and Franchises	18,775	16,982	17,074	16,132	19,128
Fines, Forfeitures and Penalties	6,180	4,497	31,843	12,111	11,475
Interest and Investment Earnings	25,063	17,323	12,579	6,300	11,307
Rents and Concessions	19,993	17,833	19,316	21,858	19,583
Grants and Subventions	656,744	686,566	663,997	610,172	680,729
Charges for Services	102,942	102,801	107,847	101,586	130,984
Other	1,312	24,278	19,296	46,946	13,241
Total Budgeted Revenues	\$2,028,207	\$2,053,668	\$2,059,589	\$2,137,276	\$2,285,139
Proceeds from Issuance of Bonds and Loans	\$63,662	\$13,451	\$31,207	-	-
<u>Expenditure Appropriations</u>					
Public Protection	\$660,860	\$695,409	\$668,872	\$713,897	\$729,356
Public Works, Transportation & Commerce	103,295	59,646	60,467	28,483	39,054
Human Welfare & Neighborhood Development	483,523	517,334	507,740	524,257	552,926
Community Health	426,683	461,958	445,236	426,040	432,600
Culture and Recreation	113,453	102,354	93,017	81,820	95,205
General Administration & Finance	140,879	135,449	131,959	143,739	165,719
General City Responsibilities	116,861	61,416	83,406	61,804	53,684
Total Expenditure Appropriations	\$2,045,554	\$2,033,566	\$1,990,697	\$1,980,040	\$2,068,545
Budgetary reserves and designations	\$123,346	\$83,595	\$9,301	\$66,405	\$54,117
Transfers In	\$136,028	\$137,672	\$150,354	\$155,643	\$107,570
Transfers Out	(293,517)	(313,341)	(292,664)	(309,304)	(390,531)
Net Transfers In/Out	(\$157,489)	(\$175,669)	(\$142,310)	(\$153,661)	(\$282,960)
Budgeted Excess (Deficiency) of Sources					
Over (Under) Uses	\$254,827	\$159,316	\$155,655	-	-
Variance of Actual vs. Budget	130,200	47,851	66,956		
Total Actual Budgetary Fund Balance	\$385,027	\$207,167	\$222,611	-	-

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, worker’s compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2004 was \$210.4 million prepared on a GAAP basis. Such General Fund balance was derived from audited revenues of \$2.1 billion for the fiscal year ended on June 30, 2004. Audited General Fund balances as of June 30, 2004 are shown in Table A-2 on both a budget basis and a GAAP basis, respectively with comparative financial information for the fiscal year ended June 30, 2003.

TABLE A-2

General Fund Balances		
As of June 30, 2004		
(with comparative financial information for the year ended June 30, 2003)		
(000s)		
	<u>June 30, 2003</u>	<u>June 30, 2004</u>
Reserved for cash/rainy day (economic stabilization)	\$55,139	\$55,139
Reserved for emergencies	4,198	-
Reserved for encumbrances	43,195	42,501
Reserved for appropriation carryforward	26,880	32,813
<u>Reserved for subsequent years' budgets</u>		
Reserved for budget incentive program	4,018	2,588
Reserved for salaries and benefits (MOU)	4,421	3,654
Reserved for nurses' childcare (MOU)	1,100	-
Reserved for litigation	4,364	2,940
Reserved for Recreation & Park savings	1,511	-
Total Reserved Fund Balance	<u>\$144,826</u>	<u>\$139,635</u>
Unreserved - designated for litigation & contingency	\$14,490	\$27,970
Unreserved - available for appropriation	47,851	55,006
Total Unreserved Fund Balance	<u>\$62,341</u>	<u>\$82,976</u>
Total Fund Balance, Budget Basis	\$207,167	\$222,611
<u>Budget Basis to GAAP Basis Reconciliation</u>		
Total Fund Balance - Budget Basis	\$207,167	\$222,611
Unrealized gain on investment	3,266	277
Reserved for assets not available for appropriation	6,768	7,142
Cumulative excess property tax revenues recognized on Budget basis	(20,889)	(19,882)
Other	-	287
Total Fund Balance, GAAP Basis	<u>\$196,312</u>	<u>\$210,435</u>

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

Table A-3, entitled “Statement of Revenues, Expenditures and Changes in General Fund Balances,” is extracted from information in the City’s audited financial statements (Comprehensive Annual Financial Reports) for the five most recent fiscal years for which audits are available. Excerpts from audited financials for the fiscal year ended June 30, 2004 are included herein as Appendix C—“EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2004.” Prior years’ audited financials can be obtained from the Controller’s website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.) Excluded from these General Fund statements are special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) as well as all of the enterprise operations of the City, each of which prepares separate audited financial statements.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO					
Statement of Revenues, Expenditures and Changes in General Fund Balances (000s) ^[1]					
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Revenues:</u>					
Property Taxes	\$405,560	\$462,171	\$507,308	\$516,955	\$547,819
Business Taxes	267,197	277,094	274,125	276,126	264,351
Other Local Taxes	411,082	448,132	334,357	345,735	403,549
Licenses, Permits and Franchises	16,106	17,714	19,548	16,217	17,501
Fines, Forfeitures and Penalties	9,113	9,097	8,591	5,595	22,158
Interest and Investment Income	18,792	27,693	20,737	7,798	3,222
Rents and Concessions	20,395	19,298	17,636	17,576	17,497
Intergovernmental	615,318	636,430	661,396	667,172	660,243
Charges for Services	86,591	100,325	102,782	93,840	95,951
Other	9,706	17,395	10,338	11,880	29,564
Total Revenues	\$1,859,860	\$2,015,349	\$1,956,818	\$1,958,894	\$2,061,855
<u>Expenditures:</u>					
Public Protection	\$597,949	\$626,136	\$650,019	\$695,693	\$670,729
Public Works, Transportation & Commerce	85,655	95,486	103,579	57,458	58,711
Human Welfare and Neighborhood Development	383,305	431,266	467,688	492,083	489,001
Community Health	355,720	365,290	395,465	424,302	413,725
Culture and Recreation	87,373	106,728	108,810	96,959	92,978
General Administration & Finance	140,211	127,366	136,143	130,786	128,135
General City Responsibilities	45,194	45,380	50,105	52,308	74,631
Total Expenditures	\$1,695,407	\$1,797,652	\$1,911,809	\$1,949,589	\$1,927,910
Excess of Revenues over Expenditures	\$164,453	\$217,697	\$45,009	\$9,305	\$133,945
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$156,984	\$134,983	\$109,941	\$105,211	\$121,491
Transfers Out	(286,660)	(257,317)	(316,691)	(303,216)	(277,316)
Other Financing Sources	-	-	63,121	4,621	36,003
Other Financing Uses	-	-	(176)	-	-
Total Other Financing Sources (Uses)	(\$129,676)	(\$122,334)	(\$143,805)	(\$193,384)	(\$119,822)
Excess (Deficiency) of Revenues and Other Sources					
Over Expenditures and Other Uses	\$34,777	\$95,363	(\$98,796)	(\$184,079)	\$14,123
Fund Balance at Beginning of Year, as restated					
before valuation of investments	\$240,863	\$275,640	\$479,187	\$380,391	\$196,312
Net Change in Reserve for Assets					
Not Available for Appropriation	-	-	-	-	-
Cumulative Effect of Change in Accounting					
Principles	-	108,184	-	-	-
Fund Balance at Beginning of Year, as restated	\$240,863	\$383,824	\$479,187	\$380,391	\$196,312
Fund Balance at End of Year -- GAAP Basis ^[1]	\$275,640	\$479,187	\$380,391	\$196,312	\$210,435
Unreserved and Undesignated Balance					
at End of Year -- GAAP Basis	\$45,090	\$207,467	\$136,664	\$44,718	\$63,657
Unreserved & Undesignated Balance, Year End					
-- Budget Basis	\$148,581	\$198,953	\$130,200	\$47,851	\$55,006
^[1] Fund Balances include amounts reserved for rainy day (economic stabilization), emergencies, encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved and undesignated fund balances (which amounts constitute unrestricted general fund balances)					
Source: Comprehensive Annual Financial Report for the Years Ended June 30, 2000-2004. Office of the Controller, City & County of San Francisco.					

Impact of September 11, 2001

Following the events of September 11, 2001 in New York City and Washington, D.C., both business and tourist travel in San Francisco declined significantly, including passenger loads and revenues at SFO and hotel and sales tax revenues to the City. In fiscal year 2001-02, significant year to year losses occurred in hotel tax revenues, which fell 29.8% (\$56.2 million), sales tax revenues, which declined 15.5% (\$21.5 million), and SFO's transfer of concession revenue to the City's General Fund, which declined 28.4% (\$7.0 million).

Impact of State Budget

Each year the Governor releases two primary proposed budget documents: 1) the January Proposed Budget; and, 2) the May Revise (that is, the revise to the January Proposed). The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the Legislature adopts, then the Governor signs what becomes known as the State's Adopted Budget. Given the City's revenue dependency on State funding, each year City policymakers review and consider the budgetary impact of projected changes related to both the January and May Revise publications prior to the City adopting its own budget. Revenues from the State represent approximately 19.3% of the City's fiscal year 2005-06 General Fund Budget.

The State's Adopted Budget for fiscal year 2005-06 is significantly better for San Francisco than previously proposed by the Governor in either the January or the May Revise publication. Program revenues were largely left whole by the Legislature, and the full Vehicle License Fee gap loan repayment was included for local governments. For fiscal year 2005-06, the State's Adopted Budget continued to shift property taxes, sales taxes and VLF revenues; however, this was already assumed in the City's projections and ultimately the City's Adopted Budget. These shifts included a \$25.2 million reduction in discretionary funding for ERAF III, the additional two-year property tax diversion affecting fiscal years 2004-05 and 2005-06. Programmatic funding changes included in the State's Adopted Budget have been reflected in the City's Adopted Budget and backfilled with discretionary funding where applicable.

As noted above, the State's Adopted Budget was significantly better for San Francisco than the Governor's Proposed Budget which had been previously analyzed and discussed in the Three-Year Budget Projection, dated March 21, 2005, and the Controller's Discussion of the Mayor's Fiscal Year 2005-06 Proposed Budget, dated June 15, 2005. These reports are available at Controller's website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.) As a point of comparative reference, the Governor's Proposed Budget, released on January 10, 2005, included a total General Fund impact of \$46.5 million. Of the \$46.5 million, discretionary revenues represent \$25.2 million, which is attributed to ERAF III impact to the City's General Fund for fiscal year 2005-06. The remaining \$21.3 million is programmatic revenue. The largest component of that \$21.3 million is \$12.3 million related to In-Home Supportive Services reductions.

The Governor's May Revise was released on May 13, 2005. The City was slated to benefit from some increases in State funding to the City, predominantly one time in nature as related to a 50.0% early repayment of the vehicle license fee gap loan. Additionally, the May Revise included positive impacts related to Proposition 42 funding (transportation funding).

Assessed Valuations, Tax Rates and Tax Delinquencies

Table A-4 provides a five-year record of assessed valuations of taxable property within the City. The property tax rate is comprised of two components: (1) the 1.0% countywide portion permitted by Proposition 13, and (2) all voter-approved overrides which fund debt service for general obligation indebtedness. The total tax rate shown in Table A-4 includes taxes assessed on behalf of the San Francisco Unified School District, San Francisco Community College District, Bay Area Air Quality Management District, and Bay Area Rapid Transit (BART) District, all of which are legally separate entities from the City. See also Table A-10 "Statement of Direct and Overlapping Bonded

Debt” below. Additionally, a portion of property taxes collected within the City is allocated to the San Francisco Redevelopment Agency.

Total assessed value has increased on average by 6.3% per year since fiscal year 2001-02; however, between fiscal years 2004-05 and fiscal year 2005-06, the increase was 6.7%. Property tax delinquencies based on the weighted average of the secured and unsecured delinquency rates have averaged 1.6% over the four years ended in fiscal year 2003-04.

TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO									
Assessed Valuation of Taxable Property ^[1]									
Fiscal Years 2001-02 through 2005-06									
(000s)									
Fiscal Year	Assessed Valuation			Total Assessed Valuation	% Change from Prior Year	Total Exclusions ^[2]	Total Tax Rate per \$100 ^[3]	Total Tax Levy (000s) ^[4]	Current Levy Delinquent June 30
	Land	Improvements on Land	Personal Property						
2001-02	34,849,574	51,294,178	4,744,367	90,888,119	12.1%	3,625,783	1.124	1,010,960	1.79%
2002-03	37,851,208	55,002,726	4,681,815	97,535,748	7.3%	3,797,422	1.117	1,051,921	1.83%
2003-04	40,778,606	57,505,939	3,808,383	102,092,928	4.7%	3,947,660	1.107	1,100,951	1.38%
2004-05	44,383,604	60,741,259	3,675,195	108,800,058	6.6%	4,328,770	1.144	1,192,571	n/a
2005-06	48,278,509	64,291,494	3,476,725	116,046,728	6.7%	4,640,538	1.140	1,270,314	n/a

^[1] For comparison purposes, all years show full cash value as assessed value.

^[2] Exclusions include non-reimbursable exemptions and homeowner exemptions.

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

^[4] Final levy as of year end through fiscal year 2003-04. The tax levy of fiscal year 2004-05 and 2005-06 are estimates based on Certificates of Assessed Valuation and do not include any reduction for delinquencies.

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

The fiscal year 2005-06 total assessed valuation of property within the City is \$116,046,728,299. After deducting non-reimbursable and homeowner exemptions, net assessed valuation is \$111,406,190,157. Of this total, \$104,321,489,311 (93.6%) represents secured valuations and \$7,084,700,846 (6.4%) represents unsecured valuations. The net valuation will result in total budgeted property tax revenues of \$1,270,313,956 before reflecting delinquencies. The City’s fiscal year 2005-06 General Fund budgeted property tax revenue of \$696.7 million represents approximately 54.8% of all property taxes. Debt service for general obligation bonds is also funded through property tax revenues. The San Francisco Community College District, the San Francisco Unified School District and the Educational Revenue Augmentation Funds (also known as “ERAF”) are collectively estimated to receive approximately \$276.8 million and the San Francisco Redevelopment Agency will receive approximately \$70.0 million. The remaining portion will be allocated to various special funds and other taxing entities.

Under Article XIII A of the State Constitution, property sold after March 1, 1975 must be reassessed to full cash value. As a result of the downturn in the economy, property owners in the City filed 1,703 new applications for assessment appeal during fiscal year 2004-05. Taxpayers had until November 30, 2004 to file assessment appeal for secured property for fiscal year 2004-05. As in every year, some appeals are multiple-year or retroactive in nature. With respect to the fiscal year 2004-05 levy, property owners representing approximately 19.2% of the total assessed valuation in the City filed appeals for a partial reduction of their assessed value. This reflects a decrease in the amount appealed from the prior year, fiscal year 2003-04, where property owners representing approximately 23.2% of total assessed valuation filed for a partial reduction of their assessed value. Most of the appeals involve large commercial properties, including offices and hotels. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with the counties’ property assessments.

The City experienced similar increases in appeals activity in previous economic downturns. Historically, depending on the severity of the downturn and underlying economic conditions, partial reductions of 22.0% to 25.0% of the assessed valuations have been granted on average. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. For example, if the appeals totaling 19.2% of assessed valuation pertaining to the FY 2004-05 levy were to be granted at an average reduction of 25.0%, revenue refunds equal to 4.8% of total revenue would result. To mitigate the financial risk of potential assessment appeal refunds, the City establishes a refunds reserve for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the subsequent year's budget projection. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" in the forepart of this Official Statement.

Generally, property taxes levied by the City on real property become a lien on that property by operation of law. A tax levied on personal property does not automatically become a lien against real property without an affirmative act of the City taxing authority. Real estate tax liens have priority over all other liens against the same property regardless of the time of their creation by virtue of express provision of law.

Property, which is subject to ad valorem taxes, is entered on separate parts of the assessment roll maintained by the county assessor. The secured roll is that part of the assessment roll containing State-assessed property and property on which liens are sufficient, in the opinion of the Assessor, to secure payment of the taxes owed. Other property is placed on the "unsecured roll."

The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (1) pursuing civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts, including the date of mailing a copy thereof to the affected taxpayer, in order to obtain a judgment against the taxpayer; (3) filing a certificate of delinquency for recording in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes. Proceeds of the sale are used to pay the costs of sale and the amount of delinquent taxes.

A 10.0% penalty is added to delinquent taxes that have been levied on property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is declared "tax defaulted" and subject to eventual sale by the Treasurer-Tax Collector of the City. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month, which begins to accrue on such taxes beginning July 1 following the date on which the property becomes tax-defaulted.

In October 1993, the Board passed a resolution, which adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the Controller to allocate to the City's taxing agencies 100.0% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan. This reserve has been funded at \$8.1 million as of June 30, 2001, \$9.1 million as of June 30, 2002, \$9.0 million as of June 30, 2003 and \$8.9 million as of June 30, 2004.

Pacific Gas & Electric Company (PG&E) is one of the largest taxpayers in the City with 0.9% of the total fiscal year 2004-05 assessed property values. Over the recent past, PG&E filed for voluntary protection under Chapter 11 of the U.S. Bankruptcy Code (filed on April 6, 2001). PG&E took the position that it was not able to make full payment of

its 2000-01 property taxes without Bankruptcy Court permission and therefore only paid a portion of its second installment, due on April 10, 2001. On May 16, 2001, the Bankruptcy Court ruled that PG&E could pay the remaining portion of its outstanding property taxes and PG&E has made full and timely payments of its property taxes and franchise fees since that time.

On March 26, 2004, PG&E filed with United States Bankruptcy Court a statement that all conditions to effectiveness of its plan of reorganization had been satisfied. The effective date of the plan occurred on April 12, 2004. Under the company's confirmed plan of reorganization, PG&E will pay in full or otherwise satisfy undisputed claims of creditors on the effective date or as soon as practicable thereafter. However, it should be noted that bankruptcies involving large and complex companies typically take several years to reach a conclusion and delays may arise. In the interim, it is possible that PG&E's future payments of property taxes may not be made on a timely basis.

Assessed valuations of the ten largest taxpayers in the City for the fiscal year ending June 30, 2006 are shown in Table A-5.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO			
Principal Property Taxpayers			
Fiscal Year Ending June 30, 2006			
Fiscal Year 2005-06 Net Assessed Valuation (net of non-reimbursable exemptions) (\$000s):			\$112,051,340
<u>Taxpayer</u>	<u>Type of Business</u>	<u>AV (\$000s)</u>	<u>% Total AV</u>
Embarcadero Center Venture	Offices, Commercial	\$1,221,354	1.09
Pacific Gas & Electric Co.	Utilities	1,039,357	0.93
555 California St. Partners	Offices, Commercial	885,795	0.79
SBC California	Utilities, Communications	407,735	0.36
EOP-One Market LLC	Offices	390,845	0.35
Marriott Hotel	Hotels	389,795	0.35
China Basin Ballpark Company LLC	Hotel	383,007	0.34
Post-Montgomery Associates	Offices, Commercial	342,123	0.31
BRE-St Francis LLC	Hotels	321,971	0.29
101 California Venture	Offices, Commercial	<u>281,980</u>	<u>0.25</u>
Ten Largest Taxpayers		5,663,962	5.05
All Other Taxpayers		\$106,387,378	94.95
Total Taxable Assessed Valuation - All Taxpayers		\$112,051,340	100.00
*Subject to pending assessment appeal decisions.			
Source: Office of the Assessor, City and County of San Francisco.			

Other City Tax Revenues

In addition to property tax, the City has several other major tax revenue sources, as described below. For a discussion of State constitutional and statutory limitations on taxes that may be imposed by the City, including a discussion of Proposition 62 and Proposition 218, see “CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS ON TAXES AND EXPENDITURES” in the forepart of this Official Statement.

The following is a brief description of other major City-imposed taxes as well as taxes that are collected by the State and shared with the City.

Business and Employers Payroll Tax

Businesses in the City are assessed a payroll expense tax at a rate of 1.5%. The tax is levied on businesses with payroll expenses that are attributable to all work performed or services rendered within the City. The tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. Fiscal year 2005-06 business registration budget is \$7.1 million and payroll tax budget is assumed to be \$281.2 million.

Prior to April 23, 2001, the City imposed an alternative-measure tax pursuant to which a business tax liability was calculated as the greater of a percentage of either its gross receipts or its payroll expense. Between 1999 and 2001, approximately 325 businesses filed claims with the City and/or lawsuits against the City arguing that the alternative-measure tax scheme violated the Commerce Clause of the United States Constitution.

In 2001, the City entered into a settlement agreement resolving most of these lawsuits and claims for considerably less than the total amount of outstanding claims. Concurrently with the settlement of the lawsuits, the City repealed the alternative-measure tax in 2001, curing any alleged constitutional defects. All claims had to be filed by

November 2001, and any payments related to lawsuits or claims already filed that remain unsettled are expected to be covered by contingency reserves, judgment bonds or some combination thereof at this time.

Sales and Use Tax

The State collects the City’s local sales tax on retail transactions (currently 1.0% less the 0.25% shifted by the State pursuant to the Triple Flip), with State and special district sales taxes, and rebates the local sales tax collections to the City. The local sales tax is deposited in the City’s General Fund, less the approximate ¼ percent related to the Triple Flip, which started in fiscal year 2004-05. Fiscal year 2005-06 sales and use tax receipts are budgeted at \$102.8million. A history of sales and use tax revenues through fiscal year 2003-04 is presented in Table A-6. As illustrated in table A-6, this revenue was significantly impacted by the economic downturn along with decreasing tourism and business travel.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO					
Sales and Use Tax Receipts (000's)					
Fiscal Years 1999-00 through 2003-04					
<u>Fiscal Year</u>	<u>Tax Rate</u>	<u>City Share</u>	<u>Revenue</u>	<u>% Change</u>	
1999-00	8.50 %	1.00 %	\$133,395	14.25 %	
2000-01	8.50	1.00	138,281	3.66	
2001-02	8.50	1.00	116,827	-15.51	
2002-03	8.50	1.00	115,578	-1.07	
2003-04	8.50	1.00	120,642	4.38	
State Sales Tax Rate for last six months of FY 1999-00 and first six months of FY 2000-01 was 8.25%; the Local Share shown above remained unchanged at 1.00% for the periods shown. Revenues are adjusted so underlying sales activity is reflected in the same fiscal year.					
Source: Office of the Controller, City and County of San Francisco.					

Transient Occupancy Tax

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. In fiscal year 2003-04, revenue from transient occupancy tax grew 15.3% (or approximately \$20.0 million), after two years of decline. Budgeted revenue from transient occupancy tax for fiscal year 2005-06 is \$170.1 million; including \$5.6 million allocated to the Redevelopment Agency. Table A-7 sets forth a history of transient occupancy tax receipts through fiscal year 2003-04. As illustrated in the table, this revenue was significantly impacted by the economic downturn along with decreasing tourism and business travel.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO			
Transient Occupancy Tax Receipts (000's)			
Fiscal Years 1999-00 through 2003-04			
<u>Fiscal Year</u>	<u>Tax Rate</u>	<u>Revenue</u>	<u>% Change</u>
1999-00	14.00%	182,102	12.74%
2000-01	14.00%	188,377	3.45%
2001-02	14.00%	132,226	-29.81%
2002-03	14.00%	128,590	-2.75%
2003-04	14.00%	148,231	15.27%

Revenues are adusted so underlying tax revenue is reflected in the same fiscal year as the occupancy activity.

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. The current rate is \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued at \$250,000 or less, \$6.80 per \$1,000 for properties valued more than \$250,000 or less than \$999,999; and \$7.50 per \$1,000 for properties valued at \$1.0 million or more. Budgeted revenue from real property transfer tax for fiscal year 2005-06 is \$83.0 million

Utility Users Tax

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone utilities, as well as all cellular telephone and enhanced specialized mobile radio communication services for billing addresses in the City. Budgeted revenue from utility users tax for fiscal year 2005-06 is \$70.9 million.

Parking Tax

A 25.0% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code paid by the occupants of the spaces and remitted monthly by the operators of the parking facilities. A quarterly tax-filing requirement is also imposed. Budgeted General Fund revenue from the parking tax for fiscal year 2005-06 is \$33.1 million

Intergovernmental Revenues, Grants and Subventions

Intergovernmental revenues, grants and subventions are budgeted at \$1,072.2 million for fiscal year 2005-06. This includes \$375.7 million from the Federal government, \$640.4 million from the State, and \$56.1 million from other intergovernmental sources across all City funds. In the General Fund, intergovernmental revenues, grants and subventions are budgeted for a total of \$680.7 million, including \$206.3 million from the Federal government and \$474.4 million from the State.

Health and Welfare Realignment

In fiscal year 1991-92, the State transferred to counties responsibility for determining service levels and administering most mental health, public health and some social service programs, thereby reducing the State's obligations. The State also increased its share of certain welfare costs formerly borne by counties. In order to meet these obligations, counties receive the proceeds of a 0.5% statewide sales tax and a portion of vehicle license fees.

These sources are budgeted to provide \$219.6 million to the City's General Fund and its two county hospitals for fiscal year 2005-06.

Motor Vehicle License Fees

The City's budget reflects the permanent roll-back of the vehicle license fee revenues, along with the associated backfill made by the State wherein they partially reduced the amount of property taxes shifted from the City to the Education Revenue Augmentation Fund to make up the difference. After factoring in all State shifts, the fiscal year 2005-06 budget level for vehicle license fee revenues is \$36.7 million.

Public Safety Sales Tax

State Proposition 172, passed by the voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. Budgeted revenue from this source is \$70.0 million for fiscal year 2005-06.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, across all funds in fiscal year 2005-06, the City budgets approximately \$745.9 million in social service subventions from the State and Federal governments to fund programs such as Food Stamps, CalWORKs, Child Support Services and transportation projects. Health and welfare subventions are often based on State and Federal funding formulas, which currently reimburse counties according to actual spending on these services.

Charges for Services

Charges for services are budgeted at \$111.3 million for fiscal year 2005-06 in the General Fund. This includes \$27.1 million of general government service charges (primarily planning fees), \$21.6 million of public safety service charges (including, for example, boarding of prisoners and safety inspection fees), \$5.8 million of recreation charges, \$47.99 million of MediCal, MediCare and health service charges, and \$8.8 million of other miscellaneous service charges.

Investment Policy

The management of the City's surplus cash is governed by an Investment Policy administered by the Treasurer-Tax Collector. In order of priority, the objectives of this Investment Policy are the preservation of capital, liquidity and yield. The preservation of capital is the foremost goal of any investment decision, and investments generally are made so that securities can be held to maturity. Once safety and liquidity objectives have been achieved, the Treasurer-Tax Collector then attempts to generate a favorable return by maximizing interest earnings without compromising the first two objectives. A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board monthly.

The investment portfolio is sufficiently flexible to enable the City to meet all disbursement requirements that are anticipated from any fund during the subsequent eighteen months. As of July 31, 2005 the City's surplus investment fund consisted of the investments classified in Table A-8, and had the investment maturity distribution presented in Table A-9.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO			
Investment Portfolio			
As of July 31, 2005			
<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
Treasury Bills	\$542,000,000	\$535,170,548	\$538,023,782
Treasury Notes	-	-	-
FNMA Discount Notes	524,000,000	519,815,471	523,120,082
Federal Home Loan Disc Notes	494,000,000	490,938,273	493,096,359
FMC Discount Notes	537,000,000	532,664,695	534,800,200
Negotiable C. D.'s	314,000,000	314,000,000	313,967,551
Commercial Paper Disc	630,000,000	626,600,425	628,248,017
Public Time Deposit	<u>100,000</u>	<u>100,000</u>	<u>96,239</u>
Total	\$3,041,100,000	\$3,019,289,412	\$3,031,352,230

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

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO		
Investment Maturity Distribution		
As of July 31, 2005		
<u>Maturity</u>	<u>Cost</u>	<u>Percentage</u>
1 to 2 Months	\$2,283,966,638	75.65%
2 to 3 Months	434,596,629	14.39
3 to 4 Months	300,626,145	9.96
4 to 5 Months	-	0.00
5 to 6 Months	-	0.00
6 to 12 Months	100,000	0.00
12 to 18 Months	-	0.00
18 to 24 Months	-	0.00
24 to 36 Months	-	0.00
36 to 48 Months	-	0.00
48 to 60 Months	<u>-</u>	<u>0.00</u>
	\$3,019,289,412	100.00%
Weighted Average Maturity: 40 Days		

Source: Office of the Treasurer, City and County of San Francisco.

Statement of Direct and Overlapping Bonded Debt

The pro forma statement of direct and overlapping bonded debt and long-term obligations (the "Debt Report"), presented in Table A-10 has been compiled by the Office of Public Finance.

The Debt Report generally includes long-term obligations sold in the public credit markets by the City and public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. For this purpose, lease obligations of the City, which support indebtedness incurred by others, are included.

TABLE A-10

CITY AND COUNTY OF SAN FRANCISCO		
Statement of Direct and Overlapping Debt and Long-Term Obligations		
2005-2006 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	\$	111,406,190,157
	Outstanding	
	8/1/2005	
<u>DIRECT GENERAL OBLIGATION BOND DEBT</u>		
General City Purposes Carried on the Tax Roll		\$1,236,475,000
GROSS DIRECT DEBT		\$1,236,475,000
<u>LEASE PAYMENT AND OTHER LONG-TERM OBLIGATIONS</u>		
San Francisco COPs, Series 1997 (2789 25th Street Property)		\$7,885,000
San Francisco COPs, Series 1999 (555-7th Street Property)		7,440,000
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)		7,405,000
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)		135,150,000
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property)		13,025,000
San Francisco Refunding Settlement Obligation Bonds, Series 2003-R1		38,670,000
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)		35,330,000
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)		41,965,000
San Francisco Finance Corporation		230,620,000
San Francisco Permit Center, Series 1993		3,175,000
San Francisco Lease Revenue Refunding Bonds, Series 1998-1		3,060,000
San Francisco Redevelopment Agency Moscone Convention Center 1992		31,850,077 ^[1]
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002		67,230,000
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004		33,565,000
San Francisco Courthouse Corporation COPs, Refunding Bonds, Series 2004		39,350,000
LONG-TERM OBLIGATIONS		\$695,720,077
GROSS DIRECT DEBT & OBLIGATIONS		\$1,932,195,077
<u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u>		
Bayshore Hester Assessment District		\$895,000
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds		139,303,333
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds		29,000,000
San Francisco Community College District General Obligation Bonds - Election of 2001		140,520,000
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1		21,170,000
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994		11,060,000
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998		53,735,000
San Francisco Redevelopment Agency Obligations (Property Tax Increment)		532,961,826
San Francisco Unified School District General Obligation Bonds - Election of 2003		56,130,000
San Francisco Unified School District COPs (1235 Mission Street), Series 1992		8,893,609
San Francisco Unified School District COPs - 1996 Refunding, 1998 & 1999		17,020,000
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		\$1,010,688,769
GROSS COMBINED TOTAL OBLIGATIONS		\$2,942,883,846 ^[2]
<u>Ratios to Assessed Valuation:</u>	Actual Ratio	Charter Req.
Gross Direct Debt (General Obligation Bonds)	1.11%	< 3.00%
Gross Direct Debt & Obligations	1.73%	n/a
Gross Combined Total Obligations	2.64%	n/a
STATE SCHOOL BUILDING AID REPAYMENT FOR FY 05-06		\$73,305
^[1] The accreted value as of July 1, 2005 is \$95,359,844.		
^[2] Excludes revenue and mortgage revenue bonds notes, and non-bonded capital lease obligations.		
Source: Office of Public Finance, City and County of San Francisco.		

Tax Supported Debt Service

Under the State Constitution and the Charter, general obligation bonds can only be authorized through voter approval. As of August 1, 2005, the City had \$1.2 billion in general obligation bonds outstanding.

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

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO			
Direct Tax Supported Debt Service			
As of August 1, 2005^[1]			
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2006	\$73,270,000	\$57,730,453	\$131,000,453
2007	75,950,000	55,104,598	131,054,598
2008	83,395,000	51,842,594	135,237,594
2009	87,185,000	47,890,755	135,075,755
2010	88,120,000	43,717,935	131,837,935
2011	89,820,000	39,356,122	129,176,122
2012	78,345,000	35,121,127	113,466,127
2013	69,455,000	31,323,476	100,778,476
2014	64,080,000	27,913,112	91,993,112
2015	57,225,000	24,745,205	81,970,205
2016	60,060,000	21,861,762	81,921,762
2017	50,145,000	18,833,771	68,978,771
2018	48,845,000	16,281,066	65,126,066
2019	49,505,000	13,788,240	63,293,240
2020	40,940,000	11,276,828	52,216,828
2021	36,815,000	9,781,805	46,596,805
2022	31,295,000	7,581,185	38,876,185
2023	30,395,000	6,236,431	36,631,431
2024	28,260,000	4,886,344	33,146,344
2025	23,470,000	3,658,938	27,128,938
2026	12,900,000	2,640,063	15,540,063
2027	13,500,000	2,157,188	15,657,188
2028	14,100,000	1,651,813	15,751,813
2029	14,400,000	1,123,500	15,523,500
2030	<u>15,000,000</u>	<u>584,374</u>	<u>15,584,374</u>
TOTAL ^[2]	\$1,236,475,000	\$537,088,685	\$1,773,563,685

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

^[2] Reduced by debt service payments through August 1, 2005.

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

In November 1992, voters approved Proposition A, which authorized the issuance of up to \$350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Seismic Safety Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued \$35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. The City may issue additional bonds under the Loan Program authorization in calendar year 2005.

In June 1997, voters approved Proposition C, which authorized the issuance of up to \$48.0 million in general obligation bonds for the acquisition, construction and/or reconstruction of San Francisco Zoo facilities. The City has issued an aggregate total of \$40.5 million in three series of such bonds. The City issued the fourth and final tranche of the zoo facilities bonds in the principal amount of \$7.5 million in July 2005.

In November 1999, voters approved Proposition A, which authorized the issuance, of up to \$299.0 million in bonded debt, other evidences of debt and/or lease financing for the reconstruction, improvement and expansion of a new health care, assisted living and/or other type of continuing care facility or facilities to replace facilities at Laguna Honda Hospital. The City issued \$230.0 million of the Laguna Honda Hospital general obligation bonds in May 2005. The City anticipates issuing the final series of the Laguna Honda Hospital general obligation bonds in the principal amount of \$69.0 million under the current bond offering.

In March 2000, voters approved Proposition A which authorized the issuance of up to \$110.0 million in general obligation bonds to acquire, construct, or reconstruct recreation and park facilities and properties. The City has issued three series of Neighborhood Recreation and Park Bonds in June 2000, February 2001, and in July 2003 comprising a total of \$41.2 million. The City issued the fourth and final series in October 2004 in the principal amount of \$68.8 million.

In March 2000, voters approved Proposition B which authorized the issuance of up to \$87.4 million in general obligation bonds to acquire, construct, or reconstruct the facilities of the California Academy of Sciences. In November 1995, the voters approved Proposition C, which authorizes the issuance of up to \$29.2 million to pay the cost of acquisition, construction and/or reconstruction of certain improvements to the Steinhart Aquarium and related facilities. Proposition B and Proposition C proceeds will be used together with other monies of the California Academy of Sciences to reconstruct the California Academy of Science Building and the Steinhart Aquarium. The City issued the first series of the California Academy of Sciences Bonds in October 2004 for a total of \$8.0 million. The City issued the second and final installment of the California Academy of Sciences and Steinhart Aquarium bonds in July 2005 in the principal amount of \$79.4 million.

In November 2000, voters approved Proposition A, which authorized the issuance of up to \$105.9 million in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The City issued two series of library bonds in July 2001 and October 2002 for a total of \$40.8 million. The City issued a third installment of the branch library facilities improvement bonds in July 2005 in the principal amount of \$34.0 million.

Table A-12 below lists the City's voter-authorized general obligation bonds including authorized programs for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of August 1, 2005, the City had authorized and unissued general obligation bond authority of \$415.1 million.

TABLE A-12

**CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of August 1, 2005)**

Description of Issue (Date of Authorization)	Series	Issued	Outstanding	Authorized & Unissued
Golden Gate Park Improvements (6/2/92)	1997A	\$25,105,000	\$17,830,000	
	2001A	17,060,000	14,630,000	
Seismic Safety Loan Program (11/3/92)	1994A	35,000,000		\$315,000,000
School District Facilities Improvements (6/7/94)	1997B	22,050,000	15,650,000	
Asian Art Museum Relocation Project (11/8/94)	1999D	16,730,000	13,345,000	
Steinhart Aquarium Improvement (11/7/95)	2005F	29,245,000	29,245,000	
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	15,595,000	
	1999A	20,000,000	16,500,000	
	2000D	20,000,000	16,780,000	
	2001C	17,000,000	14,760,000	
	2001D	23,000,000	20,395,000	
Educational Facilities - Community College District (6/3/97)	1999A	20,395,000	16,125,000	
	2000A	29,605,000	24,885,000	
Educational Facilities - Unified School District (6/3/97)	1999B	60,520,000	47,870,000	
	2003B	29,480,000	27,230,000	
Zoo Facilities Bonds (6/3/97)	1999C	16,845,000	13,325,000	
	2000B	17,440,000	14,655,000	
	2002A	6,210,000	5,545,000	
	2005H	7,505,000	7,505,000	
Laguna Honda Hospital (11/2/99)	2005A	110,000,000	110,000,000	
	2005B	40,000,000	40,000,000	
	2005C	40,000,000	40,000,000	
	2005D	40,000,000	40,000,000	69,000,000
Neighborhood Recreation and Park (3/7/00)	2000C	6,180,000	5,195,000	
	2001B	14,060,000	12,055,000	
	2003A	20,960,000	19,360,000	
	2004A	68,800,000	66,500,000	
California Academy of Sciences Improvement (3/7/00)	2004B	8,075,000	7,805,000	
	2005E	79,370,000	79,370,000	
Branch Library Facilities Improvement (11/7/00)	2001E	17,665,000	15,275,000	
	2002B	23,135,000	20,665,000	
	2005G	34,000,000	34,000,000	31,065,000
SUB TOTALS		\$935,435,000	\$822,095,000	\$415,065,000
General Obligation Refunding Bonds Series 1997-1 issued 10/27/97		\$449,085,000	\$292,860,000	
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		\$118,945,000	\$102,290,000	
General Obligation Refunding Bonds Series 2004-R1 issued 6/16/04		\$21,930,000	\$19,230,000	
TOTALS		\$1,525,395,000	\$1,236,475,000	\$415,065,000

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

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

Lease Payments and Other Long-Term Obligations

Under the Charter, most lease financing structures can only be authorized with the approval of the voters. Table A-13 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of August 1, 2005. Note that the annual payment obligations reflected in Table A-13 include the fully-accreted value of any capital appreciation obligations that will accrue as of the final payment dates.

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO			
Lease Payment and Other Long-Term Obligations			
August 1, 2005			
<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Payment</u> <u>Obligation</u>
2006	31,665,000	27,257,254	58,922,254
2007	37,811,346	35,728,736	73,540,082
2008	35,618,666	34,942,623	70,561,289
2009	34,610,247	34,149,658	68,759,905
2010	28,667,024	33,391,150	62,058,174
2011	29,168,573	32,726,577	61,895,150
2012	22,565,763	31,991,668	54,557,431
2013	23,391,157	31,395,659	54,786,816
2014	22,476,550	30,722,030	53,198,580
2015	28,025,751	25,109,099	53,134,850
2016	34,650,000	18,525,437	53,175,437
2017	33,860,000	16,949,492	50,809,492
2018	34,275,000	15,315,630	49,590,630
2019	34,665,000	13,654,025	48,319,025
2020	19,865,000	12,339,419	32,204,419
2021	19,965,000	11,395,740	31,360,740
2022	20,300,000	10,437,913	30,737,913
2023	20,615,000	9,462,601	30,077,601
2024	20,965,000	8,477,981	29,442,981
2025	17,445,000	7,478,656	24,923,656
2026	17,910,000	6,686,132	24,596,132
2027	18,690,000	5,861,498	24,551,498
2028	19,785,000	4,998,929	24,783,929
2029	20,605,000	4,085,579	24,690,579
2030	21,760,000	3,131,436	24,891,436
2031	11,855,000	2,123,898	13,978,898
2032	12,470,000	1,505,656	13,975,656
2033	10,740,000	913,544	11,653,544
2034	<u>11,300,000</u>	<u>349,855</u>	<u>11,649,855</u>
TOTAL ^{[1][2]}	<u>\$695,720,077</u>	<u>\$471,107,875</u>	<u>\$1,166,827,952</u>

[1] Totals reflect rounding to nearest dollar.

[2] For purposes of this table, the interest payments on the Lease Revenue Bonds, Series 2000-1, 2, 3 (Moscone Center Expansion Project) are assumed to be 4.00% - the approximate historical average of the Bond Market Association Index plus a spread. These bonds are in variable rate mode.

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

The City electorate has approved several lease revenue bond propositions in addition to those bonds that have already been issued. When issued, these voter-approved lease revenue bonds will be repaid from lease payments made from the City's General Fund. The following lease programs have remaining authorization:

In 1989, voters approved Proposition F, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued \$8.2 million in lease revenue bonds to finance the construction of North Beach Parking Garage, which was opened in February 2002. There is no immediate plan to issue any more series of bonds under Proposition F.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, such amount increasing by five percent each fiscal year. As of August 1, 2005, the total authorized amount for such financings was \$41.6 million. The total principal amount outstanding as of August 1, 2005 was \$18.2 million. It is anticipated that the Corporation will issue approximately \$11.0 million in equipment lease revenue bonds under this authorization in October 2005.

In 1994, voters approved Proposition B, which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of Proposition B lease revenue bonds, respectively, but the Corporation has no current plans to utilize the remaining \$14.0 million in authorization.

In June 1997, voters approved Proposition D, which authorized the issuance of up to \$100.0 million in lease revenue bonds for the construction of a new football stadium at Candlestick Point, the home of the San Francisco 49ers football team. If issued, the \$100.0 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project and the 49ers would be responsible for paying the remaining cost of the stadium construction project. The City has no current timetable for issuance of the Proposition D bonds.

On March 7, 2000 voters approved Proposition C which extended a two and one half cent per \$100 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the Open Space Fund). Proposition C also authorizes the issuance of revenue bonds or other forms of indebtedness secured by the Open Space Fund. The City intends to sell up to \$27.0 million of such Open Space Fund lease revenue bonds in January 2006.

Overlapping Debt

In November 2001, voters approved Proposition A. Proposition A authorizes the issuance of up to \$195.0 million in general obligation bonds to finance construction of new Chinatown and North Beach campuses of the San Francisco Community College District (the "SFCCD") and to make improvements to existing facilities. The SFCCD issued \$38.0 million of such authorization in March 2002 and \$110.0 million in October 2004. It is anticipated that SFCCD will issue approximately \$47.0 million of such authorization in June 2006.

On November 4, 2003, voters approved Proposition A. Proposition A authorized the San Francisco Unified School District (the "SFUSD") to issue up to \$295.0 million of general obligation bonds to repair and rehabilitate its facilities. The SFUSD issued \$58.0 million of such authorization in October 2004. It is anticipated that SFUSD will issue approximately \$130.0 million of such authorization in September 2005.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorizes the Bay Area Rapid Transit District (“BART”) to issue general obligation bonds in series over time in an aggregate principal amount not to exceed \$980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City and County of San Francisco. Of the \$980.0 million, the City’s portion is approximately 29.0% or \$282.0 million. Bart issued \$100.0 million of such authorization in May 2005. Of the \$100.0 million issued, the City’s portion is approximately \$29.0 million.

Labor Relations

The Mayor’s fiscal year 2005-06 budget includes approximately 30,000 full time personnel, excluding employees in the San Francisco Unified School District, San Francisco Community College District, and San Francisco Superior Court. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union (Locals 250, 535 and 790); International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law and Charter. Except for nurses, transit workers, and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through a final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final unless legally challenged. Strikes by City employees are prohibited, according to the Charter. Since 1976, no City employees have gone on a union-authorized strike.

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

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

The City’s retirement benefits are established directly by the voters, rather than through the regular collective bargaining process; most changes to retirement benefit formulae require a voter-approved Charter amendment. Currently, most miscellaneous employees are in a “2.0% at 60” plan, and the uniformed police and fire employees are in a “3.0% at 55” plan.

In 2003, the City negotiated two-year successor agreements (July 1, 2003 through June 30, 2005) with all groups covered under Charter Section A8.409. Most of these agreements provided for a limited reopener negotiation in 2004 to allow the parties to address any changes to the State and local economy, while some of them had no reopener provision. Almost all of the groups that had reopener negotiations in 2004 agreed to a one-year contract extension to June 30, 2006. In response to the City’s financial crisis, the 2003-2006 collective bargaining agreements provide that employees will continue to pay the 7.5% employee contribution to their retirement plans for fiscal years 2004-05 and 2005-06. In recognition of the employees resuming payment of their retirement contribution, the City will provide additional floating holidays. Additionally, employees will receive some general wage increases in the fiscal year 2005-06, the final year of the contract. A few collective bargaining agreements vary slightly from the general pattern, but generate the same net cost savings to the City through June 30, 2006.

In 2005, the City negotiated one-year contracts consistent with the pattern negotiated in 2004 for eight labor agreements that were due to expire on June 30, 2005. These groups include Staff Nurses, Nurse Managers, Automotive Machinists, Claims Investigators, Attorneys, Institutional Police, Probation Officers, and Interns and Residents.

Of the unions covered under Charter Section A8.590-1, the City continues negotiations with the Paramedics and Deputy Sheriffs, whose contracts expired on June 30, 2005. The Police, Police Management, Fire and Fire Management contracts do not have reopener provisions and will expire on June 30, 2007.

Pursuant to Charter Section 8A.104, the Municipal Transportation Agency (“MTA”) is responsible for negotiating contracts for the transit operators and employees in service critical bargaining units. These contracts are subject to approval by the MTA Board. The current contract covering transit operators expires on June 30, 2008.

For the labor contracts expiring on June 30, 2006, the City anticipates commencing those successor negotiations no later than December 1, 2005.

In addition, the City adopts an annual “Unrepresented Employees’ Ordinance” for employees who are not exclusively represented by a union. As with the negotiated labor agreements, the present ordinance for fiscal year 2005-2006 also provides for unrepresented employees to continue payment of the employee contribution to their retirement plans and to receive additional floating holidays.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO		
Employee Organizations as of August 1, 2005		
<u>Organization</u>	<u>Budgeted Positions</u>	<u>Expiration Date of MOU</u>
Automotive Machinists, Local 1414	414	June 30, 2006
Bricklayers, Local 3/Hod Carriers, Local 36	17	June 30, 2006
Building Inspectors Association	72	June 30, 2006
Carpenters, Local 22	106	June 30, 2006
CIR-SEIU (Interns & Residents)	204	June 30, 2006
Cement Masons, Local 580	24	June 30, 2006
Deputy Sheriffs Association	865	June 30, 2005 ^[1]
District Attorney Investigators Association	67	June 30, 2006
Electrical Workers, Local 6	785	June 30, 2006
Glaziers, Local 718	12	June 30, 2006
International Alliance of Theatrical Stage Employees, Local 16	14	June 30, 2006
Ironworkers, Local 377	18	June 30, 2006
Laborers International Union, Local 261	1,052	June 30, 2006
Municipal Attorneys' Association	413	June 30, 2006
Municipal Executives Association	863	June 30, 2006
MEA - Police Management	2	June 30, 2007
MEA - Fire Management	8	June 30, 2007
Operating Engineers, Local 3	60	June 30, 2006
Painters, Local 4	105	June 30, 2006
Pile Drivers, Local 34	17	June 30, 2006
Plumbers, Local 38	336	June 30, 2006
Probation Officers Association	150	June 30, 2006
Professional & Technical Engineers, Local 21	4,012	June 30, 2006
Roofers, Local 40	13	June 30, 2006
S.F. Institutional Police Officers Association	4	June 30, 2006
S.F. Firefighters, Local 798	1,730	June 30, 2007
S.F. Police Officers Association	2,498	June 30, 2007
SEIU - UHW (250)	1,816	June 30, 2006
SEIU, Local 535	1,422	June 30, 2006
SEIU, Local 790	7,356	June 30, 2006
SEIU, Local 790 (Staff Nurse)	1,445	June 30, 2006
SEIU, Local 790 (H-1 Rescue Paramedics)	20	June 30, 2005 ^[1]
Sheet Metal Workers, Local 104	48	June 30, 2006
Stationary Engineers, Local 39	629	June 30, 2006
Supervising Probation Officers, Operating Engineers, Local 3	19	June 30, 2006
Teamsters, Local 350	2	June 30, 2006
Teamsters, Local 853	162	June 30, 2006
Teamsters, Local 856 (multi-unit)	117	June 30, 2006
Teamsters, Local 856 (Supervising Nurses)	128	June 30, 2006
TWU, Local 200 (SEAM multi-unit & claims)	303	June 30, 2006
TWU, Local 250-A TWU - Auto Service Workers	145	June 30, 2006
TWU, Local 250-A TWU - Miscellaneous	93	June 30, 2006
TWU, Local 250-A TWU - Transit Operators	2,113	June 30, 2008
Union of American Physicians & Dentists	178	June 30, 2006
Unrepresented Employees	<u>132</u>	June 30, 2006
	29,987 ^[2]	

^[1] Budgeted positions do not include SFUSD, SFCCD, or Superior Court personnel.

^[2] Currently are in negotiations.

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

Risk Management

The City self-insures the majority of its property, liability and workers' compensation risk exposures. Each year, funds for anticipated claim payments, based on history and outstanding cases expected to be closed in that year, are included in the current budget. The vast majority of the City's insurance is purchased for the Enterprise fund and other departments (SFO, Municipal Railway, Public Utilities Commission, the Port and Convention Facilities). The remainder of the insured program is made up of insurance for General Fund departments required to provide coverage for bond-financed facilities, coverage for art at City-owned museums and statutory requirements for bonding of various public officials.

The City allocates workers' compensation costs to departments according to a formula based on claims, payment history and payroll. Programs are being developed and implemented to lower the workers' compensation costs to the City. These programs focus on accident prevention, investigation and duty modification of injured employees with medical restrictions so they can return to work as early as possible.

Retirement System

The City Employee's Retirement System (the "Retirement System") was established in April 1922 and was constituted in its current form by the 1932 charter. The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System, and a member of the Board appointed by the President of the Board, who serves ex-officio as a voting member. To aid in the administration of the Retirement System, the Retirement Board appoints an Actuary and an Executive Director. The Executive Director's responsibility extends to all divisions of the system consisting of Administration, Investment, Retirement Services/Accounting, and Deferred Compensation.

The Retirement System estimates that the total active membership as of June 30, 2004 was 33,382, including 995 vested members and 728 reciprocal members, compared to 34,158 members a year earlier. The total new enrollees for fiscal year 2003-04 were approximately 1,356. Checks are mailed to approximately 18,774 benefit recipients monthly.

Net assets held in trust for pension benefits by the Retirement System as of June 30, 2004 were \$11.9 billion compared to \$10.5 billion as of June 30, 2003. As of June 30, 2004, the actuarial accrued liability was \$10.9 billion and the actuarial value of assets was \$11.3 billion, reflecting funding at 104.0%.

Table A-15 shows Retirement System actual contributions for fiscal years 1999-00 through 2003-04.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO					
Employee Retirement System (000s)					
Fiscal Years 1999-00 through 2003-04					
Fiscal Years Ending <u>June 30</u>	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee & Employer Contribution ^[1]
2000	\$12,931,306	\$10,076,469	\$7,258,394	138.8	\$132,761
2001	11,246,080	10,797,024	8,371,843	129.0	145,203
2002	10,415,950	11,102,516	9,415,905	118.0	155,918
2003	10,533,013	11,173,636	10,249,896	109.0	182,069
2004	11,907,358	11,299,997	10,885,455	104.0	170,550
<p>^[1] For fiscal years 2000-01 through 2003-04, the City paid no employer contribution. However, based on the Retirement Board's Actuarial Valuation for July 1, 2003, employer contributions have resumed at 4.48% of covered payroll beginning fiscal year 2004-05.</p>					
<p>Sources: SFERS' audited financial statements and supplemental schedules June 30, 2004 and 2003. SFERS' Actuarial Valuation report as of July 1, 2004 and July 2003.</p>					

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

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an outside actuarial firm employed under contract. A valuation of the Retirement System is conducted each year and an experience study is performed periodically. The latest report as of June 30, 2004 was issued in February 2005.

In November 1980, the voters of San Francisco adopted a change in the method through which the liabilities of the Retirement System are funded. That method is the entry age normal cost method with a level percentage supplemental cost element (supplemental costs to be fully amortized over no more than 20 years). Actuarial gains and losses are amortized over a 15-year period. Assets are calculated based on a five-year phase-in of realized and unrealized capital gains and losses.

From fiscal year 1996-97 through fiscal year 2003-04, the City's dollar contribution decreased to zero due to lowered funding requirements as determined by the actuary of the Retirement System. However, in fiscal year 2004-05, the City contributed an estimated \$83.7 million in employer contribution, which is 4.5% of pensionable salary. This includes \$38.6 million in General Fund contribution. In fiscal year 2005-06, the City expects to contribute an estimated \$127.0 million in employer contribution, which is 6.6% of pensionable salary. This amount includes \$58.0 million in General Fund contribution.

Health Care Benefits

Health care benefits for active City employees, retired employees, and surviving spouses are administered by the City's Health Service System (the "Health Service System"). The System also administers health care benefits to the San Francisco Unified School District and San Francisco Community College District. Annual benefits costs are funded on a current basis primarily from contributions made during that year by the City, its active employees, retired employees and surviving spouses. The City contributions are funded from available resources on a pay-as-you-go basis. For fiscal year 2003-04, the City contributed approximately \$279.0 million for benefit costs. Of this amount, approximately \$72.2 million were for post-retirement health care benefits for approximately 14,500 retired City employees. The contributions of the City to the Health Service System are determined by a Charter provision based on similar contributions made by the ten most populous counties in the State, not including the City and County of San Francisco.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits ("OPEB"). GASB 45 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. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. These disclosure requirements will be effective for the City's fiscal year ending June 30, 2008. GASB 45 is likely to result in a substantial increase in the annual expense recognized by the City for post-retirement health care benefits. The City has retained the services of an actuary to determine the extent of the City's OPEB liability. The amount of the liability and the increase in the annual expense to be recognized has not yet been determined by the City.

The Health Service System issues a publicly available financial report that includes financial statements for the Health Service Trust Fund. The report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1727.

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APPENDIX B

CITY AND COUNTY OF SAN FRANCISCO ECONOMY AND GENERAL INFORMATION

Area and Economy

The corporate limits of the City and County of San Francisco (the “City”) encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the “Bay”). The City is located on a peninsula bounded by the Pacific Ocean to the west, the Bay on the east, the entrance to the Bay and the Golden Gate Bridge to the north and San Mateo County to the south.

The City is the economic center of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (the “Bay Area”). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Its major industries include heavy manufacturing, high technology, semi-conductor manufacturing, petroleum refining, biotechnology, food processing and production and fabrication of electronics and aerospace equipment. Non-manufacturing industries, including convention and tourism, finance and international and wholesale trade, are characteristic of the City and are also major contributors to economic activity within the Bay Area.

Population and Income

The City had a population estimated by the State of California (the “State”) Department of Finance Demographic Research Unit, at 792,700 as of January 2004, ranking it the fourth largest city in California after Los Angeles, San Diego and San Jose. The table below reflects the population and per capita income of the City and the State between 2000 and 2004.

TABLE B-1

POPULATION AND INCOME				
2000 - 2004				
<u>Year</u>	<u>City and County of San Francisco</u>	<u>State of California</u>	<u>San Francisco Per Capita Income</u>	<u>California Per Capita Income</u>
2000	785,700	34,385,000	\$57,414	\$32,225
2001	793,700	35,037,000	55,816	32,702
2002	793,633	35,301,000	54,369	32,989
2003	789,700	35,612,000	N/A *	33,749
2004	792,700	36,144,000	N/A *	N/A *
* Note: Information not available. County data are compiled from numerous sources by the U.S. Department of Commerce, Bureau of Economic Analysis and are typically released with a significant time lag.				
Sources: State of California Department of Finance, Demographic and Finance Research Units; U.S. Department of Commerce, Bureau of Economic Analysis.				

Conventions and Tourism

During the calendar year 2004 approximately 15.1 million people (118,600 average per day) visited the City, generating approximately \$6.7 billion. On average, these visitors spent about \$156 per day and stayed three to four nights.

Hotel occupancy rates in San Francisco averaged 73.2% in calendar year 2004, an increase of 7.6% over the previous year. Average daily San Francisco room rates increased about 1.7% to an annual average of \$147, compared to the same period in the prior year

Although visitors who stay in San Francisco hotels accounted for only 35.0% of total out-of-town visitors, they generated 65.0% of total spending by visitors from outside the Bay Area. It is estimated that 40.0% of visitors to the City are on vacation, 35.0% are convention and trade show attendees, 22.0% are individual business travelers and the remaining 3.0% are en route elsewhere. International visitors make up 36.0% of all visitors. Approximately 45.0% of the City's international visitors are from Europe and the United Kingdom, 31.0% are from Asia, 9.0% are from Canada, 5.0% are from Australia and New Zealand, 5.0% are from Central and South America, 3.0% are from Mexico, and 2.0% are from Africa and the Middle East. The following illustrates hotel occupancy and related spending from calendar years 2000 through 2004.

TABLE B-2

CITY AND COUNTY OF SAN FRANCISCO			
San Francisco Overnight Hotel Guests (\$000s)			
Calendar Year	Annual Average Hotel Occupancy	Visitors Staying in Hotels or Motels	Hotel Visitor Spending
2000	81.9%	4,300	\$4,288,000
2001	67.0	3,550	3,700,000
2002	65.4	3,470	3,500,000
2003	68.1	3,860	3,680,000
2004	73.2	4,200	4,070,000

Source: San Francisco Convention & Visitor Bureau.

According to the San Francisco Convention and Visitor Bureau, as of April 1, 2004, convention business is almost at full capacity at the Moscone Convention Center and is at strong levels at individual hotels providing self-contained convention services. The City completed construction of an expansion to the Moscone Convention facilities in Spring 2003. With the expansion, the Moscone Convention Centers offer over 700,000 square feet of exhibit space covering more than 20 acres on three adjacent blocks.

Employment

The City has the benefit of a highly skilled, educated and professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. According to the State Employment Development Department, the unemployment rate for San Francisco was 5.7% for year-end 2004, a nearly 20.0% decline from 2003. This rate is in comparison with an adjusted unemployment rate of 6.1% for California and 5.5% for the nation during the same period.

TABLE B-3

CITY AND COUNTY OF SAN FRANCISCO					
Reported Employment by Land Use Activities 1999-2003 ^[1]					
	1999	2000	*2001	*2002 ⁽²⁾	*2003 ⁽²⁾
Office	211,499	224,167	236,959	213,514	201,492
Retail	97,159	103,508	101,505	96,591	95,599
Industrial	120,922	119,922	107,837	97,860	93,726
Hotel	19,522	18,862	17,962	16,477	17,438
Cultural/Institutional	142,064	140,573	122,222	122,254	124,882
Other	30	1,307	6	165	65
Total	591,196	608,339	586,491	546,861	533,202
<p>* 2001 - 2003 Sectoral breakdowns except hotel are not comparable with 2000 and earlier breakdowns. This reflects Employment Development Department classification system.</p> <p>^[1] Most recent Employment Development Department data available.</p> <p>^[2] 2002 and 2003 Office Land use activity group includes Government employment.</p>					
Source: San Francisco Planning Department- California Employment Development Department.					

Based on 2003 estimates, total citywide employment is 533,202 indicating a loss of approximately 3.0% of jobs from 2002.

Table B-4 below lists the ten largest employers in the City as of December 2004.

TABLE B-4

CITY AND COUNTY OF SAN FRANCISCO		
Largest Employers in San Francisco		
As of December 31, 2004		
<u>Employer</u>	<u>Number of Employees</u>	<u>Nature of Business</u>
City and County of San Francisco	28,732	Local government
University of California, San Francisco	18,600	Health services
Wells Fargo & Co. Inc.	7,275	Banks
San Francisco Unified School District	7,208	Education
State of California	7,048	State government
California Pacific Medical Center	5,000	Health care
United States Postal Service, San Francisco District	4,886	Mail delivery
PG&E Corp.	4,850	Energy
Gap Inc	4,084	Retail
San Francisco Municipal Railway (Muni)	3,828	Transit agency
Source: San Francisco Business Times, Book of Lists 2005.		

Taxable Sales

The following annual table reflects a breakdown of taxable sales for the City from 1999 to 2003. Taxable sales information for 2004 is not yet available. Total retail sales increased in 2003 by approximately \$125.5 million compared to 2002. When business and personal services and other outlet sales are included, taxable sales decreased by approximately \$91.9 million in 2003.

TABLE B-5

CITY AND COUNTY OF SAN FRANCISCO					
Taxable Sales 1999 - 2003					
(\$000s)					
	1999	2000	2001	2002	2003 ^[1]
Retail Stores					
Apparel	\$722,597	\$792,508	\$749,391	\$737,396	\$760,715
General Merchandise	1,096,334	1,166,524	1,078,664	1,051,122	1,065,160
Food Stores	392,569	416,735	413,650	403,163	405,673
Speciality Stores	1,961,628	2,277,432	1,998,450	1,889,144	1,910,757
Eating/Drinking	1,723,368	1,977,854	1,883,762	1,844,385	1,879,879
Household	572,425	637,662	513,618	459,529	484,455
Building Materials	292,107	321,632	313,277	310,111	320,316
Automotive	775,996	1,006,818	889,936	803,109	804,964
Other Retail Stores	<u>139,066</u>	<u>153,291</u>	<u>149,638</u>	<u>143,999</u>	<u>135,582</u>
Retail Stores Total	\$7,676,090	\$8,750,456	\$7,990,386	\$7,641,958	\$7,767,501
Business and					
Personal Services	\$1,063,729	\$1,226,650	\$1,107,028	\$1,043,019	\$945,689
All Other Outlets	<u>3,596,942</u>	<u>4,112,820</u>	<u>3,357,822</u>	<u>2,904,463</u>	<u>2,784,369</u>
Total All Outlets	\$12,336,761	\$14,089,926	\$12,455,236	\$11,589,440	\$11,497,559
^[1] Most recent annual data available.					
Source: California State Board of Equalization - Taxable Sales in California (Sales & Use Tax) Annual Reports.					

Building Activity

Table B-6 shows a summary of building activity in the City for fiscal years 1999-00 through 2003-04, during which time approximately 11,906 housing units were authorized in the City (both market rate and “affordable housing”). The total value of building permits was \$430.0 million in fiscal year 2003-04.

TABLE B-6

CITY AND COUNTY OF SAN FRANCISCO				
Building Activity 2000-2004 (\$000s)				
Fiscal Year Ended <u>June 30</u>	Authorized New	Value of Building Permits		
	<u>Dwelling Units</u>	<u>Residential</u>	<u>Non-Residential</u>	<u>Total</u>
2000	3,058	\$305,828	\$623,257	\$929,085
2001	2,570	381,623	725,313	1,106,936
2002	3,273	299,028	364,801	663,829
2003	1,279	214,244	57,455	271,699
2004	1,726	307,603	122,377	429,980

Source: San Francisco Department of Building Inspection, Central Permit Bureau.

Banking and Finance

The City is a leading center for financial activity. The headquarters of the Twelfth Federal Reserve District is located in the City, as are the headquarters of the Eleventh District Federal Home Loan Bank and the regional Office of Thrift Supervision. Wells Fargo Bank, First Republic Bank, Union Bank of California, United Commercial Bank, Bank of the Orient and Charles Schwab & Co., the nation's largest discount broker, are headquartered in the City. Investment banks located in the City include Banc of America Securities LLC, Deutsche Banc Alex Brown, Thomas Weisel Partners LLC, and Pacific Growth Equities.

Commercial Real Estate

According to the Mid First Quarter 2005 Report from CB Richard Ellis, the San Francisco office market is off to a positive start in 2005. Class A vacancy rate has decreased by 120 basis points to 16.0%, and availability is down 100 basis points to 18.8%. The average Class A asking rent City wide is \$29.60, with Financial District average Class A at \$33.00, and Civic Center average Class A asking rate at \$24.50.

Major Development Projects

The downtown Union Square area is the City's principal retail area and includes Macy's, Neiman Marcus, Saks Fifth Avenue, Levi's, NikeTown, Disney, Crate and Barrel, Borders Books, Nordstrom, Williams Sonoma and Virgin Records. The recent completion of the Union Square Improvement Project, including reconstruction of the Union Square Garage, has benefited the area in terms of accessibility. The refurbished Union Square Park is now a hub for activities and events, gatherings, rallies, performances, and art exhibits.

The construction of the Westfield San Francisco Center (including Bloomingdale's), on the site of the former Emporium building between Market Street and Mission Street and 4th and 5th Streets, is currently underway. The estimated cost of this project is \$410.0 million. The 1.2 million square foot retail, office, and entertainment complex is expected to be completed in 2006. Upon completion, the Westfield San Francisco Center is expected to generate additional economic activity to the developing area resulting in an estimated \$9.7 million in tax revenues. The Center will also provide approximately 1,000 construction jobs and 1,900 permanent jobs.

Another commercial development project planned in the City is the Fillmore Renaissance Center, a mixed-use commercial and residential project at Fillmore and Eddy Streets in the Western Addition area of the City

known as the Fillmore Jazz Preservation District. The project will include a Fillmore branch of Oakland's Yoshi's Jazz Club & Restaurant, a variety of restaurants and lounges, approximately eighty condominium units (15.0% of which are designated "affordable") and a public parking garage.

Development is continuing at the Mission Bay redevelopment project area, portions of which are owned by the City and the Port of San Francisco. The development utilizes 303 acres of land and consists of 6,000 residential units, (28.0% of which will be affordable units), office and commercial space, 863,637 square feet of retail space, a new public school, 51-acres of parks and recreational areas, and a 500-room hotel. In addition, the University of California is constructing a 2,650,000 square foot biotechnology campus on a 43-acre site in Mission Bay.

The Octavia Boulevard Project, begun in 2003, will be a ground-level six-lane boulevard between Market and Hayes Streets. The redevelopment of this roadway system has opened up approximately 7.2 acres of property to be used for the construction of 750-900 housing units.

Redevelopment of the former Hunters Point Naval Shipyard on San Francisco's southern waterfront is expected to begin in 2005. The 90-acre first phase of development is expected to comprise 1,600 housing units, 300,000 square feet of commercial uses, 34 acres of open space and other community amenities. Future phases of this 500-acre redevelopment effort will include additional residential and commercial development.

Transportation Facilities

San Francisco International Airport

San Francisco International Airport ("SFO"), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of SFO. SFO 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 San Francisco Bay. According to final data for calendar year 2003 from the Airports Council International (the "ACI"), SFO is one of the largest airports in the United States in terms of passengers. SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic. In fiscal 2003-04, the Airport served over 30 million passengers and handled 552.1 metric tons of cargo.

During fiscal year 2003-04, 58 airlines served SFO with non-stop and one-stop service to 92 destinations in the United States. Twenty-nine airlines provided nonstop scheduled passenger service to over 39 international destinations.

United Airlines operates one of its five major U.S. hubs at SFO. During Fiscal Year 2003-04, United Airlines handled approximately 43.0% of the total enplaned passengers at SFO and accounted for approximately 26.0% of SFO's total revenues. On December 9, 2002, UAL Corp. ("UAL"), the parent company of United Airlines, and numerous of its subsidiaries including United Airlines, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Since the Chapter 11 filing, United Airlines has continued flight operations at SFO and since January 1, 2003 it has remained current with its payments to SFO for rents and landing fees.

The San Francisco Bay Area Rapid Transit District ("BART") extension to SFO opened for full operation on June 22, 2003. The extension creates a convenient connection between SFO and the greater San Francisco Bay Area served by BART. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connection to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals.

The AirTrain system, which opened for full operation on March 24, 2003, provides transit 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 AirTrain stations are located at the north and south sides of the International Terminal, Terminals 1, 2 and 3, at the two short-term International Terminal Complex (“ITC”) parking garages, on Lot “D” to serve the rental car facility, and on McDonnell Road to serve the West Field area of SFO.

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

TABLE B-7

SAN FRANCISCO INTERNATIONAL AIRPORT				
Passenger, Cargo and Mail Data for				
Fiscal Years ending June 30, 2000 through 2004				
Fiscal year Ended June 30	<u>Passengers</u>		<u>Cargo Traffic</u>	
	Enplanements and Deplanements	Annual Percent Change	Freight and Express Air (Metric Tons)	U.S. and Foreign Mail (Metric Tons)
2000	40,238,576	2.8%	680,051	190,579
2001	38,735,076	-3.7	621,434	150,538
2002	30,932,889	-20.1	467,301	93,953
2003	29,174,229	-5.7	517,420	89,533
2004	30,771,464	5.5	472,953	79,154

Source: San Francisco Airport Commission.

Port of San Francisco

The Port of San Francisco (the “Port”) consists of 7.5 miles of San Francisco Bay waterfront which are held in “public trust” on behalf of all the people of California. The State transferred responsibility for the Port to the City in 1968. The Port is committed to promoting a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities, as well as protecting the natural resources of the waterfront and developing recreational facilities for public use.

The Port is governed by a five-member Port Commission which is responsible for the operation, management, development and regulation of the Port. All revenues generated by the Port are to be used for Port purposes only. The Port receives no operating subsidies from the City, and the Port has no taxing power.

The Port posted an increase in net assets of \$7.9 million for fiscal year ending June 30, 2004. Port properties generated \$56.7 million in operating revenue in fiscal year 2003-04 as shown in the table below.

TABLE B-8

PORT OF SAN FRANCISCO				
FISCAL YEARS 2003 AND 2004 REVENUES				
(\$000s)				
<u>Business Line</u>	FY 02-03 <u>Audited Revenue</u>	Percentage of <u>2003 Revenue</u>	FY 03-04 <u>Audited Revenue</u>	Percentage of <u>2004 Revenue</u>
Commercial & Industrial Rent	\$32,037	58.8%	\$33,489	59.1%
Parking	7,466	13.7	8,154	14.4
Cargo	5,659	10.4	5,561	9.8
Fishing	1,554	2.8	1,454	2.6
Ship Repair	919	1.7	867	1.5
Harbor Services	967	1.8	991	1.7
Cruise	963	1.8	1,578	2.8
Other Maritime	1,413	2.6	1,319	2.3
Other	<u>3,489</u>	<u>6.4</u>	<u>3,289</u>	<u>5.8</u>
TOTAL	\$54,467	100.0%	\$56,702	100.0%

Source: Port of San Francisco Audited Financial Statements.

In June 1997, the Port Commission adopted a Waterfront Land Use Plan (the "Port Plan") which established the framework for determining acceptable uses for Port property. The Port Plan calls for a wide variety of land uses which retain and expand historic maritime activities at the Port, provide revenue to support new maritime and public improvements, and significantly increase public access.

As a result of the finalization of the Port Plan, there are currently several major development Port projects in negotiation and/or construction including: a mixed use recreation and historic preservation project at Piers 27-31; a hotel development at the corner of Broadway and the Embarcadero; a mixed use historic preservation and reuse of Piers 1½-5; an international cruise and mixed use office/retail complex in the South Beach area of San Francisco that will involve the construction of a condominium tower project, a new cruise terminal, an office and retail development, and a new waterfront park known as Brannan Street Wharf.

A \$70 million renovation of the Ferry Building and Rincon Park, a two acre park and public open space located on Port property, were completed in fiscal year 2002-03. The park was a collaborative effort of the Port, the San Francisco Redevelopment Agency, and Gap Inc.

The Port is also making various security improvements to its Pier 35 Cruise Terminal, Downtown Ferry Terminal, and Pier 80 Cargo Terminal facilities. Funding for these improvements is from a combination of Transportation Security Act grants and Port funds.

Other Transportation Facilities

The San Francisco Bay is surrounded by nine counties comprising the Bay Area. Although the Bay itself creates a natural barrier for transportation throughout the region, several bridges, highways and public transportation systems connect the counties. The majority of the transportation modes throughout the Bay utilize San Francisco as a hub, and provide access into the City itself for commuting, entertainment, shopping and other activities. The major transportation facilities connecting the City to the remainder of the region include the Golden Gate and Bay Bridges, the Bay Area Rapid Transit rail line, CalTrain, the Valley Transportation Authority, and the Alameda-Contra Costa, San Mateo, Santa Clara and Golden Gate Transit Districts' bus lines. Public and private companies also provide ferry service across the Bay.

Other transportation services connect the Bay Area to the State, national and global economy. In addition to the San Francisco International Airport, the San Francisco Bay Area is served by two other major airports: the Oakland International Airport in Alameda County, and the San Jose International Airport in Santa Clara County. These airports provide the Bay Area's air passengers with service to all major domestic cities and many international cities and are important cargo transportation facilities.

The Port of Oakland is an important cargo and transportation facility for the Bay Area providing a strong link to the Pacific Rim. The Port of Oakland is served by three major railroads with rail lines and/or connections to the Midwest and beyond.

Education

The City is served by the San Francisco Unified School District (the "SFUSD"). The SFUSD has a board of seven members who are elected Citywide. Schools within the SFUSD are financed from available property taxes and State, Federal and local funds. The SFUSD operates thirty-six Child Development Centers serving pre kindergarten and school age children; seventy-six elementary schools including sixty-nine K-5 elementary schools, seven K-8 elementary schools and one charter K-8, eighteen middle schools (grades 6-8), two charter grade 5-8 schools, seventeen senior high schools, including fourteen schools serving grades 9-12, six charter grade 9-12 schools; two continuation schools, one independent study alternative high school and various county community schools.

Colleges and Universities

Within the City, the University of San Francisco and California State University at San Francisco offer full four-year degree programs of study as well as graduate degree programs. The University of California, San Francisco is a health science campus consisting of the schools of medicine, dentistry, nursing, pharmacy and graduate programs in health science. The Hastings College of the Law is affiliated with the University of California. The University of the Pacific's School of Dentistry and Golden Gate University are also located in the City. City College of San Francisco offers two years of college-level study leading to associate degrees.

The nine-county Bay Area region includes approximately 20 public and private colleges and universities. Most notable among them are the University of California, Berkeley and Stanford University. Both institutions offer full curricula leading to bachelors, masters and doctoral degrees, and are known worldwide for their contributions to higher education.

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APPENDIX C

EXCERPTS FROM
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY AND COUNTY OF SAN FRANCISCO
FOR THE YEAR ENDED JUNE 30, 2004[†]

[†] Includes all material listed on the City's Comprehensive Annual Financial Report's Table of Contents through Note 17 of the Notes to Basic Financial Statements. The City's Comprehensive Annual Financial Report may be reviewed on line or downloaded from the City Controller's website at <http://www.sfgov.org/controller>. Information on the website is not incorporated herein by reference.

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CITY AND COUNTY OF SAN FRANCISCO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

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SAN FRANCISCO, CALIFORNIA
Comprehensive Annual Financial Report
Year ended June 30, 2004



Prepared by:
 Office of the Controller

Edward Harrington
 Controller

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November 30, 2004

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

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the fiscal year ended June 30, 2004, with the Independent Auditor's Report, submitted in compliance with City Charter Sections 2.115 and 3.105 and California Government Code Sections 25250 and 25253. The CAFR has been prepared by the Controller's Office in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. I believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the results of the City's operations as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the City's financial affairs.

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

Our CAFR is divided into the following sections:

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

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

The Statistical Section includes tables containing historical financial data, debt statistics, and miscellaneous social and economic data of the City that are of interest to potential investors in our bonds and to other readers. The data includes ten-year revenue and expenditure information on an inflation-adjusted basis.

THE REPORTING ENTITY AND ITS SERVICES

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

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

SAN FRANCISCO'S GOVERNMENT, ECONOMY AND OUTLOOK



San Francisco is the economic and cultural hub of the Bay Area. The county is geographically the smallest in California, occupying just forty-seven square miles of land, but is the most densely populated in the state. The population has been stable over the last year, growing by less than one percent, to approximately 792,700. San Francisco is racially and ethnically diverse, with minority groups combining to represent just over 56 percent of the population and no single group forming a majority.

San Francisco is a charter city, exercising the powers and duties of both a city and county. The elected Mayor of San Francisco serves as the executive, and appoints the heads of most city departments. Many departments are also advised by commissions or boards whose members are appointed either by the Mayor, or, in some cases, by a combination of the Mayor, the Board of Supervisors, and other elected officials. Elected officials include the Assessor-Recorder, City Attorney, District Attorney, Public Defender, Sheriff and Treasurer. Beginning in November 2000, the Board of Supervisors was elected by district for the first time since the 1970s. There are eleven districts, with staggered elections for five and six seats at a time held in even numbered years. Board members serve four-year terms and any vacancies are filled by Mayoral appointment.

In 2001 the United States economy entered a multi-year downturn, with significant losses in the stock market, rising unemployment, and decreasing consumer confidence. With its high concentration of technology and internet companies, the Bay Area was hit hard by the economic slowdown. San Francisco lost approximately 65,000 to 75,000 jobs in the period from 2001 to 2003, nearly twice as many as were lost in the last significant recession of 1991 to 1993. These job losses pushed the unemployment rate to a peak of 7.9 percent in July 2002, however gradual improvement in the City's job picture has occurred in each of the last two fiscal years. By June of 2004, San Francisco's unemployment rate had decreased to 5.9 percent and, for the first time in two years, was slightly better than that of California as a whole at 6.4 percent. While the softening of the technology sector has significantly stalled the overall local economy, some professional services categories that are also critical to San Francisco's economy have displayed stability or growth during the period. Legal services, publishing, insurance, and securities, after experiencing some job losses, have improved to the point where these industries together now employ several thousand more people than during the economic peak of 2000.

San Francisco's downtown office real estate market was extremely competitive through the 1990s and vacancy rates dropped below one percent at some points. Matching the overall economic situation, this trend reversed in fiscal years 2000-2001 and 2001-2002, with vacancy rates rising into the 20 percent range. However by 2002-2003 the market had begun to stabilize and at the close of this fiscal year the overall vacancy rate was down from 17.1 percent in June 2003 to 15.4 percent in June 2004, including both direct and sublet space. Asking prices for office space rents as of June 2004 stood at an average of approximately \$22 per square foot, down from the July 2000 high point of \$60 per square foot. These substantially lower office rental rates have made it more economic to locate in San Francisco and have contributed to the recovery in professional service jobs in the City.

i Source: California Department of Finance
ii Source: United States Census
iii Source: San Francisco Quarterly Economic Briefing, April 2003
iv Source: Employment Development Department
v Source: Newmark, Office Market Report, Second Quarter, 2004
vi Source: San Francisco Quarterly Economic Briefing, April 2003

Despite weaknesses in areas of the economy, property values in San Francisco remain among the highest in the nation. Over the most recent ten year period, San Francisco's median home price has increased by nearly 96 percent and the Bay Area's ongoing housing need keeps upward pressure on the City's residential real estate market. Despite steady construction, including 1,726 new units of housing permitted during fiscal year 2004, a housing shortage persists. The gap between demand and supply has contributed to a worsening affordability gap in the City, with home ownership remaining out of reach for most residents and workers. As of June 2004, the median price for an average single family home in San Francisco had increased 15.4 percent from the prior year and stood at \$665,000.^{vii} As of July 2004, the average assessed valuation in the City stood at \$313,000 for single family homes and \$475,000 for condominiums. Average assessed valuations tend to be lower than market norms would indicate because the limits on property tax increases under California's Proposition 13 have generally motivated owners to buy and hold property. Partly due to these affordability hurdles and market conditions, 65 percent of the City's residents rent their homes, and only 35 percent own,^{viii} substantially below the national average where 68 percent own their homes.^{ix} Affordable housing continues to be built and developed in the City, funded in part by a \$100 million general obligation bond issue approved by the voters in 1996. Since passage of the bond measure, bond proceeds have funded downpayment assistance loans to 261 first time homebuyers and financed the development of 2,176 affordable rental units and beds. However, the voters have twice rejected proposed new affordable housing bond authorizations in the elections of 2002 and 2004 and housing continues to be one of the City's significant challenges to development.

The City's property tax revenue, the single largest source of tax revenue for the City's general fund, grew in some cases by as much as 12 percent annually over the last five years, reflecting the steady rise in property values and prices during the time period. In fiscal year 2003-2004, this trend continued, with property tax revenues rising by approximately 5.4 percent. Trends in other sources of local tax revenue have been more typical of the downturn in the business cycle, with hotel room, sales, parking, and other local taxes decreasing as much as 30 percent in the period of steepest decline from the fiscal year 2000-2001 peak to fiscal year 2001-2002. Hotel room tax revenues exhibited among the most severe downturn, dropping from a \$188 million high in fiscal year 2000-2001 to \$129 million in fiscal year 2002-2003. Hotel tax revenue in fiscal year 2003-2004 recovered to the level of \$148 million and budgeted growth of approximately six percent is forecast during fiscal year 2004-2005, which would mean revenues commensurate with the late 1990s levels. While recovery in this sector seems to be underway, the hotel tax trend of recent years nonetheless represents a significant loss of funding for local cultural institutions and general City services which the government has had to absorb since 2001.

Travel and tourism are among the main drivers of San Francisco's economy. The travel decline precipitated by the sluggish national economy was further exacerbated in the Bay Area by the war in Iraq and outbreaks of Sudden Acute Respiratory Syndrome in Asian nations directly linked to San Francisco by air and trade routes. However, there are now signs of a gradual recovery in San Francisco's tourism sector. At San Francisco International Airport (SFO) passenger traffic increased 6.4% from the previous fiscal year, with an increase of 5.7% in domestic volume and an increase of 8.9% in international volume. Passenger traffic has increased by 17% in total from the 2001 low point. The Convention and Visitors Bureau estimates that 14.29 million people visited San Francisco in calendar year 2003, a 4.1 percent increase from the year before. Visitor spending in the City totalled approximately \$6.03 billion for the calendar year, up 1.9 percent from the 2002 level of \$5.9 billion.^x In the two years prior to the travel downturn, hotel occupancy rates in the City averaged around 80 percent. During calendar year 2003 this figure averaged 67.9 percent, a slight increase from the 64.6 percent rate in 2002. Occupancy rates for fiscal year 2004-2005 are forecast to improve somewhat with stronger scheduled convention business during the year.^{xi}

^{vii} Source: California Association of Realtors

^{viii} Source: San Francisco Quarterly Economic Briefing, April 2003

^{ix} Source: U.S. Census Bureau Housing Vacancy Survey Third Quarter 2003

^x Source: San Francisco Convention and Visitor's Bureau

^{xi} Source: PKF Consulting

MAJOR INITIATIVES AND ACHIEVEMENTS

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

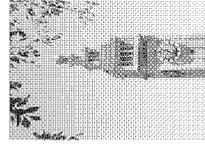
Economic Development

By a number of indicators, the San Francisco economy is slowly recovering from the losses of recent years, and changes over the most recent fiscal year include some new construction and business location developments. In November 2003, the \$410 million Bloomingdale's project broke ground in downtown San Francisco, beginning construction of a 1.5 million square foot complex that will contain shops, restaurants, a market hall, and offices on the Market Street site of the former Emporium Building. The development is expected to create approximately 700 construction jobs and generate 1,900 new retail jobs when it opens in 2006. The Gymboree Corporation signed a long-term lease in March 2004 to relocate its corporate headquarters from Burlingame, California to San Francisco, which will bring approximately 350 employees to the City by the end of the calendar year. In September 2004, Gladstone Institutes, a biomedical research center specializing in Alzheimer's, HIV/AIDS and cardiovascular disease, moved into a new \$72 million building in the Mission Bay area, becoming the first major non-University of California San Francisco enterprise in this developing region, with approximately 300 researchers and support staff now, and more than 500 staff planned for when growth is complete.

Preceding Gladstone, the largest of the planned medical research buildings in Mission Bay, the UCSF Genetech Hall, was opened in January 2004 and a second facility, the Genetics Development and Behavioral Sciences Building, was opened in March 2004. Overall housing and infrastructure development continue in Mission Bay—located south and east of downtown in an area of industrial buildings and former rail yards. Over the 20 to 30 year construction and development period of the Mission Bay neighborhood over 31,000 new permanent jobs are forecast. Mission Bay will eventually provide approximately 1,700 affordable housing units, over 50 acres of open space, a new public school, public library and new Fire and Police stations. To date, construction has been completed on 1,080 residential units, 55,000 square feet of neighborhood-serving retail, 510,000 square feet of commercial office space, and 555,000 square feet of life science research space and other facilities for the University of California San Francisco medical complex and related facilities.

The City reached a final agreement with the U.S. Navy in March 2004 to govern the transfer of the first 78 acres of the 500-acre Hunters Point Naval Shipyard to the City. Although the former naval facility was closed in 1974, transfer of the site to the City has been delayed as environmental cleanup and other hazard concerns were addressed. The first phase of the planned redevelopment will include 1,600 units of housing, with 32 percent set aside as affordable. In addition, 300,000 square feet of retail and commercial development are planned, along with a five-acre multi-purpose community campus and 34 acres of parks, recreation areas and open space. Approximately 250 construction jobs are forecast during the first phase of development with an additional 1,000 full-time jobs expected after the completion of Phase I in approximately five years.

In August 2003, the Port of San Francisco began a two-year, \$44 million rehabilitation and development project for three of its historic piers, Piers 1½, 3, and 5. The project will include restaurants, office space, public access to the Bay, boat docks, and a water taxi landing. In March 2004, the Port began construction on the first phase of the International Cruise and Bryant Street Pier Project, a \$400 million mixed-use project that will feature a 100,000 square foot state-of-the-art international cruise terminal, offices, retail space, 136 condominiums, and a new waterfront park. The new cruise terminal will be able to handle two large cruise ships simultaneously with thousands of passengers. Completion of the entire project is anticipated in 2008. The Port has seen a dramatic increase in passenger cruise activity and is projecting 2004 to be its busiest cruise season in history with 90 port calls and over 200,000 passengers expected.



A former bus layover yard is now being developed as the Mission & Stuart Hotel Project, a boutique 200-room hotel with restaurant and retail space on the ground floor. The hotel will be operated, owned and maintained privately and is expected to provide the Municipal Transportation Agency an average of \$4.79 million a year over the term of the 65-year lease, for a total of more than \$300 million. Located near the foot of Market Street and across The Embarcadero from the recently reopened historic Ferry Building, the site will also include a rent-free location for a combination transit museum and retail shop to be operated by the Market Street Railway, a non-profit group that is dedicated to the acquisition, restoration, and operation of historic transit vehicles in San Francisco. The Project will integrate stops and passenger shelters for MUNI's F Market & Wharves historic streetcar line and various incentives to use transit will be provided to staff and guests at the hotel.

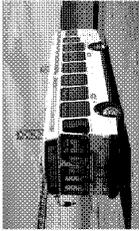
Transportation and Infrastructure

San Francisco International Airport (SFO) continues to improve its economic position and to ramp up passenger services, working towards recovery from the 2001 downturn in air travel. Three new low-fare, coast-to-coast travel operations started service at the Airport during the last fiscal year. In November of 2003, AirTran Airways began daily nonstop service between Atlanta and SFO. In January 2004, ATA became the only carrier in the nation to offer direct nonstop service from SFO to New York's LaGuardia Airport. America West Airlines began the first low-fare nonstop service between SFO and New York's Kennedy Airport in December 2003 and began SFO to Boston Logan service in March 2004. International travel options also expanded as SFO became Air New Zealand's newest American gateway on June 30, 2004. Nonstop service between SFO and Auckland International Airport will operate three days a week in both directions. SFO is Air New Zealand's first new international gateway since 1995 and is the 21st destination on its international network. In June of 2004, Virgin Airlines announced its selection of San Francisco as the operational headquarters of Virgin USA, a domestic low-cost carrier. Virgin USA will hire more than 1,500 employees in its first two years of operations. It will be the only airline with its principal operations based in California.

Bay Area Rapid Transit (BART), the Bay Area's major regional rail service provider, opened four new stations in the summer of 2003 on the San Mateo peninsula south of the City including the long-planned station at SFO. The new BART connection provides direct rail service from downtown San Francisco and the Bay Area to the Airport, with the BART station connected to all terminals through the AirTrain. AirTrain is an automated people mover that takes travelers to the passenger terminals and also to Airport parking and rental car lots on a five-mile circuit. Airport ridership contributed to an increase in BART's total annual passengers for the first time in three years, to over 91 million in fiscal year 2004.

San Francisco's light rail system, the MUNI Metro, serves the downtown underground along the business, civic, shopping and financial centers of the Market Street corridor, and provides above ground service in the neighborhoods west and south of the center. The City is at the mid-point of building a major service expansion, the Third Street Light Rail, to connect the South of Market, Mission Bay, and the southeast sectors of San Francisco to the rest of the Metro system. The project is proceeding on schedule, with the major construction phase slated for completion in summer 2005. Lighting and landscaping have recently been installed along the entire corridor. Following a completion and testing period, passenger service is expected to begin in April or May of 2006, providing new fast, clean, efficient service for areas of the City that are currently underserved by transit.

Design work continues for a planned Central Subway that will extend MUNI Metro service from Mission Bay and the Market Street corridor north into Chinatown and North Beach. Community meeting processes are currently underway to help determine the optimal alignment of the subway. During the fiscal year, the Municipal Transportation Agency also completed station enhancements to accommodate future F-line (historic streetcar) service to the ballpark, and new track and refurbished platforms along the Ocean Avenue corridor. Along the California Street cable car line and the Bay Street corridor better signalization was installed which will improve traffic management, transit passenger loading and pedestrian safety for these high-use areas.



The MTA has now completed installation of the NextBus passenger service information system on all rail lines, and the agency is proceeding with installation on all trolley lines. NextBus provides expected bus arrival and wait time information for passengers at street stops and on the internet. Implementation also proceeded during the year for the Translink regional fare system, tying together 21 transit systems in six Bay Area counties with a single smart card for all buses, trains, light rail and ferries. Full, integrated use of Translink is slated for fiscal year 2006.

Finally, during fiscal year 2004, the MTA successfully passed a new Transit Impact Development Fee, whereby most non-residential development in San Francisco will pay a per-square foot fee to compensate for additional demand for transit services created by the new construction. The fee will help MUNI maintain service levels in the face of increasing demand.

Construction of the City's newest boulevard, planned to provide service from the Bay Bridge and 101 corridors and the north Mission area across Market Street, proceeded during fiscal year 2004. Demolition of elevated freeway structures damaged in the 1989 Loma Prieta earthquake was completed, and grading and site preparation for what will become the Ociaiva Boulevard got underway. For this project, Octavia Street will be widened to a four lane two-way roadway separated by a central median, and flanked on either side by a one-way street with on-street parallel parking. Work along the medians, roadway, and sidewalks will include installation of new traffic signals, light fixtures, tree plantings, and benches. An important link in the City's network of bicycle routes was achieved with the completion of a bridge pathway for bike travel westbound on Cesar Chavez Street. Finally, as an additional aid to traffic management in the City, the regional 511 information system, which provides real-time information via phone and web access on road and traffic conditions, was expanded in 2004 to include coverage of the U.S. 101 freeway corridor in San Francisco.

San Francisco's water system, including the Hech Heichy reservoir, other reservoirs in the Bay Area and the Sierra and network of pipelines, tunnels and other facilities, deliver water to approximately 2.4 million people in the City and surrounding communities. The City's sewer system provides services to residents and businesses within San Francisco. In November of 2002, San Francisco voters approved two ballot measures which effectively repealed a rate freeze, authorized a \$1.6 billion bond issue to be financed through retail rate charges and restructured the agency to give the PUC more control over contracting, employment, and financial management practices. With these improvements, the PUC is moving forward on planning, design and construction for 77 critical projects to improve the water enterprise system both locally and regionally. By the end of fiscal year 2004, construction was underway for four and planning or design processes were in progress for another 42 projects.



Reacting to rolling blackouts and soaring energy prices that have affected California energy markets, San Francisco voters in November 2001 overwhelmingly approved a \$100 million revenue bond initiative to fund solar generation, energy efficiency measures and other renewable power sources for public buildings. In October 2003, the Moscone Center Energy Project, at San Francisco's premier conference facility, became the first solar installation to be completed since the solar bond was approved. The \$7.5 million project was funded by \$5.2 million in local funding and \$2.3 million in State funding through Public Utilities Commission and Energy Commission incentives. A 675 kilowatt solar electric system now generates 825,000 kilowatt hours of electricity output each year and, when combined with energy efficiency upgrades, will achieve an annual net reduction of 4.9 million kilowatt hours in electricity demand and \$614,643 in annual utility bill savings for the convention facility.

In September of 2003, the City launched Generation Solar, a residential and commercial solar program that will provide at least 100 participants in its first phase with installation and financing for photovoltaic systems and accompanying energy-conservation measures. The program seeks to reduce the cost of solar power through bulk purchasing, low-cost financing, and maximum utilization of state and federal subsidies. The effort also combines solar generation with energy-efficiency, reduced permitting costs, and a City marketing program.

Housing, Health and Safety



In its efforts to combat chronic homelessness, during fiscal year 2003-004 the City began implementation of a voter initiative known as "Care Not Cash," using local dollars allocated for homeless individuals eligible for county General Assistance programs to provide housing instead of cash grants. The centerpiece of this effort is increased development of supportive housing units in single room occupancy hotels and other underutilized buildings mostly located in the City center. These units offer residents greater stability than a shelter or temporary housing setting, and are able to open 624 housing units in nine rehabilitated buildings and offer housing to 716 homeless participants. Also during the fiscal year, the City worked on development of a 10-year plan to end chronic homelessness in San Francisco entitled "Changing Direction." The plan's central strategy is a "housing first" model emphasizing immediate placement in permanent housing where residents have access to on-site services necessary to stabilize the individuals and keep them housed. The plan calls for the creation of 3,000 units of new permanent supportive housing and for the phase out of ineffective shelter-based programs.

The City's Affordable Housing and Homeownership Program (a \$100 million bond approved in 1996) combined with federal, state and local funds to produce 1,037 units of affordable housing for the cities' homeless, seniors and low and moderate-income families over the last year. The majority of people assisted by the City's affordable housing programs are homeless individuals and families, low-income families with children, seniors and low and moderate-income homeowners. Three rental developments at the Ambassador Hotel, 315 Turk Street and the McAllister Street Co-ops were completed in 2004 for a total of 157 units providing supportive services to tenants. An additional 395 rental units were created for seniors and low-income individuals in five developments: the Kokoro Assisted Living Facility, Padre Apartments, Herald Hotel Apartments, Bayview House and Dudley Apartments. The City was also able to leverage its funds to preserve 458 affordable rental units at Golden Gate Apartments, Namiki Apartments, Marlon Manor, Mania Manor and Clayton Hotel. Finally, the City assisted low and-moderate income families by providing ten affordable ownership units and 17 rehabilitation loans to low-and-moderate income homeowners.

In July of 2003, the Department of Public Health implemented the McMillan Stabilization Pilot Project, a medically supervised sobering facility providing medical screening, case management services, and linkages to a comprehensive continuum of care to homeless alcohol-dependent persons. The goals of the program are to provide better care for homeless alcohol-dependent persons and improve their health outcomes while decreasing the number of inappropriate ambulance trips and emergency room visits. During the first half of the fiscal year, the Project treated approximately 1,200 individuals and referred 300 individuals for case management. Approximately 43% of McMillan Center clients stay overnight at the facility.

In February 2004, San Francisco announced the creation of a Working Families Tax Credit for low-income San Franciscans. The \$6 million pilot program, modeled after the federal Earned Income Tax Credit, will be funded in part with private philanthropic dollars. The first payments will be issued in the summer and fall of 2005. Like the federal program, the Working Families Tax credit is designed to support and encourage work by supplementing the income of low-wage workers, and to stimulate the economy through job incentives.

Cultural and Recreational Facilities

Public arts, educational and recreational institutions in San Francisco have been the recipients in the 1990s and 2000s of both significant voter-approved bond funding and private and community financial support for capital campaigns. As a result, the City has seen several milestones and completions recently, including the opening in the refurbished Civic Center of the new Asian Art Museum in March 2003 and of the restored Conservatory of Flowers in September 2003. Work continues on two bond programs that are benefiting residents and neighborhoods across San Francisco—one for branch libraries and another for

local parks. Finally construction work is now underway on new buildings for two important institutions both located in Golden Gate Park—the de Young Museum and the Academy of Sciences.

During fiscal year 2003-2004, construction began at two branch library sites—the Excelsior and Mission Bay Branch libraries. The ground-breaking in December 2003 for the new Mission Bay Branch Library marks a unique development in this new area of the City that will build both a state of the art library facility and senior housing on the same site. Planning and design was in progress during the year for an additional fourteen branch library renovations and new construction projects. Overall, the City's Branch Library Improvement Program is using funds approved by the voters in a \$105.9 million local bond, plus State grants and private funding to renovate, expand and/or acquire 24 neighborhood libraries by 2010.



Golden Gate Park is the site of both the de Young Museum and the Academy of Sciences. With the move of the Asian Art Museum to downtown and the demolition of the older buildings that had housed both it and the de Young, the new de Young will include a 293,000 square foot main building, a sculpture garden, and a copper-clad tower designed by the architects Herzog & de Meuron. The new facility will more than double the gallery space for exhibition of the de Young's collections of American art from the 17th to 20th centuries and art of the native Americas, Africa and the Pacific. Construction of the de Young got underway in fiscal year 2003-2004, with a scheduled opening for the Museum in October 2005. Across the concourse, the City's Academy of Sciences closed in December 2003 and relocated its 18 million-specimen collection to a temporary exhibit and research facility at 10th and Howard Streets downtown. The new Academy, supported by a local bond issue, State funding, and private gifts, will cost approximately \$370 million, with a 2008 opening planned. The Academy's aquarium, planetarium and natural history collection will be housed in a new building that incorporates green design principals including a "living roof" of landscaped areas, glass facings and a piazza blending it with the park surroundings.

Status of City Services

In the spring of 2004, the Controller's Office conducted its ninth annual Citizen Survey, measuring, for calendar year 2003, residents' satisfaction with local government and their opinions on the quality of public services over time. The survey results show that:

- A consistent proportion of residents—almost half of survey respondents, choose "fair" in assessing how well local government provides services overall.
- Public safety ratings changed little from the previous year, however San Franciscans reporting feeling safer walking alone in their neighborhoods in 2003 than they did in any year from 1997-2002.
- In most categories, MUNI's ratings are the best of any year since the survey has been conducted. However, the public's ratings of MUNI fares were the lowest since 1997, following on a September 2003 fare increase—the system's first since 1992. Citizen ratings of MUNI's timeliness and reliability have improved slightly, with 42% positive ratings, up from only 15% in 1999.
- San Franciscans are visiting parks and participating in recreational programs at almost the same level as last year. Over half (59%) of respondents report going to a City park at least once a month in the past year.
- Library visits have declined slightly with 26% of respondents visiting a branch library at least once a month in the past year and 15% visiting the main library at least once a month. Seventy-one percent of respondents rate collections favorably and 81% describe the quality of assistance provided by library staff as good or very good.

- About half (52%) of residents rate the pavement condition of the streets in their neighborhood as 'good' or 'very good,' an increase from 45% last year, whereas only 27% feel favorably about the pavement condition of City streets overall, a slight decrease from the previous year. Both neighborhood and citywide ratings of street quality are better than they were in 2002.
- As in previous years, residents of the southeastern part of San Francisco feel the least safe in their neighborhoods, and experience more crime than residents of other areas of the City. They are also less satisfied with the City's parks, MUNI, street conditions, and overall local government performance.

OTHER FINANCIAL INFORMATION

Internal Controls

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

Budgetary Process

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

Pension Trust Fund Operations

The City has a defined benefit retirement plan (Employees' Retirement System) in which a substantial majority of full-time employees participate. The plan's most recent actuarial calculations, as of July 1, 2003, estimate the plan is 109% funded.

Cash Management

The City's pooled deposits and investments are invested pursuant to policy established by the Treasurer working with the City's Treasury Oversight Committee. The City's investment policy seeks the preservation of capital, liquidity and yield, in that order of priority. The policy addresses soundness of financial institutions holding our assets and the types of investments permitted by the California Government Code. The earned yield for the fiscal year 2003-2004 was 1.86%. The Employees' Retirement System and the Redevelopment Agency deposits and investments are maintained outside the City Treasury and follow policies established by their respective governing boards.

Risk Management

With certain exceptions, it is the policy of the City not to purchase commercial insurance against property or liability risks. Instead, the City believes it is more economical to manage its risks internally and set aside

funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations. The City maintains limited coverage for certain facilities, primarily property of the San Francisco International Airport, Port of San Francisco, Municipal Railway, Helch Hetchy, Water Department, Moscone Convention Center and art at City-owned museums. Additionally, various types of liability insurance coverage are maintained by the City for the Port and the Airport. The City is self-insured for workers' compensation claims. Claims payment history (experience) and payroll costs (exposure) are considered when calculating the claims liabilities and workers' compensation outstanding liabilities for each department. The City's insurance/self-insurance program is renewed annually in the budget process. The claims liabilities and workers' compensation liabilities reported on the statement of net assets have been actuarially determined and include an estimate of incurred but not reported losses.

INDEPENDENT AUDIT

The City's Charter requires an annual audit of the Controller's records. These records, presented in the Comprehensive Annual Financial Report (CAFR), have been audited by a consortium led by Macias, Gini & Company LLP, and includes Louie and Wong LLP, Haile Grima Company, and the OBIS Group, Inc. The CAFR also incorporates the separately audited financial statements of the City's selected individual funds, enterprise funds and component units. These components were audited as follows: KPMG LLP audited the Airport, Helch Hetchy, Water Department, Clean Water Program, Municipal Railway, Health Service System and the City's Finance Corporation; Williams, Adley & Company, LLP audited the Employees' Retirement System and the Redevelopment Agency; and Hood & Strong, LLP audited the San Francisco Port.

Macias, Gini & Company LLP, Independent Auditor's Report on our current financial statements is presented in the Financial Section of the CAFR. It makes reference to the independent audit reports issued by the auditors noted above.

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, 2003. This was the twenty-second consecutive year (fiscal years ended June 30, 1982 - 2003) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

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

ACKNOWLEDGMENTS

I would like to express my appreciation to the entire staff of the Controller's Office whose professionalism, dedication and efficiency are responsible for the preparation of this report. I would also like to thank Macias, Gini & Company 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,



Ed Harrington
Controller

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City and County of
San Francisco, California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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



Nancy D. Ziehl
President

Jeffrey R. Egan
Executive Director



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CITY AND COUNTY OF SAN FRANCISCO

**List of Principal Officials
As of June 30, 2004**

ELECTED OFFICIALS

Mayor Gavin Newsom
 Board of Supervisors:
 President Matt Gonzalez
 Supervisor Michela Alioto-Pier
 Supervisor Tom Ammiano
 Supervisor Chris Daly
 Supervisor Bevan Dufty
 Supervisor Tony Hall
 Supervisor Fiona Ma
 Supervisor Sophie Maxwell
 Supervisor Jake McGoldrick
 Supervisor Aaron Peskin
 Supervisor Gerardo Sandoval
 Supervisor Mabel Teng
 Supervisor Dennis J. Herrera
 Supervisor Kamala Harris
 Supervisor Jeff Adachi
 Supervisor Michael Hennessey
 Superior Court Presiding Judge Donna J. Hitchens
 Treasurer Susan Leal

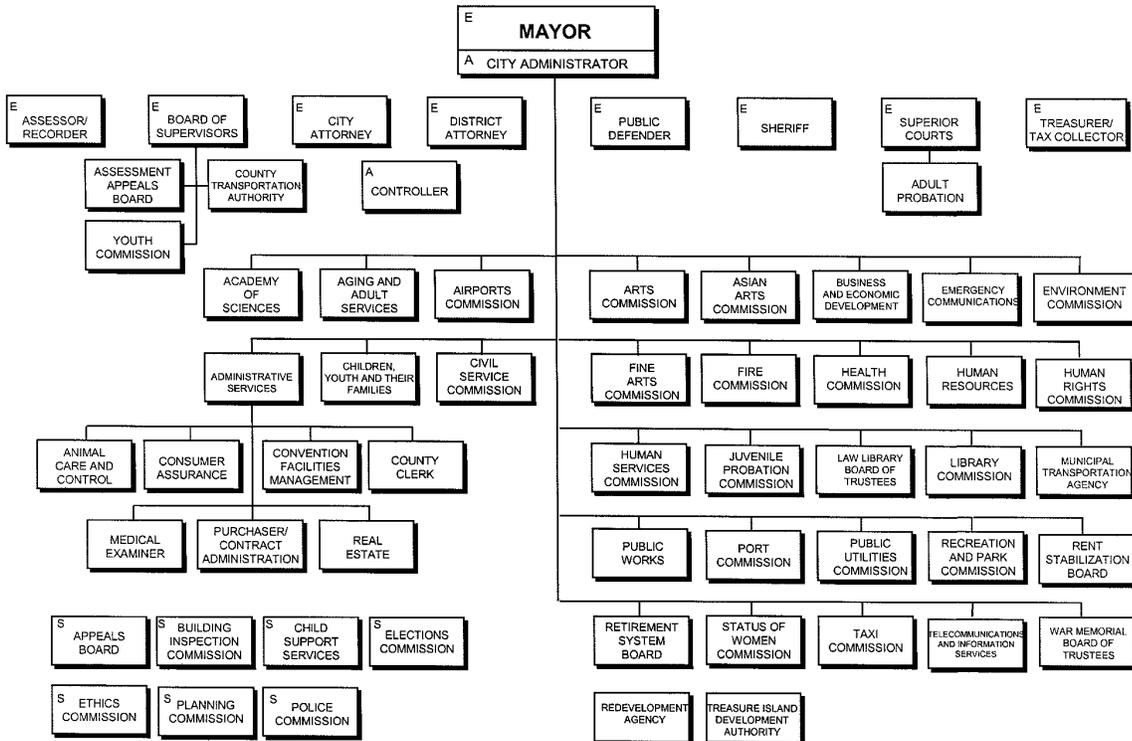
APPOINTED OFFICIALS

City Administrator William L. Lee
 Controller Edward Harrington

DEPARTMENT DIRECTORS/ADMINISTRATORS

Administrative services Darryl Burton
 Animal Care and Control Carl Friedman
 Consumer Assurance David Frieders
 Convention Facilities Management John Noguchi
 County Clerk Nancy Alario
 Medical Examiner Boyd G. Stephens, M.D.
 Purchaser - Office of Contract Administration Naomi Little
 Real Estate Steve Legnitto
 Academy of Sciences J. Patrick Kociotek, Ph. D.
 Adult Probation Armando Cervantes
 Aging and Adult Services Darrick Lam
 Airports Commission John Martin
 Appeals Board Robert Feldman

**San Francisco City and County Government
(As of June 30, 2004)**



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

CITY AND COUNTY OF SAN FRANCISCO

DEPARTMENT DIRECTORS/ADMINISTRATORS-(Continued)

Arts Commission	Richard Newirth
Asian Arts Commission	Emily Sano
Building Inspection Commission	Frank Chiu
Board of Supervisors	Gloria Young
Assessment Appeals Board	Dawn Duran
County Transportation Authority	Jose Luis Moscovich
Youth Commission	Colleen Montoya
Business and Economic Development	Jesse Blout
Child Support Services	Milt Hyams
Children, Youth and Their Families	Winna Davis (Acting)
Civil Service Commission	Kate Favetti
Elections Commission	John Arntz
Emergency Communications	Daniel Sullivan
Ethics Commission	Ginny Vida
Environment Commission	Jared Blumenfeld
Fine Arts Commission	Harry S. Parker III
Fire Commission	Joanne Hayes-White
Health Commission	Mitchell Katz, M.D.
Human Resources	Ted Yamasaki (Acting)
Human Rights Commission	Virginia Harmon
Human Services Commission	Trent Rohrer
Juvenile Probation Commission	Gwendolyn B. Tucker
Law Library Board of Trustees	Marcia Bell
Library Commission	Susan Hildreth
Municipal Transportation Agency	Michael Burns
Municipal Railway	Fred Stephens
Department of Parking and Traffic	Gerald Norman
Planning Commission	Gerald Green
Police Commission	Heather Fong
Port Commission	Monique Moyer
Public Utilities Commission	Patricia Martel
Public Works	Edwin Lee
Recreation and Park Commission	Yomi Agunbiade (Acting)
Rent Stabilization Board	Delene Wolf (Acting)
Retirement System Board	Clare M. Murphy
Status of Women Commission	Belle Taylor-McGhee
Superior Court	Gordon Park-Li
Taxi Commission	Kelly Castagnaro (Acting)
Telecommunications and Information Services	Lewis Loeven
War Memorial Board of Trustees	Elizabeth Murray

DISCREETLY PRESENTED COMPONENT UNITS

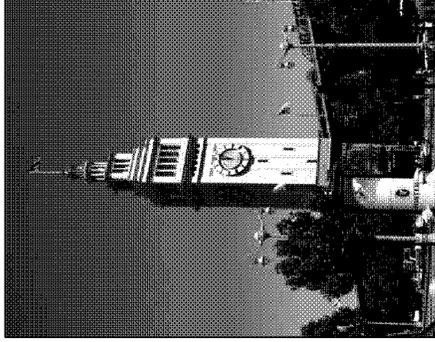
Redevelopment Agency	Marcia Rosen
Treasure Island Development Authority	Annemarie Conroy



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Financial Section

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



MACIAS GINI & COMPANY, LLP

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Walnut Creek, California 94596
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925.274.3819 FAX

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California, (the City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco International Airport, Water Department, Hetch Hetchy Water and Power, San Francisco Municipal Railway, the Parking Garage Corporations, Clean Water Program, Port of San Francisco, City of San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Employees' Retirement System, Health Service System, and the San Francisco Redevelopment Agency, which collectively represent the following percentages of assets, net assets/fund balances and revenues as of and for the year ended June 30, 2004:

Opinion Unit	Net Assets/ Fund Balances		Revenues
	Assets	Fund Balances	
Governmental activities	0.8%	16.6%	
Business-type activities	97.5%	97.6%	73.4%
Discretely presented component units	99.7%	100.0%	93.0%
Municipal Transportation Agency enterprise fund	96.7%	100.0%	91.5%
Aggregate remaining fund information	90.8%	94.4%	43.2%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2003 basic financial statements and the report of other auditors dated January 30, 2004, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial or summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2003, from which such partial or summarized information was derived.

The management's discussion and analysis and schedules of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining fund financial statements and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Company LLP

Certified Public Accountants

Walnut Creek, California
November 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. Certain amounts presented as 2003 summarized comparative financial information in the basic financial statements have been reclassified to conform with the presentation in the 2004 basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5.62 billion (net assets). Of this amount, \$140 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased during fiscal year 2004 by \$8 million, a significant improvement over the previous year's net asset decrease of \$93 million (1.6 percent). This year's increase is due, in part, to improvements in property and other local taxes revenues, expenditure reductions in governmental activities, use of revenues and other resources on capital expenditures and scheduled retirement of certain long-term debt of enterprise activities.
- Total revenues for governmental funds were approximately \$2.88 billion for the current fiscal year, an increase of approximately 2.6 percent over the prior fiscal year. Expenditures for governmental funds totaled \$2.86 billion, a decrease of approximately 5.2 percent from the same period. Overall, governmental funds revenues exceeded expenditures by approximately \$25.9 million, or .9 percent for fiscal year 2004, compared to an expenditure to revenue shortfall of \$204 million or 7.3 percent at the end of the prior fiscal year.
- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$718 million. Approximately 13.4 percent of this total amount, \$96 million, is unreserved fund balance available for spending at the government's discretion within the purposes specified for the City's funds. Unreserved fund balance for governmental funds has decreased by approximately 39 percent from the prior year amount of \$157 million due to decreases in business taxes, state revenues, investment earnings and the City's related use of fund balances.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$63.7 million, 3.3 percent of total general fund expenditures of \$1.93 billion. The general fund's unreserved fund balance increased by approximately 42 percent from the prior year amount of \$44.7 million. Significant contributing factors were increases in property and local tax revenues, receipt of one-time tobacco settlement funds, and reduced operating expenses due to measures taken by City management to meet revenue shortfalls, particularly from the State.
- The City's total long-term debt, including all bonds, loans, and commercial paper decreased by \$115.9 million, approximately 1.6 percent, since the end of the last fiscal year. Key factors were scheduled retirement of general obligation and lease revenue bond debt, refunding of current debt, and minimal issuance of new obligations. The City issued \$331.3 million in refunding bonds during the year to take advantage of favorable interest rates. A significant majority of this, \$266.1 million, was issued by the Airport to refund revenue bonds, \$21.9 million was issued by the City to refund General Obligation Bonds, and \$44.3 million was also issued by the City to refund Settlement Obligation Bonds related to settlement of business tax litigation in a prior fiscal year. This fiscal year, the City also issued general obligation bonds of \$20.9 million for improvements to recreation and park facilities and \$29.5 million for improvements to San Francisco Unified School District facilities.

The City's revenues from local tax sources including property, hotel, and utility taxes in fiscal year 2004, were greater than budget estimates, reflecting the gradual improvement in some sectors of the City's economy. Citywide, charges for services revenue also increased and included increases from Airport concession fees, MUNI passenger fares, and net patient revenues at the San Francisco General Hospital (SFGH), the City's acute care hospital. Investment and interest earnings, however, reported a decline for the third straight year as low interest rates and lower cash balances continued. In addition, state revenue cuts continued this year and City management included those anticipated shortfalls in developing the general fund budget for fiscal year 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other **supplementary information** in addition to the basic financial statements themselves. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.

Organization of City and County of San Francisco Comprehensive Annual Financial Report

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

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

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

Government-wide Financial Statements

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

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public protection, public

works, transportation and commerce, human welfare and neighborhood development, community health, culture and recreation, general administration and finance, and general city responsibilities. The business-type activities of the City include an airport, port, public transportation systems (including parking), water and power operations, an acute care hospital, a long-term care hospital, sewer operations, and a produce market.

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

Fund Financial Statements

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

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

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

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

The City adopts an annually appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers—either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (Airport), Port of San Francisco (Port), Water Department (Water), Heich Heichy Water and Power (Heich Heichy), Municipal Transportation Agency, Laguna Honda Hospital, General Hospital Medical Center, and Clean Water Program (Clean Water), all of which are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, management information services, printing and mail services and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.
- **Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employees' pension and health plans, the external portion of the Treasurer's Office investment pool, and the agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Combining Statements and Schedules

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Since fiscal year 2001, the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. Two years of financial information in the GASB 34 format are presented.

Net Assets				
June 30, 2004 (in thousands)				
	2004	2003	2004	2003
	Governmental activities	Business-type activities	2004	2003
			Total	
Assets:				
Current and other assets.....	\$ 1,445,923	\$ 1,535,643	\$ 3,269,647	\$ 3,511,403
Capital assets.....	2,314,563	2,208,191	10,797,888	10,529,762
Total assets.....	<u>3,760,486</u>	<u>3,743,834</u>	<u>14,067,535</u>	<u>14,141,165</u>
Liabilities:				
Long-term liabilities outstanding.....	1,820,415	1,824,809	7,247,070	7,375,820
Other liabilities.....	633,330	606,203	1,200,747	1,153,710
Total liabilities.....	<u>2,453,745</u>	<u>2,431,012</u>	<u>8,447,817</u>	<u>8,529,530</u>
Net assets:				
Invested in capital assets, net of related debt.....	1,096,834	983,834	4,512,988	4,315,315
Restricted.....	535,054	594,938	967,219	1,079,315
Unrestricted.....	<u>(325,147)</u>	<u>(265,950)</u>	<u>139,511</u>	<u>217,005</u>
Total net assets.....	<u>\$ 1,306,741</u>	<u>\$ 1,312,822</u>	<u>\$ 5,619,718</u>	<u>\$ 5,611,635</u>

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$5.62 billion at the close of the fiscal year 2004.

The largest portion of the City's net assets reflects its \$4.51 billion (80 percent) investment in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Another portion of the City's net assets, \$967 million (17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance, unrestricted net assets, \$140 million (3 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Together, these two categories of net assets totaled 20 percent which reflects a drop from the prior year's total of 23 percent.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities. For the governmental activities, unrestricted net assets have a deficit of \$325 million related in part to \$140

million in debt from general obligation bonds for the San Francisco Unified School District, which is recorded with no corresponding assets.

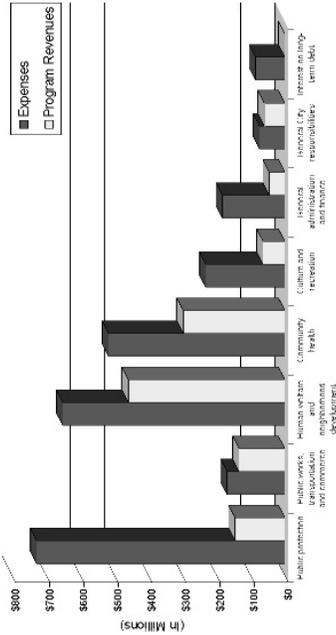
Changes in Net Assets
June 30, 2004 (in thousands)

	2004	2003	2004	2003	2004	2003
	Governmental activities	Business-type activities	2004	2003	Total	Total
Revenues						
Program revenues:						
Charges for services.....	\$ 342,952	\$ 1,614,784	\$ 1,577,851	\$ 1,886,731	\$ 1,920,803	\$ 1,886,731
Operating grants and contributions.....	822,784	808,670	169,767	184,257	992,551	973,927
Capital grants and contributions.....	30,209	48,028	84,818	135,482	115,027	181,511
General revenues:						
Property taxes.....	723,786	686,858	-	-	723,786	686,858
Business taxes.....	264,832	276,951	-	-	541,783	553,809
Other local taxes.....	11,856	11,856	-	-	23,712	23,712
Income and investment income.....	170,163	186,456	17,620	50,215	188,448	204,547
Other.....	2,889,037	2,811,593	2,134,681	2,116,251	5,020,718	4,927,844
Total revenues.....	<u>727,580</u>	<u>778,710</u>	<u>-</u>	<u>-</u>	<u>727,580</u>	<u>778,710</u>
Expenses						
Public protection.....	168,179	218,641	-	-	168,179	218,641
Public works, transportation and commerce.....	851,230	826,306	-	-	1,677,536	1,654,956
Human welfare and neighborhood development.....	217,089	342,460	-	-	559,549	746,189
Community health.....	183,238	185,144	-	-	368,382	370,288
Police.....	73,530	53,026	-	-	126,556	136,144
General administration and finance.....	86,131	77,827	-	-	163,958	155,654
General City responsibilities.....	-	-	-	-	-	-
Unallocated interest on long-term debt.....	-	-	-	-	-	-
Airport.....	-	-	618,301	641,006	1,259,302	1,302,012
Transportation.....	-	-	690,650	628,180	1,380,830	1,256,180
Port.....	-	-	61,185	61,074	122,259	122,148
Water.....	-	-	206,211	186,579	392,790	373,157
Power.....	-	-	11,029	58,427	69,456	69,427
Hospitals.....	-	-	521,186	517,427	1,038,612	1,034,854
Streets.....	-	-	150,586	153,845	304,431	307,689
Market.....	-	-	949	894	1,843	1,788
Total expenses.....	<u>2,640,181</u>	<u>2,725,532</u>	<u>2,381,699</u>	<u>2,328,708</u>	<u>5,021,880</u>	<u>5,054,240</u>
Increase/(decrease) in net assets before special items and transfers.....	245,856	86,081	(247,018)	(212,457)	(1,162)	(126,396)
Special items.....	-	-	9,245	33,000	9,245	33,000
Transfers.....	(251,937)	(246,200)	251,937	249,260	-	-
Change in net assets.....	(56,118)	(162,150)	14,164	68,803	8,083	(93,396)
Net assets at beginning of year.....	1,312,822	1,475,021	4,298,813	4,230,010	5,611,835	5,705,031
Net assets at end of year.....	<u>\$ 1,306,741</u>	<u>\$ 1,312,822</u>	<u>\$ 4,312,977</u>	<u>\$ 4,298,813</u>	<u>\$ 5,619,718</u>	<u>\$ 5,611,635</u>

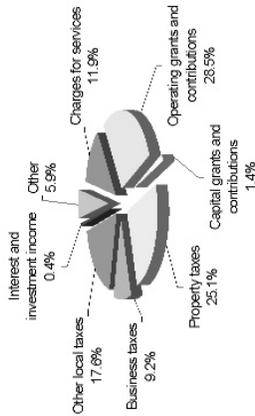
Analysis of Changes in Net Assets

The City's net assets overall increased by \$8 million during fiscal year 2004, compared to a \$93 million decrease last fiscal year. The governmental activities component of this change was a \$6 million decrease, a significantly smaller decrease than in the prior year. Business-type activities' aggregate increase of \$14.2 million over last year was less of an increase than in fiscal year 2003, primarily because of one-time expenses. Major reasons for this improvement are noted in the government and business-type activities discussion below.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



Governmental activities. Governmental activities decreased the City's total net assets by \$6 million during fiscal year 2004, \$156 million less than the decrease in fiscal year 2003. Key factors contributing to this year's change are as follows:

- Overall, governmental activities' revenues increased by approximately \$74.4 million while expenses decreased by about \$85.4 million and the transfers to business-type activities decreased slightly by a net \$3.6 million for a total improvement of \$156 million over last year. Within the transfers, the subsidy transfers to MUNI and the City's hospitals declined by \$30 million this year.
- Property tax revenue, which was essentially flat in fiscal year 2003, increased by approximately \$36.9 million, or 5.4 percent during this fiscal year reflecting, in part, the continued rise in San Francisco's property values over time. Assessed valuation rose

approximately 5.73 percent in fiscal year 2004 and the City continues to improve its ability to issue supplemental tax bills within a shorter time period following the sale of a property. The City also increased its estimated assessment appeals reserve in response to increases in assessment appeals that largely began in fiscal year 2001.

- Revenues from other local taxes, including hotel, parking and sales tax increased by approximately \$59 million or 13 percent. This reflects, in part, this year's improvements in hotel occupancy and room rates which had been flat or down in the previous two fiscal years. In addition, fees and service charges increased by approximately \$24 million this fiscal year. This amount includes this year's portion of tobacco fine settlement proceeds of \$17 million and additional revenues from rental fees and various administrative processing charges.
- Interest and investment income dropped by approximately \$14.5 million or 55 percent during the year primarily due to a decrease in the average yield of City pooled investments from 2.77 percent to 1.86 percent. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other short-term investments combined with the continued low interest rates maintained by the Federal Reserve. At fiscal year end, deposits and investments for governmental activities with the City Treasury were approximately \$729.7 million, a 2.2 percent increase over the previous year.
- Operating grants and contributions increased by \$14 million, or approximately two percent largely due to increases in federal grants for human welfare and neighborhood development, community health and public protection which included homeland security funds.

As noted above, total governmental activities' actual expenses decreased during fiscal year 2004 by approximately \$85.4 million or three percent. Generally, this reflects reductions made during the annual budget process across program areas including Public Protection, Community Health, Public Works, Transportation and Commerce, and Culture and Recreation to respond to projected revenue shortfalls, especially in state funding and business taxes. These reductions incorporated the projected savings from the labor agreements made by many San Francisco public employees' unions to contribute 7.5 percent of salary to fund the cost of pension benefits.

The City's General Fund subsidy transfer to the Municipal Transportation Agency also decreased from \$143 million in 2003 to \$134 million in 2004, a 6 percent reduction. In addition, the transfers made to the City's two hospitals declined in total by 19 percent, decreasing to \$96 million in 2004 from \$119 million in 2003. Both hospitals experienced increases in the proportion of patients covered by Medicare, Medi-Cal or other insurers, and/or improvement in reimbursement rates which allowed them to recover a higher share of their costs of service. Although expenses for General City Responsibilities increased by a net \$21 million, this included the one time appropriation of \$29 million in bond funds to the San Francisco Unified School District. There is a corresponding increase in bond proceeds that offsets this.

The charts on the previous page illustrate the City's governmental expenses and revenues by function, and its revenues by source. As shown, public protection is the largest function in expense (28 percent), followed by human welfare and neighborhood development (25 percent) and community health (20 percent). General revenues such as property, business, and sales taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (28.5 percent), followed by property taxes (25.1 percent), other local taxes (17.6 percent), and charges for services (11.9 percent). These ratios are substantially similar to last year with the exception of other local taxes which increased primarily due to hotel, parking and sales taxes, as noted above.

and the completion of capital improvements on the K light rail line and at MUNI's Presidio Feeder Yard. MUNI's operating revenues rose by approximately \$18 million or 16 percent during the year due to increased fare revenues resulting from a passenger fare increase during the year. MUNI's non operating revenues, which include federal and state operating grants and parking related revenues increased by \$11 million or 5 percent over fiscal year 2003 and its capital contributions from federal, state and local grants increased by \$13 million. The City's General Fund subsidy to MTA for this year was \$99.6 million for MUNI and \$34.4 million for DPT, a total of \$133 million less than last year.

- Hetch Hetchy, which operates the City's water storage and power generating facilities in the Sierra Nevada Mountains, increased total net assets by \$13.4 million. This was largely due to a \$8.6 million increase in non operating revenues which included approximately \$6 million in state grants funds for disaster relief reimbursements and energy projects, including the solar energy project at Moscone Convention Center. Hetchy also reported a \$26.2 million or 27.5 percent increase in total expenses since the end of fiscal year 2003. Of this, \$16.4 million is attributable to an increase in the purchase of power in the spot market due to increased demand.
- The Water Department had an operating loss of \$19 million this year and a decrease to net assets of \$9.4 million. Water's total net assets was \$439 million at year end. Expenses associated with new or expanded water treatment and supply projects increased by about \$14 million and the department expensed \$4.8 million more in previously capitalized costs than last year. At the same time, income from service charges and other operations remained relatively unchanged. The resulting operating loss was partially offset by a net increase of \$9.7 from non-operating activity which included an \$18 million gain from a land sale. Additionally, Water also funded a \$42.8 million increase to net capital assets through proceeds from the sale of \$25 million of commercial paper and other existing resources.

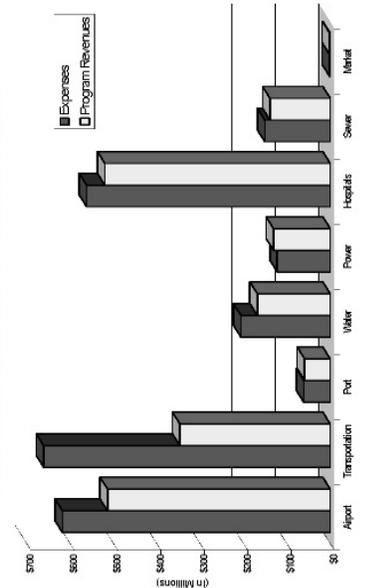
- San Francisco International Airport's net assets decreased by \$55 million to \$456.6 million, a 10.7 percent decline since the end of fiscal year 2003. The Airport's interest expense increased by \$24 million, its depreciation increased by \$13 million and its investment income was reduced by \$26 million. These first two are related to the Airport's recent capitalization of the new terminal and related projects. On the revenue side, total operating revenues decreased by approximately \$14 million, mainly due to a \$23 million decline in aviation revenues offset by a \$9 million increase in revenues from concessions and parking fees. Airport operating expenses decreased by \$46.4 million due to reductions in contractual services and recognition in the prior fiscal year of \$37 million in previously capitalized runway expenses. The transfer from the Airport to the City's General Fund was \$18.2 million, a slight increase over fiscal year 2003.

As shown in the charts on the previous page, the two largest of San Francisco's business-type activities—the San Francisco International Airport and the Municipal Transportation Agency each had total expenses over \$600 million in fiscal year 2004. The City's long-term and acute care hospitals together recorded expenses of over \$550 million. Together, these four enterprises make up almost 76 percent of the total business activities. As in prior years, charges for services provide the largest share of revenues, 67.5 percent, for business type activities. The overall proportion of business-type activities' revenues attributable to net transfers decreased in 2004 to 6.2 percent from 7.5 percent in 2003. As noted above, this is due to decreases in the General Fund subsidy to MUNI, DPT and the City's hospitals.

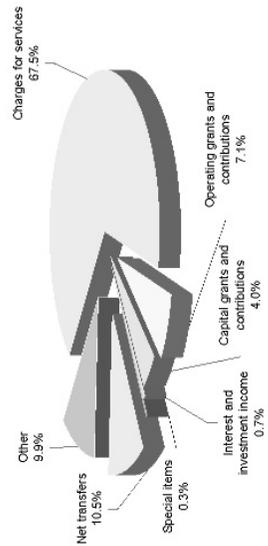
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Expenses and Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



Business-type activities. Business-type activities increased the City's net assets by \$14.2 million, bringing the government-wide increase in net assets to \$9.2 million. Key factors of this increase are as follows:

- The Municipal Transportation Agency's net assets increased this year by \$84 million largely or 5 percent primarily due to use of current year federal and state capital contributions and governmental transfers, mainly from the San Francisco Transportation Authority, to support MUNI's capital program. MUNI's acquired 108 electrical trolley coaches and 2 light rail vehicles

activities. As in the previous years, the Airport's \$55 million decrease in net assets is related to its major capital assets being depreciated on a straight-line basis over an average of 30 years and to lower operating revenues due to the continued restructuring in the airline industry.

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

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expense)	Capital Contributions and Special Items	Interfund Transfers	Change in Net Assets
Airport.....	\$ 464,132	\$ 400,596	\$ 63,536	\$ (148,772)	\$ 27,404	\$ (18,181)	\$ (64,993)
Water.....	168,260	187,378	(19,118)	9,692	-	-	(9,426)
Hetch Hetchy.....	124,474	121,629	2,845	11,072	-	(489)	3,428
Municipal Transportation Agency.....	186,390	655,757	(469,367)	235,425	64,669	253,043	83,770
General Hospital.....	339,012	412,063	(73,071)	74,918	-	(6,593)	(4,745)
Clean Water.....	137,806	128,916	8,890	(18,910)	-	(145)	(7,965)
Port.....	36,792	38,254	(1,462)	(1,462)	11,990	-	(912)
Laguna Honda Hospital.....	114,413	148,266	(33,853)	(222)	14	24,280	(10,473)
Market Corporation.....	1,814,764	2,116,637	(301,873)	160,067	104,063	251,937	14,184
Total.....	\$ 3,184,764	\$ 3,637,227	\$ (452,463)	\$ 160,067	\$ 104,063	\$ 251,937	\$ 14,184

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public services or employees. As of the end of fiscal year 2004, the net assets of the Retirement System and Health Service System totaled \$11.9 billion, representing an increase of \$1.38 billion in total net assets since June 30, 2003. This 13% increase is primarily due to the Retirement Trust's investments improved performance this fiscal year, after declines in two of the previous three years. The Investment Trust Fund's net assets totaled \$205.1 million, a decrease in net assets of \$28.8 million since June 30, 2003 due to withdrawals and distributions to external participants of the fund.

General Fund Budgetary Highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year. In fiscal year 2004, supplemental appropriations were approved for the Fire Department (\$3.1 million) and Sheriff's Department (\$3.2 million) for overtime personnel costs. The Department of Elections received an additional \$3.4 million in appropriations for the special gubernatorial recall election in October 2003. Appropriations were also increased for the Trial Courts (\$5.5 million) for the indigent defense program, and the final budget for the General City Responsibilities function increased to appropriate approximately \$29 million in general obligation bond proceeds for improvements to San Francisco Unified School District facilities.

During the year, actual revenues and other resources were \$19.8 million less than budgeted estimates. While the City realized \$53.9 million more revenue than budgeted for property, hotel, utility, and real estate transfer taxes, this was partially offset because the City received \$36.5 million less than budgeted shortfall in business, sales and parking taxes, interest and investment income, fines and concession revenues. In addition, transfers to the General Fund were approximately \$29 million less than estimated, due to a reduction in the funds transferred from the San Francisco General Hospital Fund for the City's participation in the State cost-sharing program among county

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$717.6 million, a decrease of \$165.8 million over the end of the prior year. The decrease reflects the City's budgetary use of reserves in both general and special revenue funds, liquidation of encumbrances, and reductions in carry-forward funds in fiscal year 2004.

Approximately \$86 million of the total ending fund balance in the governmental funds constitutes unreserved fund balance. This is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder is reserved, an indication that it is not available for new spending because it has already been committed. These commitments include: (1) to support a general fund "rainy day" reserve (\$55.1 million), (2) to liquidate existing contracts and purchase orders (\$165.3 million), (3) to fund continued programs or projects in future fiscal periods (\$337.7 million), (3) to pay debt service (\$18.8 million), and (4) for a limited number of other purposes (\$24.6 million).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$63.7 million, while total fund balance was \$210.4 million, an increase of \$14.1 million over the prior year. This was mainly due to increases in property and local taxes, a one-time use of tobacco tax settlement proceeds along with controls placed by management on general fund expenditures during the fiscal year. Overall, the general fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2004 of \$134 million, before transfers and other items are considered.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For 2004, the unreserved fund balance of \$63.7 million represents three percent of total general fund expenditures of \$1.93 billion, and the total fund balance represents approximately 11 percent of that amount. For 2003, the general fund's unreserved fund balance of \$44.7 million was approximately two percent of the total expenditures of \$1.95 billion, and the total fund balance represented approximately ten percent of expenditures.

Proprietary funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of fiscal year 2004, the unrestricted net assets for the San Francisco International Airport were \$284.2 million, the Water Department \$124.6 million, the Hetch Hetchy Project \$87.7 million, the Clean Water Program \$50 million, the Port of San Francisco \$40.4 million, and the San Francisco Market Corporation \$7 million. Three proprietary funds had deficits in unrestricted net assets: the Municipal Transportation Agency had a deficit of \$94.8 million, and Laguna Honda Hospital and San Francisco General Hospital had deficits in unrestricted net assets of \$19.4 million and \$15.1 million respectively. The internal service funds that are used to account for certain governmental activities also had a deficit in unrestricted net assets of \$3.9 million.

The total growth in net assets for the enterprise funds was \$14.2 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type

hospitals. There is no net loss to the General Fund as a result of the hospital transaction since expenses were also reduced.

Differences between the final budget and the actual (budgetary basis) resulted in an \$86.8 million decrease in total charges to appropriations. This is primarily due to the following factors:

- A decrease in expenditures by the Department of Public Health of approximately \$31.5 million, primarily associated with a reduction in the local match requirement for the State hospital cost-sharing program noted above (SB 855 Medi-Cal disproportionate share program). This decrease is non-program related and does not result in service reductions.
- A decrease in expenditures by the Human Services Department of approximately \$16.4 million related to reduced costs under programs such as wage augmentation programs and childcare subsidies. These expense reductions are partly offset by decreases in the Federal and State funds that the City is able to claim under these programs.
- A decrease in expenditures of approximately \$2 million in the Adult and Aging Services Department, \$1 million in the Recreation and Parks Department and \$2 million in the Emergency Communications Department due to reductions in operating and personnel cost.
- The General Fund was able to reduce its transfers to other funds by \$17.1 million from budget, primarily through improved revenue performance at the City's Hospitals.
- Budgetary reserves of \$9.3 million for various programs and payments that had been anticipated and included in the budget were not used due to management restrictions on spending and were able to be liquidated at the close of the fiscal year.

The net effect of the under-utilization of appropriations, the receipt of some actual revenues greater than estimates, and a \$11.9 million increase in budgetary designation for litigation and contingencies resulted in a positive budgetary fund balance variance of \$55 million at the end of the fiscal year.

In creating its budget for the fiscal year ending June 30, 2005, the City used an estimated budgetary fund balance of \$26.2 million (see Note 4 to the Basic Financial Statements).

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2004, amount to \$10.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. The total increase in the City's capital assets for the current fiscal year was four percent (an eight percent increase for governmental activities and a three percent increase for business-type activities) as shown in the table below.

Capital Assets, Net of Accumulated Depreciation (in thousands)

	Business-type Activities			Total
	2004	2003	2004	
Land.....	\$ 143,640	\$ 141,608	\$ 194,024	\$ 337,421
Facilities and improvement.....	1,695,198	6,149,996	6,171,196	7,845,194
Machinery and equipment.....	52,674	62,899	911,497	965,391
Infrastructure.....	176,838	131,321	494,671	671,509
Property held under lease.....	536	536	2,248	2,784
Essements.....	-	-	89,153	92,053
Construction in progress.....	245,677	215,658	640,799	886,446
Total.....	\$ 2,314,563	\$ 2,208,191	\$ 8,421,571	\$ 10,629,782

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

- The Municipal Transportation Agency's net capital assets increased by \$85.8 million this fiscal year. This was primarily due to the acquisition 108 electric trolleys and 2 light rail vehicles, completion of Presidio Yard, Utah Shop and K-line rail improvement projects, and ongoing construction work on the Third Street Rail project, a major expansion of the MUNI Metro system in the City's southeast neighborhoods. During this year, MUNI amortized \$1.3 million of a \$35.5 million deferred gain recorded in April 2002 when the agency entered into a lease transaction involving 118 Breda light rail vehicles. In September 2003 MUNI entered into a second lease transaction involving another 21 Breda vehicles, resulting in a \$4.4 million deferred gain. Under these leasing transactions, equity investors hold title to the vehicles to take advantage of tax benefits not available to public entities. MUNI maintains custody and use of the vehicles, and is obligated to insure and maintain them during the term of the lease.
- The Water Department's net capital assets increased by \$42.8 million. This included improvements at the Pulgas Temple, Harry Tracy and Sunol Valley Water Treatment Plants totaling approximately \$56.7 million, completion of the Suro Reservoir improvement project for \$11.8 million, and completion and capitalization of other smaller projects across the City's water treatment and distribution system.
- Hetch Hetchy Water and Power increased net capital assets by \$9.5 million. This included completion of a \$14.3 million project on the Priest Reservoir Bypass near Yosemite National Park and completion of the \$3.3 million renewable energy generation project at the Southeast Plant.
- The Airport reported an overall decrease in capital assets of \$70.4 million or 1.8% for fiscal year 2004 due largely to the net effect of depreciation against completed projects of the Near Term Master Plan for SFO in recent years. This plan includes the new International Terminal (completed in 2001), the Bay Area Rapid Transit (BART) Station at SFO and Air Train people mover (completed in 2003) and new parking facilities, roadways, runway improvements, and other Airport facilities. Capitalizations in fiscal year 2004 included a wastewater treatment plant, and boarding area reconstruction.
- Under governmental activities, net capital assets increased by \$106 million. This included completion of Conservatory of Flowers reconstruction, the African Savanna exhibit at the San Francisco Zoo, an upgrade at the City's Asphalt Plant and improvements at a City libraries, parks, and recreation facilities.

At the end of the year, the City's business type activities had approximately \$200 million in commitments for various capital projects. Of this, MTA had approximately \$177 million, Water Department had \$60 million, Hetch Hetchy and Cleanwater had \$48 million, and the Airport had \$28 million. In addition, there was had approximately \$ 66 million reserved for encumbrances in capital project funds for the general government.

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

For governmental activities, no net infrastructure assets were recorded in fiscal year 2001 - the first year of presentation in the GASB 34 format, because the historical costs did not meet the threshold established by GASB. Beginning in fiscal year 2002, newly completed projects were capitalized and ongoing infrastructure projects were accounted for in construction in progress.

Additional information about the City's capital assets can be found in Note 7 to the Basic Financial Statements.

Debt Administration

At the end of the current fiscal year, San Francisco had total long-term debt outstanding of \$7 billion. Of this amount, \$844.7 million is general obligation bonds (including \$0.4 million in general obligation bonds issued on behalf of the Port of San Francisco) backed by the full faith and credit of the City and \$6.2 billion is revenue bonds, loans, certificates of participation, leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, San Francisco's total long-term debt including all bonds, loans, commercial paper and capital leases decreased by \$115.9 million during fiscal year 2004 primarily due to retirement of bonded debt in the enterprise activities.

The City also took advantage of favorable interest rates to reduce debt payments by issuing \$331.3 million in refunding bonds. Of this, the Airport issued \$265.1 million in refunding revenue bonds; the City issued the remaining \$66.2 million to refund general obligation and settlement obligation bonds. The City also issued \$20.9 million in general obligation bonds for improvements to the City's recreation and park facilities, and \$29.5 million in general obligation bonds for San Francisco Unified School District facilities. Lease-revenue bonds for \$9.5 million were issued to finance equipment acquisition through the San Francisco Finance Corporation.

The City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is three percent of the taxable assessed value of property in the City - approximately \$100 billion in value (net of unreimbursable exemptions) as of the close of the fiscal year. As of June 30, 2004, the City had \$844.7 million in authorized, outstanding property tax-supported general obligation bonds, which is equal to approximately 0.81 percent of gross (.88 percent of net) taxable assessed value of property. As of June 30, 2004, there were an additional \$872 million in bonds that were authorized but un-issued. If all of these bonds were issued and outstanding in full, the total debt burden would be approximately 1.7 percent of the taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2004 were:

Moody's Investors Service, Inc.	Aa3
Standard and Poor's Ratings Service	AA
Fitch Ratings	AA-

During the fiscal year, Moody's Investors Service and Standard and Poor's affirmed their ratings and negative outlook on San Francisco's outstanding general obligation bonds as noted above. Fitch Ratings downgraded its rating to AA- from AA and changed their rating outlook to stable from negative. Fitch Ratings cited continued weak economic performance; reduced financial reserves and reduced tax revenue mitigated somewhat by the expectation that the City's statutory financial requirements and solid management acumen will restore financial balance. Moody's and Standard & Poor's also noted the continued weak economy in addition to state budget uncertainty and the challenges the City faced in balancing the fiscal 2005 budget. Their concerns were mitigated somewhat by strong management practices as evidenced by revenue monitoring and spending reductions to minimize financial decline.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. The Airport's underlying bond ratings were upheld by Moody's, Standard & Poor's, and Fitch at A1, A-, and A, respectively. And, the rating outlook issued by all three remained negative due to the weak economy, war with Iraq and the SARS outbreak that decreased travel between Asia and the United States in spring 2003.

Moody's and Standard & Poor's also affirmed their A2 and A ratings with stable outlooks, respectively, for Clean Water Program's outstanding revenue and refunding bonds.

Since the close of the 2004 fiscal year, the City has issued additional debt of \$76.9 million in general obligation bonds for improvements to neighborhood recreation and park facilities, and the California Academy of Sciences. In addition, \$39.4 million refunding certificates of participation were issued to refund outstanding certificates for the San Francisco Courthouse Project at 400 McAllister Street.

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

Economic factors and next year's budget and rates

San Francisco faced a projected General Fund shortfall of over \$299 million at the beginning of its fiscal 2005 annual budget process. As a result, significant spending cuts were made across General Fund functions and two new taxes were proposed. In addition, most San Francisco public employees' unions agreed in labor contracts to continue to contribute 7.5 percent of salary to fund the employee cost of pension benefits. The City was able to appropriate \$62.8 million in estimated available fund balance and liquidated reserves in the General Fund budget for fiscal year 2005. The use of one-time sources, including the use of fund balance and prior year reserves, meant that the City was able to avoid making even further reductions in public safety, health and human services, and many other critical programs in the budget year.

As noted in our transmittal letter, San Francisco's unemployment rate has gradually improved over the last two years, dropping to 5.9 percent in June 2004 after a peak of 7.9 percent in July 2002. While the unemployment rate has decreased, this is generally attributed to two factors: 1) that unemployed workers have moved to less expensive areas to live, or 2) that they are no longer included in the California Economic Development Department's count because they are not actively seeking new employment. Employers have been slow to expand their employee ranks given the lagging recovery in our region; however, the reduced unemployment rate is one sign that improvements are emerging.

During the fiscal 2005 budget cycle, the State negotiated a two-year agreement with local governments to close the State's budgetary shortfall. This entailed shifting various revenue sources including vehicle license fees and sales taxes for property taxes, in part. Voters then reaffirmed the intent of those agreements by passing State Proposition 1A in November 2004. Proposition 1A further protects San Francisco and all other local California governments from the

State balancing their budget by taking additional local revenues. This will have a positive impact on future year revenue stability. In developing the City's fiscal year 2005 budget, policy makers included \$32.7 million in revenue reductions to cover State revenue shifts and funding reductions. City management continues to closely monitor all State funding.

- An economic strengthening started in some local taxes, including hotel room, sales, parking and real property transfer taxes. After a near three-plus year downturn, these signs are encouraging news. Weakness is still present in payroll taxes as employers have been reluctant to hire.
- While the above factors were considered in preparing the City's budget for fiscal year 2005, voters rejected the proposed ¼ percent increase to sales tax (Proposition J) and the four-year, 0.1 percent gross receipts tax (Proposition K) in November 2004. The Mayor's Office has already implemented mid-year spending reductions to cover this shortfall, which include the using \$15 million of the City's \$30 million General Reserve in the fiscal year 2005 budget.

REQUESTS FOR INFORMATION

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

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

Individual Department Financial Statements

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

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

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

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

Component Unit Financial Statements

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

Blended Component Units Financial Statements

San Francisco County Transportation Authority
100 Van Ness Avenue, 25th Floor
San Francisco, CA 94102

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CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets (Continued)
June 30, 2004
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
ASSETS					
Current assets:					
Deposits and investments with City Treasury.....	\$ 729,748	\$ 674,887	\$ 1,404,635	\$ -	\$ 2,096
Deposits and investments outside City Treasury.....	100,151	8,295	108,446	179,127	-
Receivables (net of allowance for uncollectible amounts of \$40,342 for the primary government):					
Property taxes and penalties.....	34,595	-	34,595	-	-
Other local taxes.....	163,017	-	163,017	-	-
Federal and state grants and subventions.....	161,842	47,026	208,868	-	-
Charges for services.....	13,731	139,538	153,269	-	618
Interest and other.....	4,730	45,815	50,545	8,312	3
Loans receivable.....	-	85	85	21	-
Capital lease receivable from primary government.....	-	-	-	1,424	-
Due from component unit.....	849	-	849	-	-
Inventories.....	47,864	47,864	95,728	-	-
Deferred charges and other assets.....	9,309	17,615	26,924	-	-
Restricted assets:					
Deposits and investments with City Treasury.....	-	15,732	15,732	-	-
Deposits and investments outside City Treasury.....	-	47,121	47,121	199,351	-
Grants and other receivables.....	-	740	740	937	-
Total current assets.....	1,217,972	1,044,718	2,262,690	389,172	2,717
Noncurrent assets:					
Loans (net of allowance for uncollectible amounts of \$173,367 and \$116,168 for the primary government and component units, respectively)					
Capital lease receivable from primary government.....	214,650	768	215,418	5,777	-
Deferred charges and other assets.....	13,301	69,069	82,370	192,294	9,044
Restricted assets:					
Deposits and investments with City Treasury.....	-	407,740	407,740	-	-
Deposits and investments outside City Treasury.....	-	278,665	278,665	36,670	-
Grants and other receivables.....	-	22,764	22,764	-	-
Property held for resale.....	-	-	-	13,986	-
Capital assets:					
Land and other assets not being depreciated.....	389,317	834,550	1,223,867	114,260	-
Facilities, infrastructure, and equipment, net of depreciation.....	1,925,246	7,848,775	9,574,021	119,730	-
Total capital assets.....	2,314,563	8,463,325	10,797,888	233,990	-
Total noncurrent assets.....	2,542,514	9,262,331	11,804,845	491,761	-
Total assets.....	\$ 3,760,486	\$ 10,307,049	\$ 14,067,535	\$ 880,933	\$ 2,717

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets (Continued)
June 30, 2004
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
LIABILITIES					
Current liabilities:					
Accounts payable.....	\$ 148,294	\$ 128,728	\$ 277,022	\$ 8,306	\$ 703
Accrued payroll.....	42,611	35,024	77,635	-	19
Accrued vacation and sick leave pay.....	63,662	40,684	104,376	1,168	-
Accrued workers' compensation.....	45,138	40,108	85,246	-	-
Estimated claims payable.....	19,861	15,463	35,344	-	-
Bonds, loans, capital leases, and other payables.....	146,646	128,851	275,497	53,367	-
Capital lease payable to component unit.....	1,424	-	1,424	-	-
Accrued interest payable.....	7,185	11,756	18,941	92,507	-
Unearned grant and subvention revenues.....	5,266	-	5,266	5,287	-
Due to primary government.....	32,419	(32,419)	-	-	-
Internal balances.....	120,764	117,002	237,766	1,861	-
Deferred credits and other liabilities.....	633,330	485,207	1,118,537	163,345	722
Total current liabilities.....	1,488,419	1,426,655	2,915,074	333,122	722
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables.....	-	17,013	17,013	-	-
Accrued interest payable.....	-	34,807	34,807	-	-
Other.....	-	30,390	30,390	-	-
Total liabilities payable from restricted assets.....	-	82,210	82,210	-	-
Noncurrent liabilities:					
Accrued vacation and sick leave pay.....	64,735	33,196	97,931	1,565	-
Accrued workers' compensation.....	166,492	143,388	311,880	-	-
Estimated claims payable.....	33,294	32,168	65,462	-	-
Bonds, loans, capital leases, and other payables.....	1,334,970	5,171,501	6,506,471	700,224	-
Capital lease payable to component unit.....	192,294	-	192,294	-	-
Accrued interest payable.....	-	46,402	46,402	68,013	-
Deferred credits and other liabilities.....	1,820,415	5,426,655	7,247,070	769,802	-
Total noncurrent liabilities.....	2,455,745	5,994,072	8,449,817	933,147	-
Total liabilities.....	3,944,164	3,416,154	7,360,318	1,266,269	722
NET ASSETS					
Invested in capital assets, net of related debt.....	1,096,834	-	1,096,834	43,169	-
Restricted for:					
Cash and emergency requirements by Charter.....	55,139	-	55,139	-	-
Debt service.....	9,996	242,537	252,533	139,969	-
Capital projects.....	48,313	128,387	176,700	-	-
Community development.....	163,875	-	163,875	-	-
Transportation Authority activities.....	135,466	-	135,466	-	-
Other purposes.....	122,265	61,241	183,506	13,986	1,995
Unrestricted (deficit).....	(925,147)	464,658	(460,489)	(249,368)	-
Total net assets (deficit).....	\$ 1,306,741	\$ 4,312,977	\$ 5,619,718	\$ (62,214)	\$ 1,995

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Activities
Year ended June 30, 2004
(In Thousands)

Primary Governmental Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Component Units	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Related Activities	San Francisco Redevelopment Agency	Treasure Island Development Authority	
Primary government activities:	\$ 727,590	\$ 40,349	\$ 105,315	\$ (581,916)	\$ -	\$ -	\$ -	
Public protection:	169,179	83,176	20,244	(35,625)	-	-	-	
Public works, transportation and commerce:	651,250	23,931	434,990	(192,339)	-	-	-	
Human welfare and neighborhood development:	517,066	38,933	259,164	(218,969)	-	-	-	
Community health:	232,167	53,369	1,301	(168,442)	-	-	-	
Culture and recreation:	183,258	43,585	2,116	(137,557)	-	-	-	
General administration and finance:	73,530	59,609	684	(13,257)	-	-	-	
General City responsibilities:	86,131	-	-	(86,131)	-	-	-	
Unallocated interest on long-term debt:	2,640,181	342,952	823,784	(1,434,236)	(1,434,236)	-	-	
Total governmental activities:	618,301	486,132	27,404	(104,765)	(104,765)	-	-	
Business-type activities:	860,650	186,390	95,696	(313,893)	(313,893)	-	-	
Airport:	61,185	56,702	2,745	(1,738)	(1,738)	-	-	
Transportation:	206,211	168,260	6,123	(37,951)	(37,951)	-	-	
Water:	562,188	453,807	66,020	(41,981)	(41,981)	-	-	
Power:	150,586	137,806	1,328	(11,454)	(11,454)	-	-	
Hospitals:	949	1,413	-	464	464	-	-	
Market:	2,381,699	1,614,794	169,767	(602,330)	(602,330)	-	-	
Total business-type activities:	5,021,880	1,957,736	993,351	(1,936,956)	(1,936,956)	-	-	
Total primary government:	\$ 117,264	\$ 22,133	\$ 14,271	\$ (80,860)	\$ (80,860)	-	-	
Component units:								
San Francisco Redevelopment Agency:	11,035	8,270	-	(2,765)	(2,765)	-	-	
Treasure Island Development Authority:	129,239	30,403	14,271	(80,860)	(80,860)	-	-	
Total component units:	\$ 140,274	\$ 38,673	\$ 14,271	\$ (83,625)	\$ (83,625)	-	-	
General Revenues:								
Taxes:								
Property taxes:	723,786	-	723,786	40,157	-	-	-	
Business taxes:	264,632	-	264,632	5,794	-	-	-	
Other local taxes:	509,455	-	509,455	9,690	-	-	-	
Interest and investment income:	11,856	17,620	29,476	17,119	-	-	-	
Other:	170,163	237,692	407,855	9,245	-	-	-	
Special item:	(251,537)	-	9,245	-	-	-	-	
Transfers - internal activities of primary government:	1,428,155	510,494	1,944,649	72,760	-	-	-	
Total general revenues:	3,006,417	766,214	3,772,631	(64,114)	-	-	-	
Change in net assets:	1,312,822	4,256,613	5,611,635	(64,114)	-	-	-	
Net assets (deficit) - beginning:	1,306,741	4,312,917	5,619,710	(62,214)	-	-	-	
Net assets (deficit) - ending:	\$ 1,306,741	\$ 4,312,917	\$ 5,619,710	\$ (62,214)	\$ (62,214)	\$ -	\$ 1,995	

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

CITY AND COUNTY OF SAN FRANCISCO
Balance Sheet
Governmental Funds
June 30, 2004
(with comparative financial information as of June 30, 2003)
(In Thousands)

Component Units	General Fund			Other Governmental Funds		Total Governmental Funds	
	2004	2003	2004	2003	2004	2003	
ASSETS							
Deposits and investments with City Treasury:	\$ 158,248	\$ 137,738	\$ 564,795	\$ 567,264	\$ 723,043	\$ 705,002	
Deposits and investments outside City Treasury:	361	4,149	74,065	126,094	74,426	130,183	
Receivables:							
Property taxes and penalties:	28,020	25,455	6,575	5,294	34,595	30,749	
Other local taxes:	150,063	143,138	12,161	11,277	163,017	160,415	
Federal and state grants and subventions:	63,062	51,119	98,840	169,963	161,842	220,082	
Charges for services:	2,568	11,156	6,163	6,685	13,731	18,041	
Interest and other:	2,230	4,469	1,917	3,201	4,147	7,670	
Due from other funds:	52,017	72,730	5,364	9,685	58,301	82,365	
Due from component unit:	849	444	-	11,276	849	11,720	
Loans receivable (net of allowances for uncollectible amounts of \$173,367 in 2004; \$183,424 in 2003):	1,221	1,043	213,429	197,923	214,650	198,966	
Deferred charges and other assets:	6,598	6,224	1,625	1,832	8,223	8,056	
Total assets:	\$ 471,870	\$ 462,865	\$ 984,954	\$ 1,110,414	\$ 1,456,824	\$ 1,573,279	
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable:	\$ 83,934	\$ 70,157	\$ 98,884	\$ 61,628	\$ 142,828	\$ 131,785	
Accrued payroll:	34,278	70,902	7,068	14,998	41,346	85,900	
Deferred tax, grant and subvention revenues:	30,151	28,622	31,620	11,743	61,771	40,366	
Due to other funds:	892	700	88,969	115,105	89,961	115,805	
Agency obligations:	-	-	138	40	138	40	
Deferred credits and other liabilities:	112,180	96,172	241,126	219,874	353,306	316,046	
Bonds, loans, capital leases, and other payables:	-	-	50,000	-	50,000	-	
Total liabilities:	261,435	266,553	477,815	423,388	739,250	689,941	
Fund balances:							
Reserved for cash requirements:	-	55,139	-	-	-	55,139	
Reserved for rainy day:	55,139	-	-	-	55,139	-	
Reserved for emergencies:	-	4,198	-	-	-	4,198	
Reserved for assets not available for appropriation:	7,142	6,768	17,443	25,906	24,585	32,674	
Reserved for debt service:	-	-	18,800	33,866	18,800	33,866	
Reserved for encumbrances:	42,501	43,195	142,764	278,656	185,285	321,851	
Reserved for appropriation carryforward:	35,754	26,880	287,690	227,818	323,444	254,698	
Reserved for subsequent years' budgets:	6,242	15,414	8,005	8,004	14,247	23,418	
Unreserved (deficit), reported in:							
General fund:	63,657	44,719	-	-	63,657	44,718	
Special revenue funds:	-	-	19,043	67,988	19,043	67,988	
Capital project funds:	-	-	10,048	40,561	10,048	40,561	
Permanent fund:	-	-	3,326	4,227	3,326	4,227	
Total fund balances:	210,435	196,312	507,139	687,026	717,574	883,338	
Total liabilities and fund balances:	\$ 471,870	\$ 462,865	\$ 984,954	\$ 1,110,414	\$ 1,456,824	\$ 1,573,279	

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

City and County of San Francisco
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2004

(In Thousands)

Fund balances - total governmental funds	\$ 717,574
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,311,608
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	8,909
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,796,201)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(6,199)
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 are offset by deferred revenue in the funds.	290,556
Internal service funds are used by management to charge the costs of capital lease financing, fleet management, printing and mailing services, and information systems to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	(219,506)
Net assets of governmental activities	<u>\$ 1,306,741</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Revenues, Expenditures and Changes
in Fund Balances
Governmental Funds

Year ended June 30, 2004
(with comparative financial information for the year ended June 30, 2003)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2004	2003	2004	2003	2004	2003
Revenues:						
Property taxes.....	\$ 547,819	\$ 516,955	\$ 173,618	\$ 169,199	\$ 721,437	\$ 686,154
Business taxes.....	284,351	276,126	431	526	284,832	276,651
Other local taxes.....	403,549	345,735	105,495	104,942	509,055	460,677
License, permits and franchise fees.....	17,501	16,217	8,287	5,431	23,788	21,648
Fines, forfeitures and penalties.....	22,158	5,595	3,025	3,405	25,183	9,000
Interest and investment income.....	3,222	7,798	8,468	17,772	11,690	25,570
Rents and concessions.....	17,497	17,576	41,462	37,793	58,979	55,389
Intergovernmental:						
Federal.....	163,047	151,790	181,108	168,484	344,155	320,254
State.....	497,196	515,362	133,797	174,889	630,955	690,271
Other.....	95,951	93,840	16,289	24,023	18,265	24,623
Charges for services.....	95,951	93,840	121,696	126,043	217,647	221,863
Other.....	29,354	11,880	27,560	15,212	57,114	27,092
Total revenues.....	2,061,855	1,958,894	821,607	2,883,452	2,883,452	2,899,182
Expenditures:						
Current:						
Public protection.....	670,729	695,693	36,029	39,118	706,758	734,811
Public works, transportation and commerce.....	58,711	57,458	106,844	140,307	165,555	197,765
Human welfare and neighborhood development.....	489,001	492,093	173,947	178,567	662,948	670,670
Community health.....	413,725	424,302	99,189	100,469	512,914	524,771
Culture and recreation.....	92,978	96,959	180,185	155,518	273,163	252,477
General administration and finance.....	128,135	130,786	25,574	32,962	153,709	163,748
General City responsibilities.....	74,257	52,308	386	1,015	74,623	53,323
Debt service:						
Principal retirement.....	-	-	78,831	100,902	78,831	100,902
Interest and fiscal charges.....	-	-	81,866	64,243	81,866	64,243
Bond issuance costs.....	374	-	976	1,646	1,350	1,646
Capital outlay.....	1,927,910	1,949,569	165,872	248,928	1,65,872	248,928
Total expenditures.....	1,927,910	1,949,569	929,699	1,063,695	2,857,609	3,013,284
Excess (deficiency) of revenues over expenditures.....	133,945	9,305	(108,092)	(213,387)	25,853	(204,092)
Other financing sources (uses):						
Transfers in.....	121,481	105,211	83,169	121,309	204,660	226,520
Transfers out.....	(277,316)	(303,216)	(179,536)	(189,989)	(456,852)	(493,205)
Issuance of bonds and loans						
Face value of bonds issued.....	29,480	-	87,165	71,310	116,645	71,310
Face value of loans issued.....	-	-	2,156	-	2,156	-
Premium on issuance of bonds.....	358	-	1,053	323	1,411	323
Payment to refunded bond escrow agent.....	-	-	(65,802)	-	(65,802)	-
Other financing sources-capital leases.....	6,165	3,686	-	28,899	6,165	32,585
Other.....	-	935	-	-	-	935
Total other financing sources (uses).....	(119,822)	(193,384)	(71,795)	31,852	(191,617)	(161,532)
Net change in fund balances.....	14,123	(184,079)	(179,887)	(181,545)	(165,764)	(365,624)
Fund balances at beginning of year.....	196,312	380,391	687,026	866,571	883,336	1,248,962
Fund balances at end of year.....	\$ 210,435	\$ 196,312	\$ 507,139	\$ 687,026	\$ 717,574	\$ 883,338

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

City and County of San Francisco
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2004
(In Thousands)

Net change in fund balances - total governmental funds

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources.

Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities.

Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds in the current period.

Bond issue costs are reported in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.

The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which principal retirement in the current period exceeded bond and other debt proceeds.

Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the net amount of bond premiums capitalized during the current period.

Interest expense in the statement of activities differs from the amount reported in the governmental funds because of additional accrued and accreted interest; amortization of bond discounts, premiums and refunding losses; and change in the accrual of arbitrage liabilities.

The net revenues of certain activities of internal service funds is reported with governmental activities.

Changes in net assets of governmental activities

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund
Year ended June 30, 2004
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Base	Variance Positive (Negative)
Budgetary fund balance, July 1	\$ 58,483	\$ 207,167	\$ 207,167	
Resources (inflows):				
Property taxes.....	527,744	527,767	546,812	19,045
Business taxes.....	288,619	288,619	284,351	(24,268)
Other local taxes:				
Sales tax.....	122,510	122,510	120,642	(1,868)
Hotel room tax.....	60,052	90,052	88,457	8,405
Utility users tax.....	68,360	68,360	70,838	2,578
Parking tax.....	32,655	32,655	31,694	(961)
Other local taxes.....	57,674	57,674	61,576	23,844
License, permits, and franchises:				
License and permits.....	6,054	6,064	5,408	(646)
Franchise tax.....	11,020	11,020	12,093	1,073
Fines, forfeitures, and penalties.....	31,681	31,843	29,731	(2,112)
Interest and investment income.....	12,511	12,579	7,593	(4,986)
Rents and concessions:				
Garages - Recreation and Park.....	7,744	7,044	6,978	(66)
Rents and concessions - Recreation and Park.....	11,949	11,949	10,199	(1,750)
Other rents and concessions.....	322	323	320	(3)
Intergovernmental:				
Federal subventions:				
Health and social service subventions.....	154,137	156,847	153,352	(3,495)
Other grants and subventions.....	2,777	2,589	9,695	6,706
State subventions:				
Social service subventions.....	101,616	104,374	97,684	(6,690)
Health and welfare realignment.....	94,324	95,338	95,987	649
Health-related health subventions.....	132,558	132,558	137,701	5,143
Public safety sales tax.....	65,320	65,320	64,158	(1,162)
Motor vehicle in-lieu - county.....	82,610	82,610	84,627	2,017
Other grants & subventions.....	23,872	23,861	17,039	(6,822)
Charges for services:				
General government service charges.....	35,274	35,653	35,276	(577)
Public safety service charges.....	15,935	16,146	15,066	(1,080)
Recreation charges - Recreation and Park.....	5,365	5,366	5,446	80
MediCal, MediCare and health service charges.....	49,990	50,482	39,818	(10,664)
Other financing sources:				
Transfers from other funds.....	142,728	150,354	121,513	(28,941)
Proceeds from issuance of bonds and loans.....	1,625	31,207	30,486	(721)
Other resources (inflows).....	19,251	19,296	26,464	7,183
Total amounts available for appropriation.....	\$ 2,254,760	\$ 2,448,317	\$ 2,428,513	\$(19,804)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets - Proprietary Funds
June 30, 2004
(with summarized financial information as of June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds										Governmental Activities-Internal Service Funds			
	Major Funds									Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total	2004	2003	2004	2003
ASSETS														
Current Assets:														
Deposits and investments with City Treasury.....	\$ 271,219	\$ 168,417	\$ 94,853	\$ 30,687	\$ -	\$ 48,934	\$ 60,777	\$ -	\$ -	\$ 674,887	\$ 656,155	\$ 6,705	\$ 9,105	
Deposits and investments outside City Treasury.....	10	40	10	6,231	10	-	5	2	1,987	8,295	8,008	25,725	23,155	
Receivables (net of allowance for uncollectible amounts of \$18,185 and \$23,093 in 2004 and 2003, respectively):														
Federal and state grants and subventions.....	-	-	2,483	42,949	1,414	180	-	-	-	47,026	45,700	-	-	
Charges for services.....	33,034	27,002	7,704	5,519	27,953	19,268	4,618	14,432	8	139,538	149,538	-	-	
Interest and other.....	493	2,439	1,453	62	41,277	91	-	-	-	45,815	62,111	583	461	
Loans receivable.....	-	-	85	-	-	-	-	-	-	85	85	19,046	16,980	
Due from other funds.....	-	2,221	14,305	43,975	-	-	-	-	-	60,501	67,312	-	-	
Inventories.....	100	1,560	263	39,153	4,140	-	1,270	1,378	-	47,864	45,014	-	-	
Deferred charges and other assets.....	1,285	-	-	15,608	-	-	697	-	25	17,615	8,534	149	294	
Restricted assets:														
Deposits and investments with City Treasury.....	15,732	-	-	-	-	-	-	-	-	15,732	-	-	-	
Deposits and investments outside City Treasury.....	47,121	-	-	-	-	-	-	-	-	47,121	-	-	-	
Grants and other receivables.....	740	-	-	-	-	-	-	-	-	740	-	-	-	
Total current assets.....	369,734	201,679	121,156	184,184	74,794	68,473	67,367	15,812	2,020	1,105,219	1,042,457	52,208	49,995	
Noncurrent assets:														
Deferred charges and other assets.....	52,173	4,036	-	4,689	-	2,641	5,530	-	-	69,089	65,441	2,592	2,510	
Loans receivable.....	-	-	768	-	-	-	-	-	-	768	767	227,766	236,263	
Restricted assets:														
Deposits and investments with City Treasury.....	175,417	84,139	-	37,462	-	78,328	4,142	28,252	-	407,740	554,302	-	-	
Deposits and investments outside City Treasury.....	193,226	13,841	-	27,385	8	32,533	10,802	870	-	278,665	354,896	-	-	
Grants and other receivables.....	16,878	150	-	5,548	-	136	-	52	-	22,764	25,209	-	-	
Capital assets:														
Land and other assets not being depreciated.....	128,890	103,684	55,312	309,204	4,097	44,547	131,508	57,488	-	834,550	740,227	-	-	
Facilities, infrastructure, and equipment, net of depreciation.....	3,772,015	648,483	204,949	1,579,312	51,839	1,264,615	113,937	8,369	5,256	7,648,775	7,681,344	2,955	2,620	
Total capital assets.....	3,900,905	752,167	280,261	1,888,336	55,936	1,309,162	245,445	65,857	5,256	8,483,325	8,421,571	2,955	2,620	
Total noncurrent assets.....	4,338,599	854,333	261,029	1,963,420	55,944	1,422,800	265,919	95,031	5,256	9,262,331	9,422,186	233,313	241,393	
Total assets.....	4,708,333	1,056,012	382,185	2,147,604	130,738	1,491,273	333,266	110,843	7,276	10,367,550	10,464,643	285,521	291,388	

(Continued)

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CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets - Proprietary Funds (Continued)
June 30, 2004
(with summarized financial information as of June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds										Governmental Activities-Internal Service Funds			
	Major Funds									Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total	2004	2003	2004	2003
LIABILITIES														
Current liabilities:														
Accounts payable.....	11,254	8,320	25,316	59,023	15,665	3,266	2,770	2,978	136	128,728	104,540	5,466	4,713	
Accrued payroll.....	4,121	3,466	637	13,556	6,989	1,187	698	4,370	-	35,024	66,791	1,265	2,464	
Accrued vacation and sick leave pay.....	5,802	4,529	967	13,851	7,736	2,019	990	4,800	-	40,994	39,566	1,808	1,833	
Accrued workers' compensation.....	1,186	2,393	455	26,535	4,928	1,006	650	2,955	-	40,108	37,946	263	244	
Estimated claims payable.....	209	1,349	38	11,736	-	1,044	1,087	-	-	15,463	13,786	-	-	
Due to other funds.....	1,052	1,903	528	2,911	15,981	-	598	5,109	-	28,082	33,854	859	48	
Deferred credits and other liabilities.....	48,954	36,381	2,834	4,377	14,668	-	7,419	2,341	28	117,002	110,542	27,205	28,772	
Accrued interest payable.....	-	4,067	-	483	-	7,062	144	-	-	11,756	15,146	986	1,095	
Bonds, loans, capital leases, and other payables.....	65,462	39,055	98	7,299	630	15,413	500	394	-	128,851	95,487	18,910	17,931	
Total current liabilities.....	138,040	101,463	30,873	139,771	66,597	30,997	14,856	22,947	164	545,708	517,638	56,762	57,100	
Liabilities payable from restricted assets:														
Bonds, loans, capital leases, and other payables.....	13,093	-	-	-	-	-	3,920	-	-	17,013	15,367	-	-	
Accrued interest payable.....	34,028	-	-	-	-	-	779	-	-	34,807	37,977	-	-	
Other.....	16,472	6,921	-	941	8	653	4,393	1,002	-	30,990	43,837	-	-	
Total liabilities payable from restricted assets.....	63,593	6,921	-	941	8	653	9,092	1,002	-	82,210	97,181	-	-	
Noncurrent liabilities:														
Accrued vacation and sick leave pay.....	5,774	4,601	831	10,368	5,828	1,737	849	3,208	-	33,196	31,063	1,875	1,754	
Accrued workers' compensation.....	3,969	9,302	1,821	92,905	18,065	3,794	2,463	11,069	-	143,388	131,210	953	835	
Estimated claims payable.....	250	4,762	131	22,108	-	3,717	1,200	-	-	32,168	21,185	-	-	
Deferred credits and other liabilities.....	-	3,666	-	39,687	-	8	2,904	-	137	46,402	44,036	-	-	
Bonds, loans, capital leases, and other payables.....	4,040,096	485,875	595	88,375	1,575	527,315	25,962	1,708	-	5,171,501	5,323,517	228,360	236,828	
Total noncurrent liabilities.....	4,050,089	508,206	3,378	253,443	25,466	536,571	33,378	15,985	137	5,426,655	5,551,011	231,188	239,417	
Total liabilities.....	4,251,722	616,590	34,251	394,156	92,073	566,221	57,326	39,934	301	6,054,573	6,165,830	287,950	296,517	
NET ASSETS														
Invested in capital assets, net of related debt.....	(30,535)	279,085	260,261	1,796,064	53,730	769,386	224,407	63,756	-	3,416,154	3,331,481	1,511	2,620	
Restricted:														
Debt service.....	191,808	14,976	-	2,509	-	33,244	-	-	-	242,537	275,069	-	-	
Capital projects.....	9,721	20,724	-	3,162	-	70,410	-	24,370	-	128,387	147,693	-	-	
Other purposes.....	1,419	-	-	46,484	8	-	11,190	2,140	-	61,241	61,816	-	-	
Unrestricted (deficit).....	284,198	124,637	87,673	(94,770)	(15,073)	50,012	40,363	(19,357)	6,975	464,658	482,955	(3,940)	(7,749)	
Total net assets (deficit).....	\$ 456,611	\$ 439,422	\$ 347,934	\$ 1,753,449	\$ 38,665	\$ 923,052	\$ 275,960	\$ 70,809	\$ 6,975	\$ 4,312,977	\$ 4,298,813	\$ (2,429)	\$ (5,129)	

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year ended June 30, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-Type Activities - Enterprise Funds										Other Fund		Governmental Activities-Internal Service Funds		
	Major Funds										Market Corporation	Total		2004	2003
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	2004	2003					
Operating revenues:	\$ 325,258	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 325,258	\$ 347,998	\$ -	\$ -
Aviation.....	-	156,680	124,243	-	-	-	-	-	-	-	-	280,903	289,660	-	-
Water and power service.....	-	-	-	114,232	-	-	-	-	-	-	-	114,232	97,764	-	-
Passenger fees.....	-	-	-	-	323,815	-	-	-	-	-	-	438,107	413,405	-	-
Net patient service revenue.....	-	-	-	-	-	133,160	-	-	-	-	-	133,160	130,013	-	-
Sewer service.....	69,329	8,451	231	24,429	3,165	-	45,259	-	-	-	150,864	132,763	-	8	
Rents and concessions.....	51,742	-	-	33,855	-	-	8,154	-	-	-	93,751	86,636	-	-	
Parking and transportation.....	-	-	-	571	-	-	-	-	-	-	571	668	97,416	96,334	
Charges for services.....	39,805	3,140	-	13,303	12,032	4,646	3,289	303	-	1,413	77,940	78,994	-	-	
Other revenues.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating revenues.....	486,132	168,260	124,474	195,390	339,012	137,806	56,702	114,595	-	1,413	1,614,784	1,577,851	97,416	96,342	
Operating expenses:	141,249	54,627	20,217	422,836	230,380	37,221	49,707	126,135	174	1,082,546	1,109,455	40,643	42,030		
Personal services.....	44,789	5,438	4,477	36,650	101,893	5,802	-	4,976	401	204,426	211,283	32,596	33,010		
Contractual services.....	20,303	-	59,566	661	-	-	-	-	79	80,599	65,404	-	-		
Light, heat and power.....	6,157	8,124	1,535	27,093	46,863	7,142	-	11,333	2	108,019	97,925	14,956	15,100		
Materials and supplies.....	161,112	35,110	9,865	89,998	8,634	38,094	9,547	1,211	282	351,654	313,616	1,218	1,436		
Depreciation and amortization.....	991	28,863	15,364	48,656	274	20,294	-	-	7	114,449	81,935	637	889		
Services provided by other departments.....	12,314	31,661	2,749	29,692	28,239	20,572	-	5,320	-	128,647	112,293	3,598	2,832		
Other.....	13,681	23,655	7,666	-	791	-	-	151	3	46,147	89,146	1,294	1,888		
Total operating expenses.....	400,598	187,378	121,629	655,757	412,083	129,916	59,254	148,128	948	2,116,687	2,081,057	94,844	97,187		
Operating income (loss).....	85,538	(19,118)	2,845	(469,367)	(73,071)	7,890	(2,552)	(34,531)	465	(501,903)	(503,206)	2,572	(845)		
Nonoperating revenues (expenses):	-	-	-	156	16,714	-	-	-	-	-	18,870	19,462	-	-	
Operating grants:	-	-	-	156	16,714	-	-	-	-	-	18,870	19,462	-	-	
Federal.....	-	-	-	5,987	76,964	66,620	1,326	-	-	-	160,897	144,795	-	-	
State / other.....	7,550	6,268	438	1,151	82	1,036	1,080	-	15	17,620	50,215	5,340	4,258		
Interest and investment income.....	(217,705)	(18,833)	-	(4,893)	(679)	(20,670)	(1,931)	(300)	(1)	(285,012)	(247,651)	(5,467)	(4,333)		
Other, net.....	60,383	22,257	4,511	143,468	8,895	(1,202)	(699)	78	-	237,692	168,448	-	-		
Total nonoperating revenues (expenses).....	(149,772)	9,892	11,072	235,425	74,918	(19,510)	(1,550)	(222)	14	160,087	155,267	(127)	(175)		
Income (loss) before capital contributions, transfers and special items.....	(64,236)	(9,426)	13,917	(233,942)	1,847	(11,620)	(4,102)	(34,763)	479	(341,836)	(347,939)	2,445	(920)		
Capital Contributions.....	27,404	-	-	64,669	-	2,745	-	-	-	94,818	135,482	-	-		
Transfers in.....	-	-	-	253,389	63,950	-	-	31,853	-	349,192	452,791	256	197		
Transfers out.....	(18,161)	-	(489)	(546)	(70,543)	(143)	-	(7,573)	-	(97,255)	(204,521)	-	-		
Net income (loss) before special items.....	(94,993)	(9,426)	13,428	83,770	(4,746)	(11,763)	(1,357)	(10,473)	479	4,919	35,803	2,700	(723)		
Special items.....	(54,993)	(9,426)	13,428	83,770	(4,746)	(11,763)	7,888	(10,473)	479	14,164	68,603	2,700	(723)		
Change in net assets.....	511,604	448,848	334,506	1,669,679	43,411	934,815	268,072	81,382	6,496	4,296,813	4,230,010	(5,129)	(4,406)		
Net assets (deficit) at beginning of year.....	\$ 456,611	\$ 439,422	\$ 347,934	\$ 1,753,448	\$ 38,665	\$ 923,062	\$ 275,960	\$ 70,909	\$ 6,975	\$ 4,312,977	\$ 4,229,813	\$ (2,429)	\$ (6,129)		

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



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CITY AND COUNTY OF SAN FRANCISCO
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds								Other Fund	Total		Governmental Activities-Internal Service Funds		
	Major Funds									Market Corporation	2004	2003	2004	2003
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital						
Cash flows from operating activities:														
Cash received from customers, including cash deposits.....	\$ 513,963	\$ 156,826	\$ 126,394	\$ 204,823	\$ 336,630	\$ 139,560	\$ 8,334	\$ 120,845	\$ 1,433	\$ 1,608,828	\$ 1,510,065	\$ 113,158	\$ 111,900	
Cash received from tenants for rent.....	-	8,451	231	1,948	3,165	-	45,887	-	-	69,882	72,990	-	-	
Cash paid to employees for services.....	(146,136)	(47,694)	(19,062)	(422,549)	(236,377)	(36,462)	(20,582)	(129,094)	(174)	(1,058,130)	(1,037,596)	(41,609)	(41,043)	
Cash paid to suppliers for goods and services.....	(107,431)	(103,508)	(83,558)	(142,148)	(171,239)	(51,187)	(23,095)	(22,028)	(522)	(704,686)	(652,472)	(57,248)	(95,268)	
Cash paid for judgments and claims.....	-	(4,895)	(1,199)	(6,212)	-	(1,229)	-	-	-	(13,334)	(14,557)	-	-	
Net cash provided by (used in) operating activities.....	280,396	9,380	22,807	(364,138)	(67,821)	50,732	10,544	(30,277)	737	(107,640)	(121,573)	14,301	(24,411)	
Cash flows from noncapital financing activities:														
Operating grants.....	163	-	3,672	228,765	68,681	1,181	-	-	-	300,462	251,637	-	-	
Transfers in.....	-	-	-	151,135	63,049	-	-	31,704	-	246,788	321,846	255	197	
Transfers out.....	(18,161)	-	(489)	(1,338)	(70,543)	(143)	-	(7,711)	-	(98,385)	(146,527)	-	-	
Transit Impact Development fees received.....	-	-	-	559	-	-	-	-	-	559	3,199	-	-	
Other noncapital increases.....	-	-	-	1,880	8,895	-	-	-	-	10,775	6,180	-	-	
Other noncapital decreases.....	-	-	-	(2,332)	-	-	-	(772)	-	(3,104)	(171)	-	-	
Net cash provided by (used in) noncapital financing activities.....	(17,998)	-	3,183	376,869	70,982	1,038	-	23,221	-	457,095	436,174	255	197	
Cash flows from capital financing activities:														
Capital grants.....	27,967	18,139	-	81,297	-	-	2,427	-	-	129,830	87,759	-	-	
Transfers in.....	-	-	-	103,246	-	-	-	-	-	103,246	89,289	-	-	
Bond sale proceeds and loans received.....	-	-	-	1,643	-	-	-	-	-	1,643	285,878	9,530	11,070	
Proceeds from sale of capital assets.....	8	-	-	-	-	-	9,025	-	-	9,033	1,874	-	-	
Loss from disposition of fixed assets.....	-	-	-	-	-	-	-	-	-	-	(69)	-	-	
Proceeds from commercial paper borrowings.....	-	25,000	-	-	-	-	-	-	-	25,000	-	-	-	
Loans received.....	-	-	-	-	-	-	-	-	-	-	-	-	2,091	
Proceeds from passenger facility charges.....	56,326	-	-	-	-	-	-	-	-	56,326	53,435	-	-	
Acquisition of capital assets.....	(100,310)	(76,100)	(19,328)	(175,142)	(3,438)	(20,718)	(7,708)	(16,264)	(31)	(419,037)	(537,081)	(188)	(339)	
Retirement of capital leases, bonds and loans.....	(108,090)	(13,345)	-	(6,311)	-	(14,929)	(4,103)	(222)	-	(147,600)	(142,459)	(18,289)	(16,889)	
Retirement of commercial paper borrowings.....	-	-	-	-	-	-	-	-	-	-	(30,000)	-	-	
Bond issue costs paid.....	(717)	(141)	-	(130)	-	-	-	-	-	(888)	(738)	(112)	(264)	
Interest paid on long term debt.....	(205,618)	(24,058)	-	(4,863)	(679)	(23,709)	(1,930)	(13)	-	(280,886)	(287,822)	(5,320)	(6,129)	
Other capital financing increases.....	-	-	-	72,555	-	429	-	-	-	72,984	21,072	-	-	
Other capital financing decreases.....	(12,414)	-	(295)	(68,635)	-	(2,307)	-	-	-	(83,651)	(12,978)	-	-	
Net cash provided by (used in) capital financing activities.....	(342,848)	(70,503)	(19,823)	3,040	(4,117)	(59,356)	(4,165)	(16,499)	(31)	(514,102)	(551,856)	(14,379)	(10,440)	
Cash flows from investing activities:														
Purchases of investments with trustees.....	(1,830,490)	(38,247)	-	(5,784)	-	(20,361)	-	-	102	(1,694,790)	(2,421,807)	-	-	
Proceeds from sale of investments with trustees.....	1,659,792	37,910	-	1,900	-	20,477	-	-	-	1,720,079	2,449,993	-	-	
Purchases of restricted deposits and investments.....	(39,154)	(49,483)	-	-	-	-	-	-	-	-	(116,357)	-	-	
Proceeds from sale of restricted deposits and investments.....	19,933	-	-	-	-	-	-	-	-	19,933	324,855	-	-	
Interest income received.....	12,051	7,676	658	1,498	82	1,571	1,834	150	14	25,532	50,359	(7)	789	
Other investing activities.....	-	4,301	4,511	(322)	-	(1,202)	-	1,018	-	8,306	12,282	-	(106)	
Net cash provided by investing activities.....	81,286	11,640	5,169	(2,720)	82	485	1,834	1,168	116	79,060	290,239	(7)	683	
Net increase (decrease) in cash and cash equivalents.....	(39,154)	(49,483)	11,536	12,851	(874)	(7,101)	8,213	(22,387)	822	(85,567)	56,984	170	(33,971)	
Cash and cash equivalents-beginning of year.....	500,283	302,079	83,327	61,751	854	134,363	66,718	59,641	1,164	1,201,190	1,142,204	32,280	89,231	
Cash and cash equivalents-end of year.....	\$ 461,099	\$ 252,596	\$ 94,863	\$ 74,602	\$ 10	\$ 127,262	\$ 74,931	\$ 28,254	\$ 1,986	\$ 1,115,603	\$ 1,201,188	\$ 32,430	\$ 32,260	

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Cash Flows (Continued)
Proprietary Funds
Year ended June 30, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds								Other Fund	Total		Governmental Activities-Internal Service Funds		
	Major Funds									Market Corporation	2004	2003	2004	2003
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital						
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:														
Operating income (loss).....	\$ 85,536	\$ (19,118)	\$ 2,845	\$ (469,173)	\$ (73,071)	\$ 7,890	\$ (2,652)	\$ (34,531)	\$ 465	\$ (501,709)	\$ (503,206)	\$ 2,572	\$ (845)	
Adjustments for non-cash activities:														
Depreciation and amortization.....	164,831	35,110	9,865	89,669	6,634	38,094	9,547	1,211	282	355,443	316,656	1,218	1,438	
Provision for uncollectibles.....	-	-	(1,065)	(11)	31,008	91	(969)	-	-	29,057	73,042	-	-	
Write off of capital assets.....	-	187	-	-	-	-	-	-	-	187	4,076	-	-	
Other.....	-	(4,422)	-	10,932	-	119	(661)	-	-	5,968	(1,407)	-	-	
Changes in assets/liabilities:														
Receivables, net.....	2,040	(1,237)	4,247	(3,050)	(18,547)	1,564	284	4,093	20	(10,586)	(26,340)	15,741	13,937	
Due from other funds.....	-	-	(7,437)	(2,903)	48	-	-	-	-	(10,232)	(5,909)	-	-	
Inventories.....	714	127	(28)	-	472	-	(77)	(464)	-	746	(6,878)	-	-	
Deferred charges and other assets.....	-	-	-	1,014	(3,888)	-	5,056	-	(5)	2,379	3,855	146	(95)	
Accounts payable.....	79	(399)	13,893	2,909	2,790	(805)	(384)	218	(32)	18,267	(7,435)	236	(2,101)	
Accrued payroll.....	(4,703)	(3,042)	(665)	(10,286)	(6,722)	(1,111)	765	(3,862)	-	(28,626)	5,967	(1,199)	149	
Accrued vacation and sick leave pay.....	410	1,313	213	185	725	133	51	325	-	3,364	4,659	86	771	
Accrued workers' compensation.....	(604)	1,874	383	10,387	570	970	182	579	-	14,341	41,395	137	67	
Estimated claims payable.....	-	2,288	26	6,172	(905)	3,787	387	-	-	11,665	(5,135)	-	-	
Due to other funds.....	732	(1,361)	528	2,221	(7,029)	-	(1,402)	2,159	-	(4,159)	(10,439)	-	-	
Deferred credits and other liabilities.....	11,352	(1,840)	-	(2,494)	(13)	-	314	-	-	7,311	(4,434)	(4,646)	(37,732)	
Total adjustments.....	174,860	28,498	19,962	105,035	5,250	42,842	13,096	4,254	172	394,069	381,833	11,729	(23,566)	
Net cash provided by (used in) operating activities.....	\$ 260,396	\$ 9,380	\$ 22,807	\$ (364,138)	\$ (67,821)	\$ 50,732	\$ 10,544	\$ (30,277)	\$ 737	\$ (107,640)	\$ (121,573)	\$ 14,301	\$ (24,411)	
Reconciliation of cash and cash equivalents to the statement of net assets:														
Deposits and Investments with City Treasury:														
Unrestricted.....	\$ 271,219	\$ 168,417	\$ 94,853	\$ 30,887	\$ -	\$ 49,934	\$ 60,777	\$ 2	\$ -	\$ 674,889	\$ 656,155	\$ 6,705	\$ 9,105	
Restricted.....	190,251	84,139	-	37,462	-	78,328	4,142	28,252	-	422,574	554,302	-	-	
Unrestricted deposits and investments outside City Treasury.....	10	40	10	6,233	10	-	5	-	1,986	8,294	8,008	25,725	23,155	
Total deposits and investments.....	461,480	252,596	94,863	74,382	10	127,262	64,924	28,254	1,986	1,105,757	1,218,465	32,430	32,260	
Add: Restricted deposits and investments outside City Treasury meeting the definition of cash equivalents.....	-	-	-	220	-	-	10,060	-	-	-	10,828	-	-	
Less: Investments not meeting the definition of cash equivalents.....	(381)	-	-	-	-	-	(63)	-	-	(434)	(28,105)	-	-	
Cash and cash equivalents at end of year on statement of cash flows.....	\$ 461,099	\$ 252,596	\$ 94,863	\$ 74,602	\$ 10	\$ 127,262	\$ 74,931	\$ 28,254	\$ 1,986	\$ 1,115,603	\$ 1,201,188	\$ 32,430	\$ 32,260	

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Fiduciary Net Assets

Fiduciary Funds
June 30, 2004
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury.....	\$ 87,187	\$ 206,091	\$ 99,307
Deposits and investments outside City Treasury.....	12,421,630	-	-
Receivables:			
Payroll contribution.....	8,533	-	25,461
Interest and other.....	139,216	472	90,284
Invested securities lending collateral.....	1,356,618	-	-
Deferred charges and other assets.....	594	-	25,658
Total assets.....	<u>14,013,768</u>	<u>206,563</u>	<u>240,710</u>
Liabilities			
Accounts payable.....	17,077	1,446	43,224
Estimated claims payable.....	14,547	-	-
Agency obligations.....	-	-	197,486
Obligations under fixed coupon dollar reverse repurchase agreements.....	199,000	-	-
Payable to brokers.....	446,432	-	-
Securities lending collateral.....	1,356,618	-	-
Deferred credits and other liabilities.....	31,360	-	-
Total liabilities.....	<u>2,065,034</u>	<u>1,446</u>	<u>240,710</u>
Net Assets			
Field in trust for pension and other employee benefits and external pool participants	\$ 11,948,734	\$ 205,117	

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Changes in Fiduciary Net Assets

Fiduciary Funds
Year ended June 30, 2004
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employers' contributions.....	\$ 227,659	\$ -
Employer contributions.....	345,381	-
Contributions to pooled investments.....	-	2,086,500
Total contributions.....	<u>573,040</u>	<u>2,086,500</u>
Investment income:		
Interest.....	162,377	1,728
Dividends.....	95,661	-
Net increase in fair value of investments.....	1,468,989	-
Securities lending income.....	15,391	-
Fixed coupon dollar reverse repurchase agreement income.....	3,083	-
Total investment income.....	<u>1,746,540</u>	<u>1,728</u>
Less investment expenses:		
Securities lending borrower rebates and expenses.....	(8,786)	-
Fixed coupon dollar reverse repurchase finance charges and expen	(1,928)	-
Other expenses.....	(24,700)	-
Total investment expenses.....	<u>(25,414)</u>	<u>-</u>
Total additions, net.....	<u>2,284,166</u>	<u>2,088,228</u>
Deductions:		
Benefit payments.....	887,970	-
Refunds of contributions.....	7,935	-
Distribution from pooled investments.....	-	2,117,068
Administrative expenses.....	906,615	-
Total deductions.....	<u>1,777,551</u>	<u>2,117,068</u>
Change in net assets.....	1,377,551	(28,840)
Net assets at beginning of year.....	10,571,183	233,957
Net assets at end of year.....	<u>\$ 11,948,734</u>	<u>\$ 205,117</u>

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

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

(1) THE FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

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

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

San Francisco Parking Authority (Parking Authority) - The Parking Authority was created in October 1949 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 Parking Authority's administrative offices at 25 Van Ness Avenue, San Francisco, CA 94102.

Discretely Presented Component Units

San Francisco Redevelopment Agency (Agency) - The Agency is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern it. The Agency has adopted as its mission the creation of affordable housing and economic development opportunities Citywide. Included in its financial data are the accounts of the San Francisco Redevelopment Financing Authority (SFRFA), a component unit of the Agency. The SFRFA is a separate joint-powers authority formed between the Agency and the City to facilitate the long-term financing of Agency activities. The Agency's governing commission serves as the Board of Directors of the SFRFA.

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

In Fiscal Year 2002, the Public Initiatives Development Corporation (PIDC) was formed to develop affordable housing on the Agency's behalf. The Board of PIDC is comprised of management of the Agency and other appointed individuals. Future funding will be dependent on the Agency and as such, PIDC is reported as a blended component unit of the Agency. Activities during the year are predevelopment activities including design and financing of a 106 affordable units mixed-use development.

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

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

The TIDA's governing body is not substantively the same as that of the City and the TIDA does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial statements are not prepared for TIDA. Further information about TIDA can be obtained from the TIDA administrative offices at 410 Palm Avenue, Building 1, Room 223, Treasure Island, San Francisco, CA 94130.

In accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the City evaluated potential component units and determined that none of the potential component units were individually significant to the City's reporting entity.

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 (BART) and the Bay Area Air Quality Management District (BAAQM), which are also excluded from the City's reporting entity.

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

(2)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

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

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

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

The basic financial statements include certain prior-year summarized comparative information. This information is presented only to facilitate financial analysis.

(b) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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.

The City reports the following major governmental fund:

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

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

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

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

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

The **Municipal 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 beginning on July 1, 2002 the operations of the Parking and Traffic Commission (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 later 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 **General Hospital Medical Center Fund** accounts for the activities of the San Francisco General Hospital Medical Center, a City-owned acute care hospital.

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

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

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

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, 2004**

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 are accounted for within the Investment Trust Fund.

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

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

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City Departments from the Water Department and Hetch Hetchy. These charges have not been eliminated because elimination would distort the direct costs and program revenues reported in the Statement of Activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, airline fees and charges, parking fees, 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 non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) Budgetary Data

The City adopts annual budgets for all governmental funds on a 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, 2004**

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.

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Budgetary data, as revised, is presented in the basic financial statements for the General Fund. Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures.

Generally, new or one-time federal and state grants, other capital projects, and debt issues are budgeted by the Mayor and the Board of Supervisors 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 issuance of the Enterprise Funds and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the Employees Retirement System and deposits and investments of the Redevelopment Agency are held by trustees (note 5).

The San Francisco Unified School District, San Francisco Community College District, and the Trial Courts of the State of California are voluntary participants in the City's investment pool. As of June 30, 2004, \$205 million was held on behalf of these voluntary participants. The total percentage share of the Treasurer's pool that relates to these three external participants is 9.23%. The deposits held for these entities are included in the Investment Trust Fund. The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2004 to support the value of shares in 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 – Substantially all investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, the overdraw is reported as a due to the General Fund. Certain U.S. government securities that have a remaining maturity at time of purchase of one year or less are carried at amortized cost, which approximates market value.

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

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Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market value of open contracts are immediately recognized as gains or losses. The market values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2004, the fair value of open purchase contracts was \$839.2 million, offset by the fair value of open sales contracts of (\$842.7) million for a net fair value of (\$3.5) million. The Retirement System utilized contracts netting to \$320.6 million to hedge (or decrease) the currency risk of foreign investments or to settle trades, and contracts netting to \$317.1 million to increase investment exposure in foreign currencies beyond the amounts reported as international investment securities or to settle trades. Additionally, contracts may be used to effectively cancel previous contracts.

The City Charter and Retirement System Board (Board) policies permit the Retirement System to use investments of the Retirement System's Pension Plan (the Plan) to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral, with a simultaneous agreement to return collateral for the same securities in the future. The Retirement System's securities custodians are agents in lending the Plan's securities for cash collateral of 102% for domestic securities and 105% for international securities. Securities on loan at year-end are presented as "non-categorized" in the schedule of custodial risk (note 5). As of June 30, 2004, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or if the borrowers fail to pay the Retirement System for income distributions by the securities issuers while the securities are on loan. Non cash collateral cannot be pledged or sold unless the borrower defaults.

Either the Retirement System or the borrower can terminate all securities loans on demand, although the average term of the loans is fifty-three days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted-average maturity of thirty-nine 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 eighteen days. The relationship between the maturities of the investment pools and the Retirement System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Retirement System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan. Cash received as collateral on securities lending transactions is reported as an asset, and liabilities from these transactions are reported in the statement of net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses.

The City Charter and Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buy back price. This credit exposure at June 30, 2004 was approximately \$2.3 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 market value. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

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Component Unit - San Francisco Redevelopment Agency - Investments are stated at fair value except for money market investments with maturities of one year or less which have been stated at amortized cost. The fair value of investments has been obtained by using market quotes as of June 30, 2004.

Investment Income

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

It is the City's policy to charge interest at month end to those funds that have a negative average daily cash balance. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then a transfer from the General Fund for an amount equal to the interest expense is made to the fund. This is the case for certain other governmental funds, 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

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.

The Mayor's Office of Housing administers several housing programs and issues loans to qualified applicants. Many of these loans may be forgiven if certain terms and conditions of the loans are met. They are accounted for in the other governmental funds as long-term loans receivable with an allowance for-forgivable loans, and an offsetting 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. An exception is the CWP which accounts for materials and supplies using the purchase method. This method records items as expenses when they are acquired. The governmental fund types also use the purchase method to account for supply inventories, which are not material.

(g) Redevelopment Agency Property Held for Resale

Property held for resale is recorded as an asset at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use.

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(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 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 market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction 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:

Assets	Years
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 this MOUs and the labor contracts, the Program is in effect from July 1, 2002 to at least June 30, 2005. This Program provides:

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

The City 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

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includes its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay.

(j) Bond Issuance Costs, 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Interest accrued 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.

Reserves for cash requirements and emergencies - The City's Charter was amended in November 2003 and replaced the requirements for a cash requirement reserve and an emergency reserve with the rainy day reserve.

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.

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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.
- *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, 2004.

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

Deficit Net Assets/Fund Balances

The Telecommunications and Information Internal Service Fund had a \$2.1 million deficit total net assets as of June 30, 2004. Approximately \$0.05 million of this deficit is due to depreciation that is not funded and will result in continuing deficits. The remaining portion of the deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in operating expenses.

The Central Shops Internal Service Fund had a \$0.8 million deficit as of June 30, 2004. The deficit is due to depreciation and certain non-current accrued expenses that are not funded and will result in continuing deficits in future years.

The Culture and Recreation Fund had a \$8.3 million deficit as of June 30, 2004. It is due to incurring costs for grant programs before receiving grant resources. It will be eliminated once the resources become available.

The Moscone Convention Center Fund had a \$3.8 million deficit as of June 30, 2004. The deficit will be covered as budgeted hotel tax revenues are realized.

(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.

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(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 2003 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform with the presentation in the 2004 basic financial statements.

(q) Effects of New Pronouncements

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. An element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement also should be disclosed. The City will implement the new reporting requirements in the fiscal year 2004-05 financial statements.

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

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer

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OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending June 30, 2007.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.

In June 2004, GASB issued 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. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

(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 balance sheets because the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to pay debt service, unspent bond proceeds, and amounts restricted for future capital projects. In addition, certain grant proceeds are restricted by the granting agency.

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(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, \$717,574, differs from net assets of governmental activities, \$1,306,741, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets (in thousands)					
	Total Governmental Funds	Long-term Assets, Liabilities(1)	Internal Service Funds(2)	Reclassifications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury.....	\$ 723,043	\$ -	\$ 6,705	\$ -	\$ 729,748
Deposits and investments outside City Treasury.....	74,426	-	25,725	-	100,151
Receivables, net:					
Property taxes and penalties.....	34,895	-	-	-	34,895
Other local taxes.....	163,017	-	-	-	163,017
Federal and state grants and subventions.....	161,842	-	-	-	161,842
Charges for services.....	13,731	-	-	-	13,731
Interest and other.....	4,147	-	583	-	4,730
Due from other funds.....	58,301	-	-	(58,301)	-
Due from component unit.....	849	-	-	-	849
Loans receivable, net.....	214,650	-	-	-	214,650
Capital assets, net.....	8,223	2,311,608	2,995	-	2,314,826
Deferred charges and other assets.....	5,478	8,909	5,478	-	22,865
Total assets.....	1,458,824	2,320,517	41,446	(58,301)	3,760,486
Liabilities					
Accounts payable.....	142,828	-	5,466	-	148,294
Accrued payroll.....	41,346	-	1,265	-	42,611
Accrued vacation and sick leave pay.....	-	124,754	3,683	-	128,437
Accrued workers' compensation.....	-	212,414	1,216	-	213,630
Estimated claims payable.....	-	79,805	-	-	79,805
Accrued interest payable.....	-	6,199	986	-	7,185
Deferred tax, grant and subvention revenues.....	61,771	(56,485)	-	-	5,286
Due to other funds/internal balances.....	89,861	-	859	(58,301)	32,419
Due to other funds/internal balances.....	353,444	(232,887)	207	-	120,764
Deferred credits and other liabilities.....	50,000	1,376,064	247,270	-	1,673,334
Bonds, loans, capital leases, and other payables.....	-	-	260,952	-	260,952
Total liabilities.....	739,250	1,511,844	260,952	(58,301)	2,453,745
Fund balances/net assets					
Total fund balances/net assets.....	717,574	808,673	(219,506)	-	1,306,741
Total liabilities and fund balances/net assets.....	\$ 1,458,824	\$ 2,320,517	\$ 41,446	\$ (58,301)	\$ 3,760,486

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(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.....	\$ 2,878,928
Accumulated depreciation.....	(655,218)
	<u>\$ 2,311,608</u>
	<u>\$ 8,909</u>

Bond issuance costs are expensed 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.

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.....	\$ (124,734)
Accrued workers' compensation.....	(212,414)
Estimated claims payable.....	(79,805)
Bonds, loans, capital leases, and other payables.....	(1,378,064)
Deferred credits and other liabilities.....	(1,184)
	<u>\$ (1,796,201)</u>

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

	\$ (6,199)
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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.....	\$ 56,485
Deferred credits and other liabilities.....	234,071
	<u>\$ 290,556</u>

(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 assets before adjustments.....	(2,428)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds.....	(246,812)
Deferred charges and other assets.....	25,008
Deferred credits and other liabilities.....	(219,508)
	<u>\$ (246,812)</u>

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(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, (\$165,764), differs from the change in net assets for governmental activities (\$6,081), 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.

	Total Governmental Funds	Long-term Expenditures(3)	Capitalized Items(4)	Internal Service Funds(5)	Long-term Debt Transactions(6)	Statement of Activities Totals
Revenues						
Property taxes	\$ 721,457	\$ 2,349	\$ -	\$ -	\$ -	\$ 723,796
Business taxes	266,892	-	-	-	-	266,892
Other local taxes	20,798	-	-	-	-	20,798
Earnings, permits and franchises	23,788	-	-	-	-	23,788
Fees	25,183	-	-	-	-	25,183
Interest and investment income	11,630	-	-	228	-	11,858
Rents and concessions	58,979	-	-	-	-	58,979
Intergovernmental:						
Federal	344,155	-	-	-	-	344,155
State	630,953	-	-	-	-	630,953
Other	18,209	-	-	-	-	18,209
Charges for services	217,647	-	-	-	-	217,647
Other revenues	57,144	-	-	-	-	57,144
Total revenues	2,853,462	2,349	-	228	-	2,856,037
Expenditures/Expenses						
Capital:						
Public protection	706,758	15,337	10,019	(4,534)	-	727,580
Public works, transportation and commerce	165,555	(2,917)	14,824	(8,683)	-	168,779
Human welfare and neighborhood development	662,948	(12,103)	524	(119)	-	651,250
Community health	512,914	4,089	820	(757)	-	517,066
Culture and recreation	273,163	(17,689)	(5,346)	(35,734)	-	224,394
General administration and finance	153,709	13,755	15,682	(79)	-	183,258
General City responsibilities	74,823	748	-	(2,276)	437	73,532
Debt service:						
Principal retirement	78,831	-	-	5,467	(78,831)	-
Interest and fiscal charges	61,266	-	-	-	18,778	80,044
Interest on long-term debt escrow agent	1,350	-	-	-	(1,350)	-
Bond issuance costs	-	-	(165,872)	-	-	(165,872)
Capital outlay	165,972	-	(165,872)	-	-	-
Total expenditures/expenses	2,697,699	1,596	(165,872)	(16,527)	(86,700)	2,544,181
Other financing source (uses)/changes in net assets						
Net transfers (to) from other funds	(252,192)	-	-	265	-	(251,927)
Issuance of bonds and loans:						
Face value of bonds issued	116,645	-	-	-	(116,645)	-
Premium on issuance of bonds	1,411	-	-	-	(2,190)	(779)
Proceeds on refunding escrow agent	1,411	-	-	-	(1,411)	-
Payments to refunding escrow agent	(65,802)	-	-	-	65,802	-
Other financing source - capital leases	6,165	-	-	(6,165)	-	-
Total other financing source (uses)/changes in net assets	(101,617)	-	-	(5,910)	(54,410)	(251,927)
Net change for the year	(\$ 165,764)	\$ 713	\$ 106,637	\$ 10,643	\$ 42,290	\$ (6,081)

- (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. \$ 2,349
- 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 increase in long-term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources.
- Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of activities. \$ 37,657
\$ (1,536)
- (4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets.
- Capital expenditures \$ 176,174
 Depreciation expense on capital assets (63,343)
 Loss on disposal of capital assets (44)
 Expense of CIP (6,750)
 Difference \$ 106,037
- (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 fund's costs for the year. \$ 10,643
- (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. \$ 35,734
- Total property rent payments \$ 1,350
 Bond issuance costs (437)
 Amortization of bond issuance costs 913
 Difference \$ (1,411)
- Bond premiums and discounts are expended in 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. Repayment of bond principal is 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 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.
- Principal payments made \$ 78,831
 Payments to escrow for refunded debt 65,802
 Difference \$ (12,969)
- Bond 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 and entering into capital lease arrangements increase long-term liabilities in the statement of net assets and do not affect the statement of activities. Proceeds were received from:
- General obligation bonds \$ (60,440)
 Refunding general obligation bonds (65,205)
 Refunding general obligation bonds and refunding settlement obligation bonds (2,190)
 Loans \$ 23,682

CITY AND COUNTY OF SAN FRANCISCO
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

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 expensed 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.

Interest payment on capital lease obligations on the Moscone Convention Center.....	(18,649)
Amortization of bond premiums, discounts and refunding losses.....	(327)
Reduction in arbitrage rebate liability.....	398
	<u>\$ (18,778)</u>

CITY AND COUNTY OF SAN FRANCISCO
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

(4) BUDGETARY RESULTS RECONCILED TO RESULTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Budgetary Results Reconciliation

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

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

The fund balance of the General Fund as of June 30, 2004 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

	General Fund
Fund balance - Budget basis.....	\$ 222,611
Unrealized gain on investments.....	277
Deferred charges and assets not available for appropriation.....	7,142
Cumulative excess property tax revenues recognized on a Budget basis.....	(19,882)
Other.....	287
Fund balance - GAAP basis.....	<u>\$ 210,435</u>

General Fund Budget basis fund balance at June 30, 2004 is composed of the following (in thousands):

Reserved for rainy day.....	\$ 55,139
Reserved for encumbrances.....	42,501
Reserved for appropriation carryforward.....	32,813
Reserved for subsequent years' budgets.....	2,588
Reserved for budget incentive program.....	3,654
Reserved for salaries and benefits (MOU).....	2,940
Reserved for litigation.....	139,635
Total reserved amounts.....	\$ 139,635
Designated for litigation and contingencies.....	27,970
Unreserved - available for appropriation.....	<u>55,006</u>
Total unreserved amounts.....	82,976
Fund Balance, June 30, 2004 - Budget basis	<u>\$ 222,611</u>

Of the \$55.0 million unreserved-available for appropriation, \$26.3 million has been subsequently appropriated as part of the General Fund budget for fiscal year 2005.

CITY AND COUNTY OF SAN FRANCISCO
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 June 30, 2004

(5) DEPOSITS AND INVESTMENTS

The City's deposits and investments are invested pursuant to investment policy guidelines established by the City Treasurer, subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee established under California Government Code Sections 27130 to 27137 is composed of various City officials and representatives of agencies with large cash balances. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. Investments permitted by the City's investment policy include the following:

- Public Time Deposits
- Public Demand Accounts
- Negotiable Certificates of Deposit
- U.S. Government Securities
 - Treasury Bills
 - Treasury Bonds
 - Treasury Notes
- Federal Agencies
 - Federal Home Loan Bank
 - Federal Farm Credit Bank
 - Federal National Mortgage Association
 - Federal Mortgage Corporation
 - Student Loan Marketing Association
- Money Market Instruments
 - Commercial Paper
 - Bankers' Acceptances
 - Repurchase Agreements
 - Reverse Repurchase Agreements

The City's investment policy identifies certain restrictions related to the above investments. Investments held by the City Treasurer during the year did not include repurchase agreements or reverse repurchase agreements.

Other deposits and investments maintained outside the City Treasury are invested pursuant to governing bond covenants or California Government Code provisions. The following provides a brief description of the nature of these investments.

Employees' Retirement System

The Retirement System's funds are invested pursuant to policy guidelines established by the Retirement System's Board. The objective of the investment policy is to maximize the expected return of the fund at an agreed upon level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified. As of June 30, 2004, the Retirement System had no investments in any one organization that represented 5% or more of plan net assets. Investments held by the Retirement System during the year did not include reverse repurchase agreements.

Other Funds

Other funds consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These funds are invested either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2004

Component Units

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

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

Deposits and Investments

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

	Primary Government		Fiduciary Funds	Total	Component Units
	Governmental Activities	Business-type Activities			
Deposits and Investments with					
City Treasury.....	\$ 725,748	\$ 674,887	\$ 392,585	\$ 1,797,220	\$ 2,096
Deposits and Investments outside City Treasury.....	100,151	8,295	12,421,630	12,530,076	179,127
Restricted assets:					
Deposits and Investments with City Treasury.....	-	423,472	-	423,472	-
Deposits and Investments outside City Treasury.....	-	325,786	1,356,618	1,356,618	236,021
Invested securities lending collateral	\$ 829,899	\$ 1,432,440	\$ 14,170,833	\$ 16,433,172	\$ 417,244
Total deposits and investments.....	\$ 14,579	\$ 4,874	\$ 13,867	\$ 33,120	\$ 65,467
Deposits.....	815,320	1,427,766	14,156,966	16,400,052	351,777
Investments.....	\$ 829,899	\$ 1,432,440	\$ 14,170,833	\$ 16,433,172	\$ 417,244
Total deposits and investments.....	\$ 829,899	\$ 1,432,440	\$ 14,170,833	\$ 16,433,172	\$ 417,244

¹ Includes deposits and investments with the City Treasury of total governmental funds (\$725,043) and internal service funds (\$5,705).
² Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds (\$87,187).
³ Investment trust fund (\$206,091) and agency funds (\$89,507).
 Includes deposits and investments outside the City Treasury of total governmental funds (\$74,426) and internal service funds (\$25,725).

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

Cash and Deposits

The City had cash and deposits at June 30, 2004, 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
Cash on hand	\$ 147	\$ 617	\$ -	\$ -	\$ 1	\$ -
Federally insured deposits	600	1,353	1,352	-	28	1,527
Collateralized deposits*	13,832	101,500	170	60	66,440	65,439
Uninsured and uncollateralized	-	-	2,534	2,428	13,867	13,867
	\$ 14,579	\$ 102,100	\$ 4,674	\$ 3,940	\$ 13,867	\$ 65,467
					\$ 66,467	\$ 66,936

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2004, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately \$88.4 million. Of the \$88.4 million of outstanding checks, \$38.7 million relates to the San Francisco Unified School District and Community College District which have been reflected in an investment trust fund.

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

The \$16.4 million of insured and uncollateralized cash outlined above consists of \$13.9 million of cash held on behalf of the Employees' Retirement System by a third party trustee, \$0.17 million, \$2.1 million, \$0.08 million, \$0.22 million, \$0.01 million, of cash held on behalf of Port Commission, Parking Garages, San Francisco General Hospital, Municipal Railway, and Parking and Traffic, respectively, by third party trustees.

Investments

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

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

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

At June 30, 2004, investments included the following (in thousands):

Type of Investment	Category			Carrying value
	1	2	3	
Primary Government Pension and Investment Trust Funds				
Investments in City Treasury				
U.S. government securities	\$ 1,181,984	\$ -	\$ -	\$ 1,181,984
Federal agencies	175,333	-	-	175,333
Commercial Paper	565,269	-	-	565,269
Negotiable certificates of deposit	289,955	-	-	289,955
Public securities	100	-	-	100
Total investments in City Treasury	2,212,641	-	-	2,212,641
Employees' Retirement System (ERS)				
U.S. government securities	285,866	-	2,028	287,892
Short term bills and notes	16,989	-	33,987	50,976
Debt securities	1,046,155	-	75,912	1,122,067
Equity securities	4,770,379	-	6,302	4,776,681
Total categorized investments	6,119,389	-	116,827	6,236,216
Non-categorized investments				
Mortgage backed securities				554,065
Equity investments				551,927
Equity investments including mutual funds				711,151
Real estate				968,368
Venture capital				1,311,960
Money market mutual funds				757,205
Investment in lending agents' short-term investment pool				1,356,619
Investments lent to broker-dealers				7,558,165
Total non-categorized investments				13,764,381
Total investments				388,580
Other funds	56,434	4,195	327,951	770
Equity securities	770	-	-	327,951
Total categorized investments	57,204	4,195	-	389,950
Non-categorized investments				
Commercial Paper				722
Money market mutual funds				32,958
Total non-categorized investments				33,680
Total Other Funds				423,950
Total Primary Government Pension and Investment Trust Funds	\$ 8,389,234	\$ 4,195	\$ 446,778	\$ 16,400,052
Component Units -				
Redevelopment Agency				
U.S. agencies and Federal agencies	\$ 9,638	\$ 43,600	\$ 54,007	107,245
Bankers' acceptances	6,470	-	-	6,470
Commercial paper	-	7,626	-	7,626
Corporate medium term notes	-	2,003	-	2,003
Repurchase agreements	-	-	1,802	1,802
Total categorized investments	9,638	59,639	55,809	125,146
Non-categorized investments				
Guaranteed investment contracts				23,119
Local agency investment fund				108,018
Money market mutual funds				93,388
Total non-categorized investments				224,535
Total Redevelopment Agency				349,681
Treasure Island Development Authority				
Investments in City Treasury				
U.S. government securities	2,096	-	-	2,096
Total Treasury Island Development Authority	2,096	-	-	2,096
Total Component Units	\$ 11,734	\$ 59,639	\$ 55,809	\$ 351,177

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

The types of investments made during the year were substantially the same as those held as of June 30, 2004. Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. City management believes the liquidity in the portfolio is sufficient to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose. The interest and net investment gain is comprised of the following at June 30, 2004 (in thousands):

Interest and dividends, net of amounts capitalized	\$ 336,004
Net increase in the fair value of investments	<u>1,421,130</u>
Total investment gain	<u>\$ 1,757,134</u>

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

The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for the fiscal year ended June 30, 2004 was 1.960%.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2004 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants.....	<u>\$ 2,222,788</u>
Equity of internal pool participants.....	2,017,671
Equity of external pool participants.....	<u>205,117</u>
Total Equity.....	<u>\$ 2,222,788</u>

Statement of Changes in Net Assets	
Net assets at July 1, 2003.....	\$ 2,315,169
Net change in investments by pool participants.....	<u>(92,381)</u>
Net assets at June 30, 2004.....	<u>\$ 2,222,788</u>

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2004 (in thousands):

Types of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities.....	0.69% - 3.55%	07/01/04-08/15/08	\$ 1,188,000	\$ 1,184,090
Federal agencies.....	1.00% - 1.42%	07/07/04-09/29/04	176,000	175,333
Negotiable certificate of deposits.....	1.03% - 1.25%	07/08/04-08/24/04	290,000	289,956
Commercial paper.....	1.03% - 1.15%	07/02/04-08/30/04	567,000	565,268
Public time deposits.....	1.20%	07/17/04	100	100
			<u>\$ 2,221,100</u>	<u>2,214,737</u>
Carrying amount of deposits in Treasurer's Pool.....				8,051
Total cash and investments in Treasurer's Pool.....				<u>\$ 2,222,788</u>

**CITY AND COUNTY OF SAN FRANCISCO
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Supplemental disclosure of non-cash investing and financing activities
San Francisco International Airport

During the fiscal year 2004, the San Francisco International Airport (SFO) issued Second Series Revenue Bonds Issue 30 and Issue 31 to refund previously issued debt. The \$35.8 million in proceeds from Issue 30 and the \$224.0 million in proceeds from Issue 31 were deposited immediately into irrevocable trusts for the defeasance of \$259.8 million of Second Series Refunding Bonds.

Bond issuance costs of \$7.6 million that were deducted from the proceeds of the Second Series Revenue Bonds were capitalized and will be amortized over the debt repayment period.

Other Non Cash Transactions (in thousands):

	General Hospital Center		Port of San Francisco		Laguna Honda Hospital		Internal Service Funds		Total	
									2004	2003
Loss on abandonment of property and equipment.....	\$	-	\$	39	\$	-	\$	-	\$	39
Acquisition of capital assets on accounts payable and capital leases.....	\$	48	\$	363	\$	2,102	\$	1,237	\$	3,750
	\$	48	\$	402	\$	2,102	\$	1,237	\$	3,789
									\$	1,735

(6) PROPERTY TAXES

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

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at the lesser of 2% per year or inflation.

**CITY AND COUNTY OF SAN FRANCISCO
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The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. 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 \$101.2 million for the year ended June 30, 2004, of which \$2.7 million was for the San Francisco Community College District (CCD).

Taxable valuation for the year ended June 30, 2004 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately \$95.4 billion, an increase of 5.8%. The secured tax rate was \$1.107 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, \$0.107 for bond debt service, and \$0.35 for the San Francisco Unified School District, CCD, the Bay Area Air Quality Management District, and the Bay Area Rapid Transit District. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.81% and 3.78%, respectively, of the current year tax levy, for an average delinquency rate of 1.96% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve, as of June 30, 2004 was \$8.9 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, 2004**

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2004, was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 141,608	\$ 2,032	\$ -	\$ 143,640
Construction in progress.....	215,656	166,478	(136,459)	245,677
Total capital assets, not being depreciated.....	357,266	168,510	(136,459)	389,317
Capital assets, being depreciated:				
Facilities and improvements.....	2,015,981	76,401	-	2,092,382
Machinery and equipment.....	232,463	13,229	(1,573)	244,119
Infrastructure.....	131,808	49,168	-	180,976
Property held under lease.....	4,816	-	-	4,816
Total capital assets, being depreciated.....	2,385,068	138,798	(1,573)	2,522,293
Less accumulated depreciation for:				
Facilities and improvements.....	359,812	37,372	-	397,184
Machinery and equipment.....	169,564	23,410	(1,529)	191,445
Infrastructure.....	487	3,651	-	4,138
Property held under lease.....	4,280	-	-	4,280
Total accumulated depreciation.....	534,143	64,433	(1,529)	597,047
Total capital assets, being depreciated, net.....	1,850,925	74,365	(44)	1,925,246
Governmental activities capital assets, net.....	\$ 2,206,191	\$ 242,875	\$ (136,503)	\$ 2,314,563

Business-type Activities:

San Francisco International Airport

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 2,316	\$ -	\$ -	\$ 2,316
Construction in progress.....	105,957	90,164	(70,557)	125,574
Total capital assets, not being depreciated.....	109,283	90,164	(70,557)	128,890
Capital assets, being depreciated:				
Facilities and improvements.....	4,604,727	66,137	-	4,670,864
Machinery and equipment.....	70,240	1,241	(1,274)	70,207
Easements.....	131,846	3,750	-	135,596
Total capital assets, being depreciated.....	4,806,815	71,128	(1,274)	4,876,669
Less accumulated depreciation for:				
Facilities and improvements.....	850,011	148,496	-	998,507
Machinery and equipment.....	54,953	5,966	(1,217)	59,702
Easements.....	39,795	6,650	-	46,445
Total accumulated depreciation.....	944,759	161,112	(1,217)	1,104,654
Total capital assets, being depreciated, net.....	3,862,056	(89,984)	(57)	3,772,015
Business-type activities capital assets, net.....	\$ 3,971,339	\$ 180	\$ (70,614)	\$ 3,900,905

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

Water Department

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 18,112	\$ -	\$ (183)	\$ 17,929
Construction in progress.....	117,313	101,027	(132,895)	85,755
Total capital assets, not being depreciated.....	135,425	101,027	(132,768)	103,684
Capital assets, being depreciated:				
Facilities and improvements.....	863,745	104,757	-	968,502
Machinery and equipment.....	95,681	4,951	(727)	99,905
Total capital assets, being depreciated.....	959,426	109,708	(727)	1,068,407
Less accumulated depreciation for:				
Facilities and improvements.....	331,830	27,288	-	359,118
Machinery and equipment.....	53,684	7,822	(700)	60,806
Total accumulated depreciation.....	385,514	35,110	(700)	419,924
Total capital assets, being depreciated, net.....	573,912	74,598	(27)	648,483
Capital assets, net.....	\$ 709,337	\$ 175,625	\$ (132,795)	\$ 752,167

Hetch Hetchy Water and Power

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 4,215	\$ -	\$ -	\$ 4,215
Construction in progress.....	57,664	24,090	(30,657)	51,097
Total capital assets, not being depreciated.....	61,879	24,090	(30,657)	55,312
Capital assets, being depreciated:				
Facilities and improvements.....	402,153	24,512	-	426,665
Machinery and equipment.....	36,912	1,388	(144)	38,156
Total capital assets, being depreciated.....	439,065	25,900	(144)	464,821
Less accumulated depreciation for:				
Facilities and improvements.....	225,796	8,270	-	234,066
Machinery and equipment.....	24,350	1,595	(139)	25,806
Total accumulated depreciation.....	250,146	9,865	(139)	259,872
Total capital assets, being depreciated, net.....	188,919	16,035	(6)	204,949
Capital assets, net.....	\$ 250,798	\$ 40,125	\$ (30,662)	\$ 260,261

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

Municipal Transportation Agency

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 26,245	\$ -	\$ -	\$ 26,245
Construction in progress.....	190,189	172,858	(80,268)	292,779
Total capital assets, not being depreciated.....	216,434	172,858	(80,268)	309,024
Capital assets, being depreciated:				
Facilities and improvements.....	374,938	1,960	(47)	376,851
Machinery and equipment.....	1,042,893	71,136	(25,392)	1,088,637
Infrastructure.....	693,029	10,644	-	703,673
Total capital assets, being depreciated.....	2,110,860	83,740	(25,439)	2,169,161
Less accumulated depreciation for:				
Facilities and improvements.....	115,207	8,234	(45)	123,396
Machinery and equipment.....	222,982	59,127	(24,659)	257,450
Infrastructure.....	196,534	22,469	-	219,003
Total accumulated depreciation.....	524,723	89,830	(24,704)	589,849
Total capital assets, being depreciated, net.....	1,586,137	(6,090)	(735)	1,579,312
Capital assets, net.....	\$ 1,802,571	\$ 166,768	\$ (81,003)	\$ 1,888,336

General Hospital Medical Center

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 542	\$ -	\$ -	\$ 542
Construction in progress.....	2,327	1,228	-	3,555
Total capital assets, not being depreciated.....	2,869	1,228	-	4,097
Capital assets, being depreciated:				
Facilities and improvements.....	124,684	1,230	-	125,914
Machinery and equipment.....	45,531	389	-	45,920
Total capital assets, being depreciated.....	170,215	1,619	-	171,834
Less accumulated depreciation for:				
Facilities and improvements.....	79,109	4,280	-	83,389
Machinery and equipment.....	34,251	2,374	-	36,625
Total accumulated depreciation.....	113,360	6,654	-	119,994
Total capital assets, being depreciated, net.....	56,855	(4,996)	-	51,839
Capital assets, net.....	\$ 59,704	\$ (3,768)	\$ -	\$ 55,936

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

Clean Water Program

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 22,168	\$ -	\$ -	\$ 22,168
Construction in progress.....	8,524	23,070	(9,215)	22,379
Total capital assets, not being depreciated.....	30,692	23,070	(9,215)	44,547
Capital assets, being depreciated:				
Facilities and improvements.....	1,916,830	6,685	-	1,923,515
Land.....	23,444	759	-	24,203
Total capital assets, being depreciated.....	1,940,274	7,444	-	1,947,718
Less accumulated depreciation for:				
Facilities and improvements.....	625,397	37,535	-	662,932
Machinery and equipment.....	19,612	559	-	20,171
Total accumulated depreciation.....	645,009	38,094	-	683,103
Total capital assets, being depreciated, net.....	1,295,265	(30,650)	-	1,264,615
Capital assets, net.....	\$ 1,325,957	\$ (7,580)	\$ (9,215)	\$ 1,309,162

Port of San Francisco

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 119,512	\$ 19	\$ (79)	\$ 119,452
Construction in progress.....	22,709	7,567	(18,220)	12,056
Total capital assets, not being depreciated.....	142,221	7,586	(18,299)	131,508
Capital assets, being depreciated:				
Facilities and improvements.....	250,121	17,105	(1,400)	265,826
Machinery and equipment.....	12,877	1,125	(634)	13,368
Total capital assets, being depreciated.....	262,998	18,230	(2,034)	279,194
Less accumulated depreciation for:				
Facilities and improvements.....	150,323	8,348	(1,371)	157,300
Machinery and equipment.....	7,241	1,199	(483)	7,957
Total accumulated depreciation.....	157,564	9,547	(1,854)	165,257
Total capital assets, being depreciated, net.....	105,434	8,683	(180)	113,937
Capital assets, net.....	\$ 247,655	\$ 16,269	\$ (18,479)	\$ 245,445

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

Laguna Honda Hospital

	Balance July 1, 2003	Increases *	Decreases *	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 914	\$ -	\$ -	\$ 914
Construction in progress.....	40,510	16,064	-	56,574
Total capital assets, not being depreciated.....	41,424	16,064	-	57,488
Capital assets, being depreciated:				
Facilities and improvements.....	26,564	824	-	27,388
Machinery and equipment.....	12,611	8	-	12,619
Property held under lease.....	824	2,294	(824)	2,294
Total capital assets, being depreciated.....	39,999	3,126	(824)	42,301
Less accumulated depreciation for:				
Facilities and improvements.....	20,355	1,701	-	22,056
Machinery and equipment.....	11,644	206	(26)	11,630
Property held under lease.....	721	46	(721)	46
Total accumulated depreciation.....	32,720	1,953	(741)	33,932
Total capital assets, being depreciated, net.....	7,279	1,173	(63)	8,389
Capital assets, net.....	\$ 48,703	\$ 17,237	\$ (63)	\$ 65,857

* The increases and decreases include transfers of categories of fixed assets from properties held under lease to facilities and improvements.

Other Fund - San Francisco Market Corporation

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Construction in progress.....	\$ -	\$ -	\$ -	\$ -
Total capital assets, not being depreciated.....	-	-	-	-
Capital assets, being depreciated:				
Facilities and improvements.....	9,472	11	-	9,483
Machinery and equipment.....	25	4	-	29
Total capital assets, being depreciated.....	9,497	15	-	9,512
Less accumulated depreciation for:				
Facilities and improvements.....	3,990	266	-	4,256
Machinery and equipment.....	3,990	266	-	4,256
Total accumulated depreciation.....	5,507	(251)	-	5,256
Total capital assets, being depreciated, net.....	\$ 5,507	\$ (251)	\$ -	\$ 5,256
Capital assets, net.....	\$ 5,507	\$ (251)	\$ -	\$ 5,256

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

Total Business-type Activities

	Balance July 1, 2003	Increases *	Decreases *	Balance June 30, 2004
Capital assets, not being depreciated:				
Land.....	\$ 194,024	\$ 19	\$ (262)	\$ 193,781
Construction in progress.....	546,203	436,068	(341,502)	640,769
Total capital assets, not being depreciated.....	740,227	436,087	(341,764)	834,550
Capital assets, being depreciated:				
Facilities and improvements.....	8,573,214	223,231	(1,448)	8,794,997
Machinery and equipment.....	1,340,214	81,011	(28,171)	1,393,054
Infrastructure.....	683,029	10,644	-	703,673
Property held under lease.....	824	2,294	(824)	2,294
Essements.....	131,846	3,750	-	135,596
Total capital assets, being depreciated.....	10,728,129	320,930	(30,443)	11,028,616
Less accumulated depreciation for:				
Facilities and improvements.....	2,402,018	244,309	(1,416)	2,645,001
Machinery and equipment.....	428,717	78,348	(27,218)	480,347
Infrastructure.....	186,534	22,468	-	209,002
Property held under lease.....	39,795	46	(721)	46
Essements.....	3,057,785	352,411	(29,355)	3,380,841
Total accumulated depreciation.....	7,881,244	(37,481)	(1,088)	7,948,775
Total capital assets, being depreciated, net.....	\$ 8,421,571	\$ 404,606	\$ (342,852)	\$ 8,483,325
Capital assets, net.....	\$ 8,421,571	\$ 404,606	\$ (342,852)	\$ 8,483,325

* The increases and decreases include transfers of categories of fixed assets from properties held under lease to facilities and improvements.

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

Governmental Activities			
Public protection.....	\$ 10,692		
Public works transportation and commerce.....	15,268		
Human welfare and neighborhood development.....	534		
Community Health.....	864		
Culture and recreation.....	22,431		
General administration and finance.....	13,533		
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis based on their usage of the assets.....	1,091		
Total depreciation expense - governmental activities	\$ 64,433		
Business-type activities:			
Water.....	\$ 161,112		
Power.....	9,865		
Transit.....	89,830		
Hospitals.....	8,587		
Sewer.....	38,054		
Port.....	9,547		
Market.....	266		
Total depreciation expense - business-type activities.....	\$ 352,411		

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Department that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Department and Hetch Hetchy Water and Power (Hetch Hetchy), the CWP, MTA, Laguna Honda Hospital (LHH), 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, Hetch Hetchy, Cable Car, Barn facilities and structures of MTA, building and structures of LHH, and pier structures of the Port and totaled \$1.5 billion as of June 30, 2004. In addition, the Hetch Hetchy had utility type assets with useful lives over 100 years which totaled \$4.5 million at June 30, 2004.

During the fiscal year ended June 30, 2004, the City's enterprise funds incurred total interest expense and interest income of approximately \$274 million and \$17.6 million, respectively. Of these amounts, interest expense and interest income of approximately \$8.8 million and \$0 million, respectively, was capitalized as part of the cost of constructing proprietary capital assets. The net amount of approximately \$8.8 million was capitalized into capital assets.

During fiscal year ended June 30, 2004, Water, Hetch Hetchy, and CWP expended \$27 million, \$7.8 million, \$2.5 million, respectively, related to capitalized design and planning costs on certain projects which were discontinued. The amounts of the write-off were recognized as other operating expense in the accompanying financial statements.

Component Unit - Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2004 was as follows (in thousands):

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Property held under lease.....	\$ 77,612	\$ 5,080	\$ -	\$ 82,692
Construction in progress.....	7,572	23,996	-	31,568
Total capital assets, not being depreciated/amortized.....	85,184	29,076	-	114,260
Capital assets, being depreciated:				
Facilities and improvements.....	137,212	-	-	137,212
Leasehold improvements.....	21,602	-	-	21,602
Machinery and equipment.....	7,727	32	-	7,759
Total capital assets, being depreciated.....	166,541	32	-	166,573
Less accumulated depreciation and amortization for:				
Facilities and improvements.....	28,902	3,430	-	32,332
Leasehold improvements.....	6,922	432	-	7,354
Machinery and equipment.....	6,763	394	-	7,157
Total accumulated depreciation and amortization.....	42,587	4,256	-	46,843
Total capital assets, being depreciated, net.....	123,954	(4,224)	-	119,730
Redevelopment Agency capital assets, net.....	\$ 208,138	\$ 24,852	\$ -	\$ 233,990

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

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

The following is a summary of long-term obligations of the City as of June 30, 2004 (in thousands):

GOVERNMENTAL ACTIVITIES			
Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS (a):			
Affordable housing.....	2021	4.0 to 7.375%	\$ 87,540
City hall improvement project.....	2005	5.0%	2,810
Fire protection.....	2005	5.2%	630
Libraries.....	2022	2.5 to 6.8%	37,495
Museums.....	2019	4.5 to 5.5%	15,100
Parks and playgrounds.....	2023	2.0 to 6.5%	72,295
Public safety improvements.....	2005	5.2%	335
Schools.....	2023	2.0 to 6.5%	139,925
Zoo facilities.....	2022	2.5 to 6.0%	35,065
Refunding.....	2016	3.0 to 5.75%	453,155
General obligation bonds - governmental activities.....			<u>844,350</u>
LEASE REVENUE BONDS:			
San Francisco Finance Corporation* (b) & (e).....	2030	2.0 to 5.5%	245,680
Lease revenue bonds - governmental activities.....			<u>245,680</u>
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c) & (d).....	2034	3.0 to 5.875%	290,635
Commercial Paper (c).....	2005	1.02 to 1.05%	50,000
Loans (c) (d) & (f).....	2014	4.3 to 6.7%	9,515
Capital leases payable (c) & (f).....	2024	1.5 to 7.05%	194,815
Settlement Obligation Bonds (d).....	2011	2.0 to 3.05%	44,275
Accrued vacation and sick leave (d) & (f).....			128,417
Accrued workers' compensation (d) & (f).....			213,630
Estimated claims payable (d) & (f).....			79,805
Other long-term obligations - governmental activities.....			<u>1,011,092</u>
DEFERRED AMOUNTS:			
Bond issuance premiums.....			4,912
Bond issuance discounts.....			(2,509)
Bond refunding.....			(6,339)
Deferred amounts.....			<u>(3,936)</u>
Governmental activities total long-term obligations.....			<u>\$ 2,097,186</u>

Debt service payments are made from the following sources:

- (a) Property tax recorded in the Debt Service Fund.
- (b) Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
- (c) Revenues recorded in the Special Revenue Funds.
- (d) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
- (e) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.
- (f) Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.

*Includes the Moscone Center West Expansion Project which was financed with variable rate bonds that reset weekly. The average interest rate from issuance date of November 2, 2000 through June 30, 2004 was 1.5%. This rate at June 30, 2004 was 1%.

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds.....	2032	1.55 to 8.0%*	\$ 4,173,170
Water Department.....			
Revenue bonds.....	2032	2.5 to 6.5%	50,025
Commercial paper.....	2005	1.05%	25,000
Accrued interest.....			2,567
Hetch Hetchy Water and Power.....			
Notes, loans and other payables.....	2010	3%	693
Municipal Transportation Agency:			
Municipal Railway.....			
Capital leases.....	2005	3.43%	168
Perfing and Traffic.....			
Revenue bonds.....	2020	4.0 to 6.75%	22,135
Lease revenue bonds.....	2022	3.7 to 6.0%	11,425
Capital leases.....	2006	3.41 to 3.5%	393
Notes, loans and other payables**.....	2010	3.0 to 5.25%	24,299
Downtown Parking - parking revenue refunding bonds.....	2018	3.0 to 5.375%	12,100
Ellis-O'Farrell - parking revenue refunding bonds.....	2017	3.5 to 4.7%	5,465
Uptown Parking - revenue bonds.....	2031	4.5 to 6.0%	18,720
General Hospital Medical Center:			
Capital leases.....	2009	5.7 to 8.5%	2,205
Clean Water Program.....			
Revenue bonds.....	2025	3.0 to 5.25%	396,270
State of California - revolving fund loans.....	2021	2.8 to 3.5%	150,196
Port of San Francisco:			
General Obligation Bonds - City and County of San Francisco.....	2005	6.30%	400
Revenue bonds.....	2010	5.5 to 9.0%	27,095
Notes, loans and other payables.....	2029	4.50%	3,436
Capital leases.....	2005	6.31%	23
Laguna Honda Hospital.....			
Capital leases.....	2009	3.465%	2,102
Accrued vacation and sick leave.....			73,890
Accrued workers' compensation.....			183,496
Estimated claims payable.....			47,931
Deferred Amounts:			
Bond issuance premiums.....			47,047
Bond issuance discounts.....			(21,768)
Bond refunding.....			(86,801)
Business-type activities total long-term obligations.....			<u>\$ 5,622,382</u>

*Includes Second Series Revenue Bonds issue 31 which were issued in an auction mode. The average interest rate for the period March 25, 2004 through June 30, 2004 was 1.065%.

**Includes an unamortized loan premium of \$1.1 million for Parking and Traffic.

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
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June 30, 2004**

Type of Obligation	COMPONENT UNIT		Remaining Interest Rates	Amount
	Final Maturity Date			
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:				
Lease Revenue Bonds:				
Moscone Convention Center (a)	2024		2.0 to 8.5%	\$ 171,651
Hotel Tax Revenue Bonds (b)	2025		4.1 to 6.75%	70,165
Financing Authority Bonds:				
Tax Allocation Revenue Bonds (c)	2030		1.8 to 8.3%	485,897
South Beach Harbor Variable Rate Refunding Bonds (d)	2017		Variable (1.08% at 6/30/04)	11,500
Less deferred amounts:				
Bond issuance premiums				9,641
Refunding less				(3,253)
				<u>745,591</u>
Sub-total				
California Department of Boating and Waterways Loan (e)	2037		4.50%	8,000
Accrued interest payable				142,388
Accrued vacation and sick leave pay				2,733
Component unit total long-term obligations				<u>\$ 898,712</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.

(e) South Beach Harbor Project revenues (subordinated to Refunding Bonds).

Debt Compliance
There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

Legal Debt Limit and Legal Debt Margin
As of June 30, 2004, the City's debt limit (3% of valuation subject to taxation) was \$3.0 billion. The total amount of debt applicable to the debt limit was \$0.8 billion, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was \$2.2 billion.

Arbitrage
Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and has recognized an arbitrage liability of \$1.7 million as of June 30, 2004. 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 \$0.2 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2004. 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

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

debt of the Enterprise Funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

Assessment District

During June 1996, the City issued \$1 million of Limited Obligation Improvement Bonds for the Bayshore-Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds were used to finance the construction of a new public right-of-way. The bonds began to mature during the fiscal year ended June 30, 1999 and continue through 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, 2004, the aggregate outstanding obligation of such bonds was \$132.5 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 869,625	\$ 72,370	\$ (87,645)	\$ 844,350	\$ 62,300
Lease revenue bonds	252,035	9,330	(15,885)	245,880	18,060
Certificates of participation	296,135	-	(5,500)	290,635	8,005
Settlement obligation bond	49,470	44,275	(48,470)	44,275	5,635
Less deferred amounts:					
For issuance premiums	3,652	1,464	(404)	4,912	-
For issuance discounts	(2,737)	-	228	(2,509)	-
On Refunding	(6,077)	(889)	527	(6,339)	-
Total Bonds payable	1,452,303	126,750	(189,049)	1,421,004	93,970
Commercial Paper	-	50,000	-	50,000	50,000
Loans	9,278	2,155	(1,919)	9,515	2,054
Capital leases	212,649	41,022	(59,859)	194,815	2,046
Accrued vacation and sick leave pay	128,893	72,209	(72,865)	128,417	63,882
Accrued workers' compensation	195,100	54,787	(36,267)	213,630	45,138
Estimated claims payable	58,333	44,054	(22,552)	79,805	18,881
Governmental activities long-term obligations	\$ 2,056,556	\$ 390,998	\$ (350,969)	\$ 2,097,185	\$ 276,771

CITY AND COUNTY OF SAN FRANCISCO
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June 30, 2004

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, 2004, \$245.8 million of lease revenue bonds, \$1.1 million of capital leases, \$0.3 million of loans, \$3.7 million of accrued vacation and sick leave pay and \$1.2 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accrual and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds.....	\$ 4,270,600	\$ 295,145	\$ (362,575)	\$ 4,173,170	\$ 78,555
Less deferred amounts:					
For issuance premiums.....	15,489	2,269	(214)	17,544	-
For issuance discounts.....	(19,946)	-	887	(19,059)	-
On refunding.....	(41,193)	(16,409)	4,597	(53,004)	-
Total bonds payable.....	4,224,950	251,005	(357,305)	4,118,651	78,555
Accrued vacation and sick leave pay.....	11,157	8,183	(7,764)	11,576	5,802
Accrued workers' compensation.....	5,759	1,322	(2,426)	5,155	1,186
Estimated claims payable.....	459	178	(172)	459	209
Long-term obligations.....	\$ 4,242,325	\$ 261,186	\$ (367,672)	\$ 4,135,841	\$ 85,752

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2004, are as follows (in thousands) - continued:

	July 1, 2003	Additional Obligations, Interest Accrual and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Water Department					
Bonds payable:					
Revenue bonds.....	\$ 514,370	\$ -	\$ (13,345)	\$ 501,025	\$ 14,055
Less deferred amounts:					
For issuance premiums.....	7,178	-	(246)	6,932	-
For issuance discounts.....	(2,633)	-	(78)	(2,709)	-
On refunding.....	(6,365)	-	480	(7,885)	-
Total bonds payable.....	510,550	-	(13,187)	497,363	14,055
Accrued interest payable.....	2,396	171	-	2,567	-
Commercial paper.....	25,000	25,000	-	25,000	25,000
Accrued vacation and sick leave pay.....	7,817	6,998	(5,373)	9,130	4,529
Accrued workers' compensation.....	9,821	3,988	(2,094)	11,695	2,393
Estimated claims payable.....	3,823	4,889	(2,601)	6,111	1,349
Long-term obligations.....	\$ 534,407	\$ 40,714	\$ (23,255)	\$ 551,866	\$ 47,235
Hecht Helchy Water and Power					
Notes, loans, and other payables.....	\$ 971	\$ -	\$ (278)	\$ 693	\$ 98
Accrued vacation and sick leave pay.....	1,585	984	(771)	1,798	967
Accrued workers' compensation.....	1,883	809	(426)	2,276	455
Estimated claims payable.....	143	1,224	(1,198)	169	38
Long-term obligations.....	\$ 4,582	\$ 3,017	\$ (2,673)	\$ 4,936	\$ 1,558
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds.....	\$ 60,250	\$ -	\$ (1,830)	\$ 58,420	\$ 2,070
Lease revenue bonds.....	12,355	-	(930)	11,425	960
Less deferred amounts:					
For issuance premiums.....	908	87	(26)	969	-
Total bonds payable.....	73,513	87	(2,786)	70,814	3,030
Notes, loans, and other payables.....	26,511	1,600	(3,812)	24,299	3,827
Capital leases.....	1,141	23	(603)	561	442
Accrued vacation and sick leave pay.....	24,034	18,539	(18,354)	24,219	13,851
Accrued workers' compensation.....	109,053	34,109	(23,722)	119,440	20,535
Estimated claims payable.....	27,672	15,086	(8,526)	33,844	11,736
Long-term obligations.....	\$ 261,924	\$ 69,456	\$ (36,203)	\$ 273,177	\$ 59,421

* Includes an unamortized loan premium of \$1.1 million for Parking and Traffic.

	July 1, 2003	Additional Obligations, Interest Accrual and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
General Hospital Medical Center					
Capital leases.....	\$ 2,779	\$ 242	\$ (816)	\$ 2,205	\$ 630
Accrued vacation and sick leave pay.....	12,639	10,157	(9,432)	13,364	7,736
Accrued workers' compensation.....	22,425	4,683	(4,085)	22,983	4,929
Long-term obligations.....	\$ 38,043	\$ 15,082	\$ (14,333)	\$ 38,792	\$ 13,294

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

The changes in long-term obligations for all enterprise funds for the year ended June 30, 2004, are as follows (in thousands) – continued:

	July 1, 2003	Additional Obligations, Interest, Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Clean Water Program					
Bonds payable:					
Revenue bonds.....	\$ 396,270	\$ -	\$ -	\$ 396,270	\$ -
Less deferred amounts:					
For insurance premiums.....	22,391	-	(1,005)	21,386	-
On refunding.....	(26,650)	-	1,726	(24,924)	-
Total bonds payable.....	391,811	-	721	392,532	-
State of California - Revolving fund loans.....	165,125	-	(14,529)	150,596	15,413
Accrued vacation and sick leave pay.....	3,623	2,091	(1,959)	3,756	2,019
Accrued workers' compensation.....	3,630	1,737	(767)	4,600	1,006
Estimated claims payable.....	974	4,249	(462)	4,761	1,044
Long-term obligations.....	\$ 565,963	\$ 8,077	\$ (17,395)	\$ 556,045	\$ 19,482
Port of San Francisco					
Bonds payable:					
Revenue bonds.....	\$ 800	\$ -	\$ (400)	\$ 400	\$ 400
Less deferred amounts:					
For insurance premiums.....	30,680	-	(3,593)	27,087	3,920
On refunding.....	(948)	-	(44)	(992)	-
Total bonds payable.....	30,804	-	(3,681)	26,923	4,320
Notes, loans, and other payables.....	3,510	-	(74)	3,436	77
Capital leases.....	68	-	(45)	23	23
Accrued vacation and sick leave pay.....	1,890	1,295	(1,346)	1,839	990
Accrued workers' compensation.....	2,931	1,122	(940)	3,113	650
Estimated claims payable.....	1,900	2,295	(1,578)	2,287	1,087
Long-term obligations.....	\$ 41,103	\$ 4,682	\$ (6,164)	\$ 37,621	\$ 7,147
Laguna Honda Hospital					
Capital leases.....	\$ 222	\$ 2,102	\$ (222)	\$ 2,102	\$ 394
Accrued vacation and sick leave pay.....	7,694	6,038	(5,714)	8,006	4,800
Accrued workers' compensation.....	13,444	3,160	(4,580)	14,024	2,955
Long-term obligations.....	\$ 21,359	\$ 13,300	\$ (10,516)	\$ 24,134	\$ 8,149

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest, Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
General obligation bonds.....	\$ 600	\$ -	\$ (600)	\$ 400	\$ 400
Revenue bonds.....	5,272,400	265,145	(391,945)	5,165,980	96,600
Lease revenue bonds.....	12,355	-	(800)	11,425	980
Less deferred amounts:					
For insurance premiums.....	46,226	-	(1,535)	47,047	-
On refunding.....	(22,579)	-	811	(21,768)	-
For insurance discounts.....	(77,354)	(16,408)	6,961	(86,801)	-
Total bonds payable.....	5,231,626	251,080	(376,439)	5,105,286	99,980
Accrued interest payable.....	2,396	171	-	2,567	-
Commercial paper.....	-	25,000	-	25,000	25,000
State of California - Revolving fund loans.....	165,125	-	(14,929)	150,196	15,413
Notes, loans, and other payables.....	30,992	1,600	(4,164)	28,428	4,002
Capital leases.....	4,210	2,387	(1,996)	4,691	1,489
Accrued vacation and sick leave pay.....	70,629	53,973	(50,712)	73,880	40,694
Accrued workers' compensation.....	169,156	53,380	(38,040)	184,496	41,108
Estimated claims payable.....	34,971	27,963	(15,245)	47,689	15,465
Business-type activities long term obligations.....	\$ 5,709,107	\$ 415,487	\$ (502,212)	\$ 5,622,382	\$ 242,129

The changes in long term obligations for the component unit for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest, Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Component Unit - Agency					
Bonds payable:					
Revenue bonds.....	\$ 698,261	\$ 174,615	\$ (146,183)	\$ 727,113	\$ 52,867
Refunding bonds.....	11,500	-	-	11,500	700
Less deferred amounts:					
For insurance premiums.....	8,232	1,958	(549)	9,641	-
On refunding.....	(213)	(3,064)	14	(3,263)	-
Total bonds payable.....	717,780	173,509	(146,689)	744,591	53,367
Accrued interest payable.....	159,478	9,407	(28,487)	142,388	75,171 (1)
Notes, loans, and other payables.....	9,000	-	-	9,000	-
Accrued vacation and sick leave pay.....	2,900	21	(188)	3,033	1,168
Component unit - long term obligations.....	\$ 899,158	\$ 182,937	\$ (172,383)	\$ 899,712	\$ 129,706

(1) 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, 2004**

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2004, for governmental activities are as follows (in thousands):

Fiscal Year Ending June 30,	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2005.....	\$ 62,300	\$ 41,854	\$ 18,000	\$ 5,176	\$ 15,694	\$ 16,011	\$ 96,024	\$ 63,051
2006.....	65,155	39,043	17,780	4,665	15,688	15,428	96,833	59,136
2007.....	68,070	35,674	15,805	4,159	15,483	14,802	99,358	54,635
2008.....	60,085	32,481	13,955	3,712	15,403	14,221	96,423	50,414
2009.....	72,355	32,084	12,265	3,307	16,007	13,623	100,627	46,014
2010-2014.....	303,500	93,596	35,800	12,761	65,235	69,725	407,535	165,072
2015-2019.....	162,570	33,188	35,670	8,724	50,150	44,693	248,330	86,845
2020-2024.....	38,335	3,374	44,700	5,095	43,625	32,972	123,605	41,441
2025-2029.....	-	-	44,700	1,978	46,135	21,386	93,635	23,373
2030-2034.....	-	-	10,200	115	57,625	7,604	67,825	7,719
Total.....	\$ 844,300	\$ 308,494	\$ 245,680	\$ 49,692	\$ 344,425	\$ 229,714	\$ 1,454,455	\$ 587,500

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for each enterprise fund is as follows (in thousands):

Fiscal Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2005.....	\$ -	\$ -	\$ 75,555	\$ 210,863	\$ -	\$ -	\$ 75,555	\$ 210,863
2006.....	-	-	82,700	207,071	-	-	82,700	207,071
2007.....	-	-	90,340	203,795	-	-	90,340	203,795
2008.....	-	-	107,400	196,479	-	-	107,400	196,479
2009.....	-	-	112,610	193,674	-	-	112,610	193,674
2010-2014.....	-	-	705,660	674,968	-	-	705,660	674,968
2015-2019.....	-	-	880,230	691,009	-	-	880,230	691,009
2020-2024.....	-	-	1,060,360	434,965	-	-	1,060,360	434,965
2025-2029.....	-	-	862,840	193,363	-	-	862,840	193,363
2030-2034.....	-	-	141,275	10,954	-	-	141,275	10,954
Total.....	\$ -	\$ -	\$ 4,173,170	\$ 3,175,376	\$ -	\$ -	\$ 4,173,170	\$ 3,175,376

- (1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
- (2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
- (3) Includes the Moscone Center Expansion Project Lease Revenue Bonds with variable rate bonds currently reset weekly.

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for each enterprise fund is as follows (in thousands) – continued:

Fiscal Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2005.....	\$ -	\$ -	\$ 14,055	\$ 23,359	\$ -	\$ -	\$ 14,055	\$ 23,359
2006.....	-	-	14,790	23,315	-	-	14,790	23,315
2007.....	-	-	15,450	22,966	-	-	15,450	22,966
2008.....	-	-	16,225	21,921	-	-	16,225	21,921
2009.....	-	-	17,035	21,131	-	-	17,035	21,131
2010-2014.....	-	-	97,505	92,969	-	-	97,505	92,969
2015-2019.....	-	-	92,120	68,489	-	-	92,120	68,489
2020-2024.....	-	-	82,595	47,860	-	-	82,595	47,860
2025-2029.....	-	-	86,645	26,502	-	-	86,645	26,502
2030-2034.....	-	-	63,865	5,911	-	-	63,865	5,911
Total.....	\$ -	\$ -	\$ 501,025	\$ 354,703	\$ -	\$ -	\$ 501,025	\$ 354,703

Fiscal Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2005.....	\$ -	\$ -	\$ -	\$ -	\$ 98	\$ 20	\$ 98	\$ 20
2006.....	-	-	-	-	101	17	101	17
2007.....	-	-	-	-	104	14	104	14
2008.....	-	-	-	-	107	11	107	11
2009.....	-	-	-	-	110	8	110	8
2010-2014.....	-	-	-	-	173	5	173	5
Total.....	\$ -	\$ -	\$ -	\$ -	\$ 693	\$ 75	\$ 693	\$ 75

Fiscal Year Ending June 30,	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2005.....	\$ -	\$ -	\$ 3,030	\$ 3,422	\$ 3,827	\$ 1,104	\$ 9,687	\$ 4,520
2006.....	-	-	3,375	3,281	4,017	913	7,392	4,194
2007.....	-	-	3,500	3,147	4,218	713	7,718	3,960
2008.....	-	-	3,650	3,003	4,429	502	8,079	3,505
2009.....	-	-	3,810	2,851	6,361	283	10,191	3,134
2010-2014.....	-	-	15,400	12,025	279	61	15,679	12,086
2015-2019.....	-	-	19,340	7,430	-	-	19,340	7,430
2020-2024.....	-	-	6,620	3,343	-	-	6,620	3,343
2025-2029.....	-	-	-	1,831	-	-	-	1,831
2030-2034.....	-	-	10,920	230	-	-	10,920	230
Total.....	\$ -	\$ -	\$ 69,845	\$ 40,563	\$ 23,151	\$ 3,576	\$ 92,996	\$ 44,139

- (1) The specific year for payment of accrued interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
- (2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
- (3) Unamortized loan premiums of \$1.1 million (MTA) are not included in principal payments.

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for the component unit are as follows (in thousands):

Fiscal Year Ending	Component Unit Redevelopment Agency ⁽¹⁾				Other Long-Term Obligations				Total					
	Lease Revenue Bonds		Tax Revenue Bonds		Lease Revenue Bonds		Tax Revenue Bonds		Lease Revenue Bonds		Tax Revenue Bonds		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005-2006	\$ 33,496	\$ 82,435	\$ 19,170	\$ 26,672	\$ 700	\$ 687	\$ 53,366	\$ 110,004						
2006-2007	5,910	12,361	25,137	27,880	-	-	30,947	40,938						
2007-2008	5,146	12,728	24,745	26,969	776	686	33,569	40,363						
2008-2009	5,544	13,027	27,118	24,168	907	678	32,784	37,871						
2009-2010	5,350	13,289	26,327	24,652	1,107	665	32,790	38,006						
2010-2014	24,574	69,784	152,906	100,456	7,202	2,369	184,682	172,619						
2015-2019	75,116	19,819	187,157	51,883	2,684	1,584	284,937	73,068						
2020-2024	14,035	2,708	70,574	34,949	1,420	1,260	85,929	38,818						
2025-2029	2,880	76	21,253	13,777	1,789	910	25,002	14,783						
2030-2034	-	-	1,876	-	221	46	4,079	686						
2035-2037	-	-	-	-	751	46	751	46						
Total	\$ 171,651	\$ 228,228	\$ 556,082	\$ 331,465	\$ 19,500	\$ 10,687	\$ 747,213	\$ 557,810						

(1) The specific year for payment of accrued 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; however, general obligation bonds have not been issued for business-type activities since 1979. The net authorized and unissued governmental activities general obligation bonds for the year ended June 30, 2004, are as follows (in thousands):

Governmental Activities - General Obligation Bonds	
(in thousands)	
Authorized and unissued as of June 30, 2003	\$ 922,500
Bonds issued:	
Improvement Bonds	
Series 2003A, Neighborhood Recreation and Park Facilities	(20,960)
Series 2003B, Educational Facilities Bonds, San Francisco Unified School District	(29,480)
Net authorized and unissued as of June 30, 2004	\$ 872,060

There were no new authorizations on general obligation bonds in the year ended June 30, 2004.

In July 2003, the City issued General Obligation Bonds, Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2003A in the amount of \$20.9 million. Interest rates range from 2.0% to 5.0%. The bonds mature from June 2004 through June 2023. The bonds were issued to provide funds to finance the acquisition, construction and/or reconstruction of certain improvements to recreation and park facilities in the City, and all other works, property and structures necessary or convenient for these purposes. Debt service payments are funded through ad valorem taxes on property.

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004**

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for each enterprise fund is as follows (in thousands) - continued:

Fiscal Year Ending	Clean Water Program ⁽¹⁾				Other Long-Term Obligations				Total					
	General Obligation Bonds		Revenue Bonds		General Obligation Bonds		Revenue Bonds		General Obligation Bonds		Revenue Bonds		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005-2006	\$ -	\$ -	\$ 17,219	\$ 4,718	\$ 15,413	\$ 21,937	\$ 15,413	\$ 21,937						
2006-2007	-	-	16,718	3,701	15,915	18,866	16,430	18,866						
2007-2008	-	-	15,698	3,168	14,975	18,695	14,975	18,695						
2008-2009	-	-	14,646	2,744	13,337	17,390	13,337	17,390						
2010-2014	-	-	54,664	7,469	49,403	62,163	49,403	62,163						
2015-2019	-	-	27,001	1,650	24,351	28,851	24,351	28,851						
2020-2024	-	-	8,197	147	7,050	8,344	7,050	8,344						
2025-2029	-	-	315	-	255	315	255	315						
Total	\$ -	\$ -	\$ 171,677	\$ 27,845	\$ 150,196	\$ 199,522	\$ 150,196	\$ 199,522						

Port of San Francisco⁽¹⁾

Fiscal Year Ending	Port of San Francisco ⁽¹⁾				Other Long-Term Obligations				Total					
	General Obligation Bonds		Revenue Bonds		General Obligation Bonds		Revenue Bonds		General Obligation Bonds		Revenue Bonds		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005-2006	\$ 400	\$ 25	\$ 1,449	\$ 156	\$ 77	\$ 1,029	\$ 400	\$ 25	\$ 1,449	\$ 156	\$ 400	\$ 25	\$ 1,029	\$ 156
2006-2007	-	-	1,226	81	151	1,377	-	-	1,226	81	-	-	1,226	81
2007-2008	-	-	4,370	985	84	4,454	-	-	4,370	985	-	-	4,370	985
2008-2009	-	-	4,615	727	88	4,703	-	-	4,615	727	-	-	4,615	727
2010-2014	-	-	4,885	449	92	4,977	-	-	4,885	449	-	-	4,885	449
2015-2019	-	-	5,170	153	525	5,695	-	-	5,170	153	-	-	5,170	153
2020-2024	-	-	-	-	666	503	-	-	-	-	666	503	-	-
2025-2029	-	-	-	-	816	342	-	-	-	-	816	342	-	-
Total	\$ 400	\$ 25	\$ 27,095	\$ 4,989	\$ 3,436	\$ 2,357	\$ 400	\$ 25	\$ 27,095	\$ 4,989	\$ 3,436	\$ 2,357	\$ 400	\$ 25

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for business type activities follows (in thousands):

Fiscal Year Ending	Total Business-type Activities ⁽¹⁾⁽²⁾				Other Long-Term Obligations				Total					
	General Obligation Bonds		Revenue Bonds		General Obligation Bonds		Revenue Bonds		General Obligation Bonds		Revenue Bonds		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005-2006	\$ 400	\$ 25	\$ 253,922	\$ 5,997	\$ 19,415	\$ 262,944	\$ 400	\$ 25	\$ 253,922	\$ 5,997	\$ 19,415	\$ 262,944	\$ 400	\$ 25
2006-2007	-	-	282,112	20,114	5,239	287,351	-	-	282,112	20,114	5,239	287,351	-	-
2007-2008	-	-	247,312	4,576	16,791	264,103	-	-	247,312	4,576	16,791	264,103	-	-
2008-2009	-	-	230,828	3,825	184,351	244,653	-	-	230,828	3,825	184,351	244,653	-	-
2010-2014	-	-	232,951	3,175	194,549	235,126	-	-	232,951	3,175	194,549	235,126	-	-
2015-2019	-	-	1,082,615	8,188	1,014,018	1,042,977	-	-	1,082,615	8,188	1,014,018	1,042,977	-	-
2020-2024	-	-	783,923	2,153	1,100,259	786,076	-	-	783,923	2,153	1,100,259	786,076	-	-
2025-2029	-	-	1,232,645	489	1,238,817	1,238,817	-	-	1,232,645	489	1,238,817	1,238,817	-	-
2030-2034	-	-	867,740	141	868,757	868,757	-	-	867,740	141	868,757	868,757	-	-
2035-2039	-	-	216,090	17,105	216,090	17,105	-	-	216,090	17,105	216,090	17,105	-	-
Total	\$ 400	\$ 25	\$ 5,167,405	\$ 37,708	\$ 3,436	\$ 5,345,281	\$ 400	\$ 25	\$ 5,167,405	\$ 37,708	\$ 3,436	\$ 5,345,281	\$ 400	\$ 25

(1) The specific year for payment of accrued interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
 (2) The payment stream for the bonds is based on the actual paper is not practicable to determine because the timing of the issuance of the bonds is based on project expenditures.
 (3) Unamortized loan premiums of \$1.1 million (MFA) are not included in principal payments.

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Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2004 were as follows:

Governmental Activities - Lease Revenue Bonds	
(in thousands)	
Authorized and unissued as of June 30, 2003.....	\$ 126,107
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program.....	1,796
Current year maturities in Finance Corporation's equipment program.....	6,845
Bonds issued:	
Series 2004A, San Francisco Finance Corporation.....	<u>(9,530)</u>
Net authorized and unissued as of June 30, 2004.....	<u>\$ 125,218</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, 2004, the total authorized amount is \$37.7 million. The total accumulated annual authorization since 1990 is \$17.7 million of which \$11.8 million is new annual authorization for the fiscal year ended June 30, 2004.

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 \$104 million in equipment lease revenue bonds since 1991. As of June 30, 2004, \$77.4 million has been repaid leaving \$26.6 million in equipment lease revenue bonds outstanding and \$11 million available for new issuance.

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In July 2003, the City issued General Obligation Bonds, Educational Facilities Bonds, Series 2003B in the amount of \$29.5 million. Interest rates range from 2.0% to 5.0%. The bonds mature from June 2004 through June 2023. The bonds were issued to provide funds to finance the acquisition, construction, installation, equipping and/or reconstruction or completion of educational facilities and other related improvements to be used by the San Francisco Unified School District. Debt service payments are funded through ad valorem taxes on property.

The Port of San Francisco is the only business-type activity that has General Obligation Bonds outstanding which amount to \$0.4 million as of June 30, 2004. The bonds were issued in 1971 for the improvement of the San Francisco harbor area. The final maturity is in fiscal year 2004-2005. Debt service payments are funded from Port's revenues.

Current Refundings

In June 2004, the City issued \$21.9 million of General Obligation Refunding Bonds, Series 2004-R1 with interest rates ranging from 3.0% to 4.0% (maturing from June 2005 through June 2014) to refund all or a portion of the City's outstanding General Obligation Bonds as follows:

General Obligation Refunding Bonds
(in thousands)

<u>Description of Refunded Bonds</u>	<u>Amount Refunded</u>	<u>Average Interest Rate</u>
Series 1995A - Public Safety Improvement Projects, 1990.....	\$4,560	5.25%
Series 1995B - Golden Gate Park Improvements, 1992.....	6,755	5.25%
Series 1996A - City Hall Improvement Project.....	6,055	5.11%
Series 1996B - Public Safety Improvement Projects, 1989.....	355	5.30%
Series 1996C - Fire Department Facilities Project, 1992.....	660	5.30%
Series 1996D - School District Facilities Improvements, 1994.....	1,960	5.30%
Series 1996E - Asian Art Museum Relocation Project.....	1,160	5.30%
Total.....	<u>\$21,925</u>	

The net proceeds of \$21.9 million (including original issue premium of \$0.3 million, and after payment of \$0.4 million in underwriting fees and other issuance costs) were used to purchase certain direct obligations of the United States of America. These securities were deposited into an escrow account held by the Treasurer. The Treasurer applied the principal of and interest on the escrow securities to the redemption of the respective refunded bonds on June 25, 2004.

Although the refunding resulted in the recognition of an accounting loss of \$0.3 million for the year ended June 20, 2004, the City in effect reduced its aggregate debt service payments by \$1 million over the next 10 years, and obtained an economic gain (difference between present value of the old and new debt service payments) of \$0.9 million.

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In June 2004, the Finance Corporation issued its twelfth Series of equipment lease revenue bonds Series 2004A in the amount of \$9.5 million with interest rates ranging from 2.3% to 3.1%. The bonds mature from April 2005 through October 2009.

(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 Finance Corporation issued two series in January 1998 and January 1999 for \$31.2 million and \$18.7 million, respectively. As of June 30, 2004, 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 June 1998 for \$22.6 million and \$23.3 million, respectively. As of June 30, 2004, 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.

Refunding Settlement Obligation Bonds

In December 2003, the City issued \$44.3 million of Refunding Settlement Obligation Bonds, Series 2003-R1 with interest rates ranging from 2.0% to 3.05% (maturing from March 2005 through March 2011) to refund a portion of the \$49.5 million outstanding principal amount of the Settlement Obligation Bonds, Series 2001 (Business Tax Judgment). The Series 2001 Bonds were issued in August 2001 to refund certain obligations resulting from settlement of business tax litigation against the City.

The net proceeds of \$44.4 million (including original issue premium of \$0.5 million, and after payment of \$0.4 million in underwriting fees, and other issuance costs) were used to refund a portion of the Series 2001 Bonds.

Although the refunding resulted in the recognition of an accounting loss of \$0.6 million for the year ended June 30, 2004, the City in effect reduced its aggregate debt service payments by \$2 million over the next seven years, and obtained an economic gain of \$1.9 million.

Asphalt Plant Expansion Loan

In September 2003, the City entered into a loan agreement of \$2.2 million through the State of California's Alpha Plan for installment purchases of two, one hundred fifty ton asphalt storage silos. The project will allow the City's asphalt plant to serve larger projects than currently possible, and will extend the life of other plant equipment. The loan has an interest rate of 4.3% and semi-annual loan repayments began in April 2004 through October 2013.

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority authorized the issuance of an initial tranche of up to \$50 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 New Transportation Expenditure Plan until a permanent

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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, with an expiration date of April 14, 2007. The commercial paper notes are secured by a first lien gross pledge of the Authority's ability to levy a half-cent sales tax collected by the California State Board of Equalization. The principal and interest on the commercial paper notes will be payable at each maturity.

As of June 30, 2004, \$50 million in commercial paper notes was outstanding and maturing within 21 to 43 days after year-end with interest rates ranging from 1.02% to 1.05%.

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

In February 2004, the San Francisco International Airport (SFO) issued Second Series Revenue Bond Issue 30 (issue 30) in the amount of \$34.8 million with interest rates ranging from 3.6% to 5.25%. Proceeds from issue 30 were deposited into an irrevocable trust with an escrow agent to advance refund certain of the SFO's Second Series Revenue Bonds as follows (in thousands):

**San Francisco International Airport Refunding Bonds
(in thousands)**

	Amount Refunded	Interest Rate	Call Price
Second Series Revenue Bond Issuance:			
Issue 8	\$ 545	5.10%	\$ 101,000
Issue 9	1,700	5.0%	101,000
Issue 11	1,725	5.75%	101,000
Issue 15	9,670	4.0 - 4.1%	
Issue 16	1,270	5.0%	
Issue 18	2,925	5.0%	
Issue 21	290	5.0%	
Issue 23	4,625	4.0 - 4.5%	
Issue 24	950	5.0%	
Issue 28	2,475	5.0%	
Issue 28	6,190	3.0%	
	\$ 34,365		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2005 to May 1, 2007 and call dates of May 1, 2004 and May 1, 2005.

The net proceeds of \$35.8 million (including original issue premium of \$2.3 million, and after payment of \$1.3 million in underwriting fees, insurance, surety premium, and other issuance costs) plus an additional \$0.5 million of available debt service funds were used to purchase U.S. Treasury Securities - State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until redeemed on May 1, 2004 through May 1, 2007.

The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statement of Net Assets.

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The issue 30 refunding was structured to achieve maximum cash flow savings in fiscal years 2005, 2006, and 2007. Beginning in fiscal year 2008 and through fiscal year 2018, the final bond maturity date, the SFO's net debt service payments will increase resulting in a net incremental debt service cost of \$17.5 million over the next 15 years and an economic loss (the difference between the present values of the old and new debt service payments) of \$2.7 million. The refunding also resulted in the recognition of a deferred accounting loss of \$2.4 million.

In March 2004, SFO issued Second Series Variable Rate Revenue Refunding Bonds Issue 31 (Issue 31) in the amount of \$230.3 million. The issue 31 bonds were initially issued in an Auction Mode, subject to conversion by the Commission to another interest rate mode. The initial interest rate was established by the Airport Commission for the interest rate period commencing March 25, 2004 for each series of issue 31 bonds.

Each series of issue 31 bonds may bear a different auction rate and be subject to a different auction period. As of June 30, 2004, series issue 31A, 31B, 31C, 31D, and 31E were in 343 days, 35 days, 35 days, 35 days, and 7 days auction periods, respectively. For the period March 25, 2004 through June 30, 2004, the average interest rate on the issue 31 bonds was 1.065%.

Proceeds of the issue 31 bonds were deposited into an irrevocable trust with an escrow agent to advance refund certain of SFO's Second Series Revenue Bonds as follows (in thousands):

Second Series Revenue Bond Issuance:	Amount Refunded	Interest Rate	Call Price
Issue 5	\$ 71,005	6.0% - 6.5%	\$ 102,000
Issue 6	74,935	5.9% - 6.5%	102,000
Issue 7	21,675	5.4% - 6.15%	102,000
Issue 8	52,505	5.4% - 6.3%	101,000
	<u>\$ 220,120</u>		

The net proceeds of \$224 million (after payment of \$6.3 million in underwriting fees, insurance, surety premium, and cost of issuance account) plus an additional \$6.7 million of available debt service funds were used to purchase U.S. Treasury Securities - State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until called on May 1, 2004.

The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statement of Net Assets.

Although the advance refunding resulted in the recognition of a deferred accounting loss of \$14 million for the year ended June 30, 2004, SFO in effect reduced its aggregate debt service payments by approximately \$33.2 million (based on an assumed interest rate of 3.52% plus 10 basis points for AMT Bonds) over the next 23 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of \$39.8 million.

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Water Department

In November 1997, the voters approved Propositions A and B, authorizing up to \$304 million in Water Revenue Bonds to fund capital improvements for the Water Enterprise. In May and June 1999, the San Francisco Public Utilities Commission (the Commission) and the Board of Supervisors, respectively, approved a commercial paper program to provide short-term financing for capital improvement projects funded under the \$304 million Water Revenue Bond Program. In October 2000, the Commission and the Board of Supervisors approved the expansion of the commercial paper program to up to \$250 million.

In March and May 2003, the Commission and the Board of Supervisors, respectively, approved the reestablishment of the commercial paper program in an amount not to exceed \$250 million. As of June 30, 2004, the program had \$25 million in commercial paper notes outstanding.

On November 5, 2002, the San Francisco voters passed Proposition A, which provides for the issuance of revenue bonds and/or other forms of revenue financing by the Commission in a principal amount not to exceed \$1.6 billion to finance the acquisition and construction of improvements to the City's Water System. As of June 30, 2004, no bonds had been issued pursuant to this authorization.

Laguna Honda Hospital

The Department of Public Health, for the Laguna Honda Hospital, entered into a capital lease agreement for laundry equipment, at a current rate of 3.465%, maturing in January 2009. Also the Department of Public Health, for the facilities, entered into several capital leases for various pieces of equipment at different interest rates and maturity period up to five years. The total new capital lease obligations for the hospital as of June 30, 2004 was \$2.1 million.

Component Unit Debt - Redevelopment Agency

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

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plans

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, SFO and the Redevelopment Agency.

Employees' Retirement System

Plan Description - Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2004 was \$2.1 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

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Employees' Retirement System, 30 Van Ness, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership

Membership of the Retirement System at July 1, 2003, the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits.....	2,006	1,804	14,680	18,490
Active members:				
Vested.....	1,853	1,333	20,095	23,281
Nonvested.....	384	435	8,021	8,840
Subtotal.....	2,237	1,768	28,116	32,121
Total.....	4,243	3,572	42,796	50,611

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 2003-04 varied from 7.00% to 8.00% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the actuarial report, there were no required employer contributions for fiscal year 2003-04 because the Plan is funded at 109% of liability. 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 8.0% of base salary. For fiscal year ended June 30, 2004, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

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, 2003. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.00%; (2) inflation element in wage increase of 3.50%; and (3) salary merit increases of 4.50%. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over a closed 15 year period. Plan amendments are amortized over 20 years.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC		Net Pension Obligation
		Contributed	Contributed	
6/30/2002	\$ -	N/A	N/A	\$ -
6/30/2003	\$ -	N/A	N/A	\$ -
6/30/2004	\$ -	N/A	N/A	\$ -

California Public Employees' Retirement System

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

Plan Description - The City and County of San Francisco contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Miscellaneous Plan

Funding Policy - Miscellaneous plan - Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2003-04 contribution rate is 0% of annual covered payroll because the City is funded at 148.8%. 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 2003-04 was equal to the City's required and actual contributions which was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2001 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% to 14.20% projected annual salary increases that vary by age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized, as a level percentage of pay, over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC		Net Pension Obligation
		Contributed	Contributed	
6/30/2002	\$ -	N/A	N/A	\$ -
6/30/2003	\$ -	N/A	N/A	\$ -
6/30/2004	\$ -	N/A	N/A	\$ -

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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 6.431% because the City is funded at 124.1%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost - Safety Plan - cost for PERS for fiscal year 2003-04 was equal to the City's required and actual contributions which was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2001 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 4.27% to 11.59% projected annual salary increases that vary by age, service and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net	
			Contribution	Obligation
6/30/2002	\$ -	N/A	\$ -	\$ -
6/30/2003	\$ -	N/A	\$ -	\$ -
6/30/2004	\$ 5,606	100%	\$ -	\$ -

(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 employees' contribution, which includes the San Francisco Community College District and Unified School District, amounted to approximately \$345.4 million in fiscal year 2004. The employees' 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 \$96 million to provide post-retirement health care benefits for 19,216 retired employees. The City's liability for both current employee and post-retirement health care benefits is limited to its annual contribution. The Health contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health

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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, 2nd Floor, San Francisco, CA 94103 or by calling (415) 554-1700.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

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

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

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

In April 1998, the Authority signed a memorandum of understanding with the State of California Department of Transportation (Caltrans) to serve as the lead agency for the environmental impact research and study and the preliminary design for the Doyle Drive Replacement Project for which Caltrans awarded \$6 million in federal grant funds.

Following is a summary of the Authority's financial position and changes in financial position as of and for the year ended June 30, 2004 (in thousands):

ASSETS		OPERATIONS	
Deposits and investments.....	\$ 220,519	Revenues:	
Receivables.....	15,431	Sales tax.....	\$ 61,925
Total assets.....	\$ 235,950	Interest and investment income.....	1,002
		Intergovernmental.....	98,663
		Other.....	3,039
			124,629
		Expenditures and other financing uses:	
		Public works, transportation, and commerce.....	21,374
		Transfer to other funds.....	116,875
			138,249
		Fund balance:	
		Reserved for debt service.....	318
		Reserved for contingencies.....	4,517
		Reserve for appropriation carryforward.....	126,586
		Unreserved.....	4,035
		Total fund balance.....	135,456
		Total liabilities and fund balance.....	\$ 235,950
		Deficiency of revenues under expenditures and other financing uses.....	(13,621)
		Fund balance at the beginning of year.....	149,087
		Fund balance at end of year.....	\$ 135,456

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(11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

San Francisco International Airport (SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of the SFO. SFO 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 2003 from the Airports Council International (the ACI), SFO is one of the largest airports in the United States both in terms of passengers (14th) and air cargo (13th). SFO 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 SFO opened for full operation on June 22, 2003. The extension creates a convenient connection between SFO and the greater San Francisco Bay Area that is served by BART. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connected to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system, which opened for full operation on March 24, 2003, provides transit 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.

SFO has developed a revised Capital Plan to better fit the changes in the aviation industry. The Capital Plan was completed in the Fall of 2003 and included projects related to improvements to the airfield, groundside activities and customer service functions, environmental mitigation, utilities infrastructure upgrades, seismic retrofit of certain facilities, health, safety and security enhancements, and cost savings and revenue generating enhancements.

SFO currently has outstanding \$4.2 billion in aggregate principal amount of Second Series Revenue Bonds. SFO has issued \$1.5 billion in Bonds to refund previously outstanding Bonds and Commercial Paper Notes of the Commission, \$432.9 million in Bonds for noise mitigation and other capital projects, \$60 million in Bonds to finance a portion of the construction costs of the BART extension to SFO.

On July 27, 2001, the Federal Aviation Administration (FAA) approved the SFO'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. On March 21, 2002, the FAA approved the SFO'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.

On March 25, 2003, as a result of decrease in enplanement, SFO notified PFC collecting carriers of the intent to extend the PFC#1 collection, thereby revising the current PFC#1 charge expiration date from June 1, 2003 to January 1, 2004. With the PFC#1 collection period extension in place, the PFC#2 effective date changes from June 1, 2003 to January 1, 2004. Automatically, the PFC#2 expiration date changes from April 1, 2008 to November 1, 2008. During the extended collection period, the PFC is maintained at \$4.50.

For the year ended June 30, 2004, SFO reported approximately \$57.5 million of PFC revenue, which is included in other non-operating revenues in the accompanying basic financial statements. SFO designated \$48.1 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2004. In addition, during the year ended June 30, 2004, SFO did not designate any PFC revenues as "Revenues" for the purpose of paying debt service in fiscal year 2005, as required in the 1991 Master Bond Resolution.

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Due to the SFO'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.

Pursuant to an agreement with certain airlines, SFO makes an annual payment to the City's General Fund equal to 15% of concession revenue, but not less than \$5 million per fiscal year. The amount transferred to the General Fund during the year ended June 30, 2004 was \$18.2 million.

Purchase commitments for construction, material and services as of June 30, 2004 are as follows (in thousands):

Construction.....	\$ 28,336
Operating.....	3,854
Total	\$ 32,190

SFO has a Memorandum of Understanding with various surrounding communities to insulate residential and nonresidential structures such as schools, churches and hospitals. The total estimated funding for this program is approximately \$154 million funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. As of June 30, 2004, approximately \$121 million has been disbursed under this program.

SFO maintains a capital plan which included in particular, the Near Term Master Plan (NTMP) program. All projects included in the NTMP have been completed as of June 30, 2003. The total master plan funding is \$2.85 billion. In addition to the NTMP projects, SFO's capital program also includes infrastructure projects. The current budget for capital projects is \$383 million. SFO spent \$97 million for these projects as of June 30, 2004.

In May 2002, SFO obtained a standby letter of credit with a maximum stated principal amount of \$200 million. The subordinate Lien Resolution authorizes a maximum authorized principal amount of notes of \$400 million. There were no commercial borrowings during the year ended June 30, 2004.

SFO leases facilities to the airlines pursuant to the Lease and Use Agreements and to other businesses to operate concessions at SFO. During the year ended June 30, 2004, revenues realized from the following SFO tenants exceeded five percent of SFO's total operating revenues:

United Airlines.....	25.5%
AMPCO Parking Systems.....	8.9%
American Airlines.....	5.4%

(b) Port of San Francisco

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). Prior to 1969, the Port was owned by the State of California. At that time the Port was transferred in trust to the City under the terms and conditions of legislation as ratified by the electorate of the City. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

In 1996, the Department of Parking and Traffic (DPT) entered into an Annual Payment Agreement with the Port to resolve a dispute concerning the City's collection of parking fine revenues from Port property. Among other things, DPT agreed to pay the Port a guaranteed annual payment of \$1.2 million for twenty

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years commencing on July 1, 1997, for parking fine revenues collected from Port property. Thereafter, amounts remitted to the Port are based on actual ticket collections, net of administrative costs.

In connection with a mixed-use cruise terminal development project at Piers 30-32, and as approved by state legislation in 2001 (Assembly Bill No. 1389), a portion of Seawall Lot No. 330 was sold to a developer in 2004. The land was sold for \$9.3 million, slightly above its appraised fair value. Certain proceeds from the land sale (\$9 million) are restricted for the construction of a public plaza area called Braman Street Wharf. The remainder of the proceeds from the land sale, together with certain residual receipts from the future sale of residential condominium units built on the land sold, is restricted for the construction of the cruise terminal.

The Port is presently planning various development projects that involve a commitment to expend significant funds. Purchase commitments at June 30, 2004 were \$5.3 million for capital projects and \$1.5 million for general operating costs. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to \$30 million over a 20 year period for pier removal, parks and plazas and other public access improvements. As of June 30, 2004, \$14.3 million has been appropriated and \$1.6 million has been expended for projects under the agreement.

(c) Water Department

The Water Department was established in 1930. The Water Department, 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 Department delivers water, approximately 95,265 million gallons annually, to a total population of approximately 2.4 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The Commission, established in 1932, provides the operational oversight for the Water Department, Hetch Hetchy, and the Clean Water Program. The Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The Water Department purchases water from Hetch Hetchy. This amount, totaling approximately \$19.0 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2004, water sales to suburban resale customers were \$82.3 million. As of June 30, 2004, the Water Department owed suburban resale customers approximately \$19.8 million under the Suburban Water Rate Agreement.

As of June 30, 2004, the Water Department had outstanding commitments with third parties of \$60.1 million for various capital projects and for materials and supplies.

In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Department to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Department. In response to the directive, the Commission developed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan by middle of 2004. The Commission appropriated funding for pre-work and the award of Phase I of the plan during fiscal year 2002. The cost of cleanup associated with the Plan was estimated to be \$22.7 million and was accrued in fiscal year 2001. At June 30, 2004, the outstanding estimated liability is \$15.5 million.

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(d) Hetch Hetchy Water and Power

Hetch Hetchy was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately one-third of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, the Port of San Francisco, San Francisco County hospitals, street lighting, Moscone Center, and the water and sewer utilities). The balance of the power generated is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts (the Districts).

Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

Hetch Hetchy 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 state and federal power matters before the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at both CPUC and FERC forums and continues to monitor regulatory proceedings.

Charges for services for the year ended June 30, 2004 include \$63.1 million in sales of power by Hetch Hetchy to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

As of June 30, 2004, Hetch Hetchy had outstanding commitments with third parties of \$19.6 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy, as a pass-through agent on behalf of the City departments, coordinates the payment for the service connections that are performed by PG&E. As of June 30, 2004, there were no outstanding amounts from City departments related to this work.

Hetch Hetchy receives title to the underlying assets of certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

The Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2004, Hetch Hetchy purchased \$30.5 million of transmission services, backup power, and other support services from PG&E under the terms of the agreement.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of \$3.5 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of \$1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

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In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy provide, as generated, an amount equivalent to the difference between 260 megawatts and the amount required to meet the City's demand. In June 2003, Hetch Hetchy 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 2007, the existing pricing structure was modified, and Hetch Hetchy's firm obligation to provide power to the MID was relaxed. For fiscal year 2004, power sales to the Districts totaled 828,918 MWhrs or \$24.3 million.

On May 9, 2001, Hetch Hetchy entered into a fixed price, forward contract (the Contract) to purchase 2.19 million MWhrs of electric energy from a third party energy provider with scheduled future delivery over a five-year period beginning July 1, 2001. Effective March 9, 2003, Hetch Hetchy executed an amended and restated transaction confirmation with the third party energy provider to amend and retroactively restate the terms of the original agreement entered into on May 9, 2001 in its entirety, to settle any pending disputes brought forth by Hetch Hetchy. Under this amended take or pay contract, Hetch Hetchy is obligated to pay for a minimum amount of electricity even if the electricity is not required for operations. Commitments related to this contract total \$86.1 million from July 1, 2003 through June 30, 2006. Expenses under this contract totaled \$29 million in fiscal year 2004.

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 from the City at rates that will essentially provide for the full recovery of the City's costs incurred in the construction of a power generating facility (The Facility) over a ten year period from the date in which the California Department of Water Resources accepts the City's certification that the Facility meets all requirements of commercial operation as set forth in the Power Purchase Agreement (Commercial Operation Date).

The City may terminate the Power Purchase Agreement at any time from and after the fifth anniversary of the Commercial Operation Date upon providing a one-year notice to the California Department of Water Resources, and the California Department of Water Resources may terminate the Power Purchase Agreement at such time that there is no longer a debt service component within the capacity payment.

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 or is to receive (i) four gas turbine generator sets valued at approximately \$33 million for use within the City, (ii) future funding from a State administered fund (the Fund) to assist with the costs of siting 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 Financing Authority (the Financing Authority), and the California Department of Water Resources, outlining the terms of execution of the settlement agreement.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first \$5.3 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 \$2.5 million. As of June 30, 2004, the City has requested and received a total of \$1.9 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 in the development of the Facility. As such, the corresponding revenue will be recognized as eligible costs. Hetch Hetchy has recognized \$1.9 million of revenue from the Fund as of June 30, 2004.

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(e) Municipal Transportation Agency

The MTA is responsible for overseeing the City's public transportation operations, including those of MUNI, SFMARC, and the 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 MTA replaced the San Francisco Public Transportation Commission as the oversight agency for the operations of MUNI and SFMARC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of the DPT.

The tables below reflect the financial information of MUNI, the DPT (excluding the parking garages) and the parking garages that are reported within the MTA (in thousands), net of \$0.6 million interagency accounts payables and receivables and interfund transfers of \$1 million:

	MUNI	DPT	Parking Garages	Total
Assets				
Current Assets	\$ 158,873	\$ 21,433	\$ 4,470	\$ 184,776
Noncurrent Assets	1,796,824	49,429	117,167	1,963,420
Total Assets	1,955,697	70,862	121,637	2,148,196
Liabilities				
Current liabilities	102,724	16,759	20,880	140,363
Liabilities payable from restricted assets	941	-	-	941
Noncurrent liabilities	151,480	65,853	36,110	253,443
Total liabilities	255,145	82,612	56,990	394,747
Net assets				
Invested in capital assets, net of related debt	1,745,231	(6,892)	57,725	1,796,064
Restricted net assets	46,484	3,845	1,826	52,155
Unrestricted net assets (deficit)	(91,163)	(6,703)	5,096	(94,770)
Total net assets (deficit)	\$ 1,700,552	\$ (11,750)	\$ 64,647	\$ 1,753,449

	MUNI	DPT	Parking Garages	Total
Operating Revenues	\$ 127,317	\$ 23,054	\$ 36,019	\$ 186,390
Operating Expenses	553,121	69,773	32,863	655,757
Net Operating Income (Loss)	(425,804)	(46,719)	3,156	(469,367)
Nonoperating Income (Loss)	221,113	16,201	(1,889)	235,425
Capital Contributions	64,669	-	-	64,669
Transfers In	218,943	34,446	-	253,389
Transfers Out	-	(346)	-	(346)
Change in Net Assets	78,921	3,582	1,267	83,770
Net Assets at Beginning of Year	1,620,639	(14,340)	63,380	1,669,679
Net Assets (Deficit) at End of Year	\$ 1,699,560	\$ (10,758)	\$ 64,647	\$ 1,753,449

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and the DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was \$133.7 million (\$98.3 million for MUNI and \$34.4 million for DPT).

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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, 2004, MUNI had approved capital grants with unused balances amounting to \$232 million. Capital grants receivable as of June 30, 2004 totaled \$55 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, 2004, MUNI had various operating grants receivable of \$27.9 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2004, the SFCTA approved \$62.5 million in new capital grants and \$15.8 million in new operating grants for MUNI. During the same period, MUNI received total payments of \$116.4 million for capital grants and \$12.8 million in operating grants from the Authority. As of June 30, 2004, MUNI had \$35.8 million due from the SFCTA for capital grants and \$5.09 million due from the SFCTA for operating grants reported in due from other funds.

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 \$77 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 \$6 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SMFRIC's Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling \$2.5 million.

In March 2001, MUNI and the Port entered into a Memorandum of Understanding (MOU) under which MUNI may use the Metro East site in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of \$25.7 million. MUNI received a capital contribution from the Authority for this. As part of this MOU, MUNI paid the Port an additional \$4 million in fiscal year 2002 to construct the Illinois Street Bridge over Islais Creek that will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. MUNI has agreed to reasonably extend this deadline up to March 2005 provided the Port has procured the design and construction contract and has issued direction to proceed with Phase II to build the Illinois Street Bridge. The construction is expected to be completed in early 2006.

Leveraged Lease-Leaseback with BRED A Vehicles

Tranche 1

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 BRED A 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, MUNI entered into the leveraged lease-leaseback transaction over 118 Breda light rail vehicles (the Tranche 1 Equipment). The transaction was structured as a head lease of the Tranche 1 Equipment to separate special purpose trusts and a sublease of the Tranche 1 Equipment back from such trusts. The sublease provides MUNI with an option to purchase the Tranche 1 Equipment in

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approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Tranche 1 Equipment and is obligated to insure and maintain the Tranche 1 Equipment throughout the life of the sublease.

MUNI received an aggregate of \$388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited \$352.7 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote. Therefore, the trust assets and the sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2004.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2002 of \$35.5 million for the difference between the amount received of \$388.2 million and the amount paid to the escrows of \$352.7 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004 amounted to \$1.3 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2027 are \$308.2 million and the payments to be made on the purchase option of the Tranche 1 Equipment would be \$643.1 million, if exercised. All of these payments are to be funded from the amounts in escrow. 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.

Tranche 2

In September 2003, after obtaining final approval from the Municipal Transportation Agency board of directors and the City's board of supervisors, MUNI entered into a second leveraged lease-lease back transaction over 21 BRED A light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides MUNI with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease.

MUNI received an aggregate of \$72.6 million from the equity investors in full prepayment of the head lease. MUNI deposited approximately \$67.5 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2004 of \$4.4 million for the difference between the amount received of \$72.6 million and the amount paid to the

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escrows of \$67.5 million (minus \$0.7 for certain transaction expenses). The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004 amounted to \$0.1 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2029 are \$59.7 million and the payments to be made on the purchase option of the Equipment would be \$198.5 million, if exercised. All of these payments are to be funded from the amounts in escrow. 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; 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.

The data below reflects 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, 2004 follows (in thousands), including \$0.6 million accounts payable to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis- O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues.....	\$ 11,083	\$ 14,772	\$ 2,407	\$ 4,509	\$ 3,248	\$ 36,019
Depreciation.....	721	1,077	-	-	127	1,931
Operating income.....	791	1,117	270	879	99	3,156
Interest and other non-operating revenues (expenses).....	(672)	(1,013)	-	(214)	11	(1,889)
Change in net assets.....	118	104	270	665	110	1,267
Capital assets, increases.....	104	57	56	26	183	432
Capital assets, decreases.....	-	-	(32)	-	-	(32)
Net working capital (deficit).....	(6,843)	(9,618)	239	(1,138)	(9,824)	(27,184)
Total assets.....	29,317	61,947	7,584	19,657	3,122	121,637
Total liabilities.....	19,449	30,341	250	6,487	463	56,990
Net assets.....	9,868	31,606	7,334	13,170	2,659	64,647
Total debt outstanding.....	\$ 12,343	\$ 19,389	\$ -	\$ 5,473	\$ -	\$ 37,215

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(f) Laguna Honda Hospital

The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis, however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the fiscal year ended June 30, 2004, the subsidy for LHH was \$32 million.

	(in thousands)
Changes in net assets of LHH on a GAAP basis	\$ (10,473)
Transfer to General Fund*	7,562
Net loss on specific/donor restricted funds	(79)
Operating subsidy from City General Fund	(31,853)
Net loss on LHH on a GAAP basis before operating subsidy	(34,843)
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(2,455)
Change in encumbrances and appropriation carryforward	3,181
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation and other expenses	2,264
Net loss of LHH requiring General Fund subsidy on a budget basis	\$ (31,853)

* During the fiscal year ended June 30, 2004, LHH transferred approximately \$7.6 million of the tobacco settlement funds. In addition, LHH received approximately \$0.6 million in income from investments, which is included in the net loss on specific/donor restricted funds calculation. As a result, LHH's net assets on a GAAP basis do not show a deficit.

LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been established. During the fiscal year ended June 30, 2004, Medicare and Medi-Cal charges for services amounted to approximately \$4 million and \$107 million, respectively. As of June 30, 2004, LHH had net patient receivables from Medicare of \$0.3 million and net patient receivables from Medi-Cal of \$14 million.

During fiscal year ended June 30, 2004, LHH received approximately \$16 million in payments as a result of matching federal funds to local funds which provided a Medi-Cal supplemental in the form of quarterly payments effective August 1, 2001.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital. Proposition A stipulates that \$100 million of tobacco settlement funds received by the City, excluding \$1 million set aside each year for smoking education and prevention programs, may be used to pay for construction of a replacement facility for LHH. As of June 30, 2004, no bonds have been sold. LHH is actively involved in the planning and design phase for new facilities to replace Laguna Honda Hospital.

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

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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.

LLH received a report initiated by the California Integrated Waste Management Board declaring an old dumpsite on Hospital property a "hazardous waste site" under California hazardous waste statute. The San Francisco Department of Public Health, as the local enforcement agency, has been designated to oversee and certify the future abatement of the dumpsite. LHM management has subsequently received a number of estimates to remedy this situation, ranging from \$0.7 million to \$2.5 million. The hospital and the S.F. Department of Public Health are evaluating the bids submitted. The State has mentioned that this particular hazardous waste site is classified as a low priority considering the other more hazardous waste sites within the State. The specific site has been contained and secured for the safety of the general public.

As of June 30, 2004, LHH has entered into various purchase contracts totaling approximately \$9.9 million that are related to future construction for the Hospital Replacement Project.

(g) General Hospital Medical Center

The San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the year ended June 30, 2004, the subsidy for SFGH was \$62 million.

	(in thousands)	
Income before transfers of SFGH on a GAAP basis	\$ 1,847	
Reimbursement to City General Fund for SB 855 matching program	(69,384)	
Transfers from City General Fund to support SFGH on:		
Other Program Support	1,329	
Interest expense on the over draft funds with the City Treasury	464	
Transfers from SFGH to City facility projects	1,159	
Expenses which require budgetary funding but are not GAAP basis expenses:		
Capitalized services and other asset purchases	(2,865)	
Change in encumbrances and appropriation carryforwards	(1,252)	
Other expenses	(68)	
Expenses which do not require budgetary funding but are GAAP basis expenses:		
Depreciation expense	6,634	
Net loss of SFGH requiring General Fund subsidy on a Budget basis	<u>\$ (62,156)</u>	

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

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During the year ended June 30, 2004, Medicare and Medi-Cal revenue accounted for \$53 million and \$52 million of net patient service revenue respectively. As of June 30, 2004, SFGH had net patient receivables from Medicare of \$7.8 million and net patient receivables from Medi-Cal of \$15.7 million.

State of California Senate Bill 855 (SB-855) was passed by the state legislature in July 1991 to provide additional funding to hospitals which provide a significant portion of their services to Medi-Cal recipients. In order to receive additional funds, the City must transfer funds to the State Medi-Cal program so that the funds may be matched by federal funds. Gross patient revenue recorded by SFGH for SB-855 totaled \$100.4 million for the year ended June 30, 2004. This revenue was offset by a reduction in the General Fund operating subsidy of \$69.4 million for net SB 855 revenues of \$31 million for the year ended June 30, 2004.

In addition, SFGH receives funding from the State of California under Senate Bill 1255 (SB-1255) which establishes a funding pool through public and private sector contributions with matching federal participation. For the year ended June 30, 2004, SFGH recognized gross patient revenue in the amount of \$63.5 million offset by a reduction in the contribution provided by the City of \$35 million for net SB 1255 revenues of \$28.5 million.

Under the Medi-Cal Medical Education program, SFGH is reimbursed for medical education costs incurred for services rendered to Medi-Cal beneficiaries. For the year ended June 30, 2004, SFGH recognized net patient service revenue in the amount of \$1.8 million pertaining to this program.

As of June 30, 2004, SFGH had Medi-Cal supplemental reimbursement receivables for SB-855, SB-1255, and other federal and state settlement payments of approximately \$33.8 million.

The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized \$61.1 million as other operating revenue for the year ended June 30, 2004, from realignment funding.

In addition, SFGH was reimbursed by the State of California, under the Short-Doyle program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2004, reimbursement under the Short-Doyle program amounted to approximately \$5 million and is included in transfers in.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons who are unable to pay for health care services. Proposition 99 funds allocated to SFGH for the year ended June 30, 2004, amounted to \$1.3 million and are included in other operating revenue.

SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were \$191 million and estimated costs and expenses to provide charity care were \$103 million in fiscal year 2004.

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, 2004, was approximately \$62.5 million.

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 to make

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system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond. As of June 30, 2004, SFGH was studying available options, including co-location opportunities with UCSF Medical Center. The total funding required to rebuild the hospital is unknown at this time.

(h) Clean Water Program

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

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

As of June 30, 2004, the CWP had outstanding commitments with third parties for capital projects and for materials and services totaling \$28.7 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 project areas are now underway. In addition, the Agency is undertaking feasibility studies for two potential redevelopment areas designated by the Board of Supervisors of the City and proposed expansion to two existing project areas.

The Agency acts as the lead Agency in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is funded by a grant from the U.S. Department of Housing and Urban Development. The Agency applied for and was awarded a "Special Projects of National Significance" grant under the HOPWA program to provide partial rent subsidies and back to work job training.

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. Mission Bay North consists of approximately 65 acres adjacent to the Pacific Bell Park. Mission Bay South includes approximately 238 acres of land. The Agency has entered into an Owner Participation Agreement with the owner/developer to provide for development of the project areas. The proposed development in the north includes 3,000 housing units, 20% of which will be affordable units, 350,000 square feet of urban entertainment retail space, 100,000 square feet of City-serving retail space, 55,000 square feet of neighborhood-serving retail space and six acres of public open space. The proposed development in the south will include 3,090 housing units, 20% of which will be affordable units, a 43-acre University of California San Francisco (UCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving and neighborhood-serving retail space, five million square feet of commercial industrial space, a new fire and police station and a 500-student public school on land to be donated by UCSF. Mission Bay is expected to create over 31,000 new permanent jobs. The Mission Bay development will take place over 20 to 30 years and will require investment of over \$145 million in new public infrastructure. Total development costs for the two project areas are expected to exceed \$4 billion.

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As of June 30, 2004, 1,079 residential units, including 148 affordable units, 24,000 square feet of office space, and 72,650 square feet of neighborhood retail space have been completed in Mission Bay North. A commercial office building totaling 285,000 square feet and two UCSF research buildings of 550,000 square feet have been completed in Mission Bay South.

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 or 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 \$40.1 million.

The Public Initiatives Development Corporation (PIDC), was formed in May of 2002 to develop affordable housing on the Agency's behalf. The Board of PIDC is comprised of management of the Agency and other appointed individuals. Funding is dependent on the Agency and PIDC is reflected as a blended component unit in the Agency's financial statements. Activities during the year are relocating tenants, demolishing the building and starting construction of a 106 affordable units mixed-use development at the corner of 6th and Howard Streets.

In May 2004, the Agency issued \$33.6 million in Moscone Convention Center Lease Revenue Refunding Bonds, Series 2004. These bonds mature through July 1, 2024 with varying interest rates from 3% to 5.375%. A portion of the proceeds from the sale of the Series 2004 Moscone Refunding Bonds was used to establish an irrevocable escrow fund to refund the entire \$38.4 million principal amount of the Agency's outstanding Moscone Convention Center Lease Revenue Bonds, Series 1994. The net proceeds of \$40.5 million (including original issue premium of \$0.6 million, \$4.0 million from the Series 1994 Moscone Bonds reserve fund, and \$8.7 million from the City; and after (1) depositing \$3.4 million in a reserve fund; (2) depositing \$2.1 million in an additions and betterment fund; and (3) payment of \$0.9 million in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust until called and redeemed. The Series 94 Moscone Bonds will be called and redeemed on July 1, 2004. Although the advance refunding resulted in the recognition of a deferred accounting loss of \$2.1 million for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately \$15.9 million over the next 21 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$4.2 million.

In March 2004, the Authority issued \$83 million in 2004 Series A Tax Allocation Refunding and Capital Improvement Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series A Refunding Bonds). The 2004 Series A Refunding Bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related project areas. These bonds mature through August 1, 2021 with varying interest rates from 2.0% to 5.0%. The net proceeds were used to refund a portion of the 1993 Series B Tax Allocation Refunding Bonds (1993 Series B Refunding Bonds), in the amount of \$50 million, and all of the 1993 Series C Tax Allocation Revenue Bonds (1993 Series C Bonds), in the amount of \$25.7 million. In addition, the Agency intends to use approximately \$11.5 million of the proceeds to aid construction, rehabilitation, and preservation of low and moderate-income housing in the City. The net proceeds of \$78.9 million (including original issue premium of \$2.1 million; and \$7.2 million from the 1993 Series B Refunding Bonds and 1993 Series C Bonds reserve funds; and after (1) depositing \$0.2 million in a revenue fund; (2) depositing \$11.5 million in the low and moderate income housing fund; and (3) payment of \$1.9 million in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed.

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The refunded 1993 Series B Refunding Bonds and the 1993 Series C Bonds were called and redeemed on May 20, 2004, and the liability for these bonds has been removed from the statement of net assets. Although the advance refunding resulted in the recognition of a deferred accounting loss of \$3.0 million for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately \$17.8 million over the next 18 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$6.5 million.

In March 2004, the Authority issued \$4.4 million in 2004 Series B Taxable Tax Allocation Refunding Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series B Refunding Bonds). The net proceeds of the 2004 Series B Refunding Bonds were used to refund all of the 1996 Series C Taxable Tax Allocation Revenue Bonds (1996 Series C Bonds), in the amount of \$4.9 million. The net proceeds of \$5.0 million (including original issue premium of \$2.8 thousand; and \$0.6 million from the 1993 Series B Refunding Bonds; and after payment of \$79.7 thousand in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. The refunded 1996 Series C Bonds were called and redeemed on May 20, 2004, and the liability for these bonds has been removed from accompanying statement of net assets. Although the advance refunding resulted in the recognition of a deferred accounting loss of \$97.1 thousand for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately \$0.8 million over the next 4 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$0.2 million. The 2004 Series B Refunding Bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related project areas. These bonds mature through August 1, 2007 with interest rates of 2.0% and 3.0%.

In June 2004, the Authority issued \$7.8 million in 2004 Series C Tax Allocation Revenue Bonds (Rincon Point-South Beach Redevelopment Project) (2004 Series C Bonds) and \$45.9 million in 2004 Series D Taxable Tax Allocation Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series D Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related Project Areas. The 2004 Series C Bonds mature through August 1, 2030 with varying interest rates of 3.4% to 5.0%. The 2004 Series D Bonds mature through August 1, 2018 with varying interest rates of 5.0% to 5.85%. The net proceeds from the 2004 Series C Bonds will be used to finance the construction of an office building at the Agency owned and operated small craft harbor and improvements to an adjacent pier in the Rincon Point South Beach Project Area. The major portion of the net proceeds from the 2004 Series D Bonds will be used to finance the construction, rehabilitation, and preservation of low-income housing and to complete a parking garage in the Yerba Buena Center Project Area. The remaining proceeds will be used to fund improvements and economic development activities in various Project Areas.

Outstanding bond issues had cumulative interest accretion of approximately \$142.4 million as of June 30, 2004. Interest accretion is included in the accrued interest payable balance in the basic financial statements.

In order to facilitate construction and rehabilitation within the project areas, various construction loan notes, promissory notes and mortgage revenue bonds with an aggregate outstanding balance of approximately \$701 million at June 30, 2004, have been issued. When these obligations are issued, they are secured by the related mortgage indebtedness and, in the opinion of management, are not considered obligations of the Agency or the City and therefore not included in the basic financial statements. Debt service payments will be made by developers or property owners.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned must also be set aside for such purposes. The Agency established a Low and Moderate Income Housing Fund to account for this commitment.

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The Agency had commitments under contracts for capital improvements of approximately \$36 million at June 30, 2004.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

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

The mission of TIDA is to redevelop the former Naval Station Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California 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 2004, TIDA's primary source of revenues included facility and housing rents. During fiscal year 2003, TIDA received Navy agreement to initiate the process of early transfer, including competitive selection of a contractor to complete the Navy's Treasure Island Remediation Program with Navy funding but under TIDA direction and supervision; entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base; and completed a draft Environmental Impact Report (EIR) for the transfer. TIDA assisted with the opening of a new childcare center for Treasure Island residents and employees, and funded an extensive new program of recreation services for island residents.

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(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, 2004, is as follows (in thousands):

Due to/from other funds (in thousands):	Payable Fund	Amount
General	Nonmajor Governmental Funds	\$ 28,894
	Internal Service Funds	659
	San Francisco International Airport	1,052
	Heich Helcity Water and Power	528
	Municipal Transportation Agency	589
	General Hospital Medical Center	15,286
	Port of San Francisco	596
	Laguna Honda Hospital	52,917
	Nonmajor Governmental Funds	5,384
	Water Department	5,384
	Heich Helcity Water and Power	2,221
	Municipal Transportation Agency	2,221
	General Fund	892
	Nonmajor Governmental Funds	12,619
	Municipal Transportation Agency	101
	General Hospital Medical Center	693
	Nonmajor Governmental Funds	42,072
	Water Department Fund	1,903
	Total	\$ 118,802

Due to/from primary government and component units:	Payable Entity	Amount
Primary government - governmental	Component unit - SF Redevelopment Agency	\$ 849

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Transfers in (in thousands):

Funds	Funds					Total
	General Fund	Nonmajor Governmental	Internal Service Funds	Municipal Transportation Agency	San Francisco General Hospital	
General fund	\$ -	\$ 47,236	\$ 255	\$ 134,022	\$ 63,950	\$ 31,853
Nonmajor governmental	26,372	33,797	-	110,367	-	-
Internal service	18,161	489	-	-	-	-
Municipal transportation	-	346	-	-	-	-
San Francisco General Hospital	60,365	1,158	-	-	-	-
Laguna Honda Hospital	7,573	143	-	-	-	-
Total transfers out	\$ 121,469	\$ 83,166	\$ 255	\$ 253,389	\$ 63,950	\$ 31,853
						\$ 554,107

The \$277.3 million General Fund transfer out includes a total of \$229.8 million in operating subsidies to Municipal Railway, General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of \$47.2 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the public library and community health services. 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 \$69.4 million from General Hospital Medical Center as reimbursement for the SB 855 matching program (note 11(g)), \$18.2 million from the San Francisco International Airport, representing a portion of concession revenue (note 11(a)), and \$7.6 million transferred from Laguna Honda Hospital for prior year Tobacco Tax reimbursement.

(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.

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(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):

Fiscal Years	
2005	\$ 28,363
2006	24,735
2007	20,859
2008	17,425
2009	8,263
2010-2014	11,293
Total	\$ 110,738

Primary Governmental Activities

Component Unit - Redevelopment Agency

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

Fiscal Years	
2005	\$ 2,280
2006	1,197
2007	838
2008	846
2009	854
2010-2014	4,267
2015-2019	4,267
2020-2024	4,267
2025-2029	4,267
2030-2034	4,267
2035-2039	4,267
2040-2044	4,267
2045-2049	4,267
2050	854
Total	\$ 41,005

Business-type Activities

Fiscal Years	San Francisco International Airport	Municipal Transportation Agency	General Hospital Medical Center	Total Business-type Activities
2005	\$ 5,237	\$ 4,228	\$ 3,763	\$ 13,228
2006	5,512	1,651	1,718	8,881
2007	5,741	1,027	1,036	7,804
2008	5,741	802	340	6,883
2009	4,631	803	180	5,614
2010-2014	-	334	-	334
2015-2019	-	177	-	177
2020-2024	-	147	-	147
2025-2029	-	121	-	121
2030-2034	-	36	-	36
Total	\$ 26,862	\$ 9,326	\$ 7,037	\$ 43,225

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

Primary Governmental Activities

Fiscal Years	
2005	\$ 1,206
2006	1,057
2007	725
2008	476
2009	445
2010-2014	2,360
2015-2019	2,281
2020-2024	340
2025-2029	130
2030-2034	25
Total	\$ 9,045

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Fiscal Years	Business-type Activities			Market Corp	Municipal Transportation Agency	Total Business-type Activities
	San Francisco International Airport	Port of San Francisco	General Hospital Medical Center			
2005	\$ 63,713	\$ 27,311	\$ 1,884	\$ 891	\$ 2,874	\$ 96,473
2006	57,266	23,530	1,950	856	2,390	85,992
2007	50,856	21,173	1,991	774	2,147	76,941
2008	50,095	19,719	2,033	475	1,891	74,213
2009	26,825	17,941	2,077	379	1,747	49,069
2010-2014	36,059	73,136	2,123	1,707	4,010	117,075
2015-2019	-	59,672	-	-	-	59,672
2020-2024	-	51,155	-	-	-	51,155
2025-2029	-	44,404	-	-	-	44,404
2030-2034	-	41,916	-	-	-	41,916
2035-2039	-	34,583	-	-	-	34,583
2040-2044	-	21,007	-	-	-	21,007
2045-2049	-	17,437	-	-	-	17,437
2050-2054	-	8,020	-	-	-	8,020
2055-2059	-	7,023	-	-	-	7,023
2060-2064	-	3,903	-	-	-	3,903
Total	\$ 284,954	\$ 478,953	\$ 12,058	\$ 5,082	\$ 14,859	\$ 795,906

Component Unit - Redevelopment Agency

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

Fiscal Years	
2005	\$ 3,016
2006	2,900
2007	2,839
2008	2,839
2009	2,843
2010-2014	14,753
2015-2019	15,368
2020-2024	14,454
2025-2029	14,982
2030-2034	16,029
2035-2039	17,151
2040-2044	18,427
2045-2049	9,160
2050-2054	555
2055-2059	365
2060-2064	325
2065-2069	302
2070-2074	250
2075-2079	178
2080-2084	150
2085-2089	150
2090-2094	150
2095-2097	98
Total	\$ 137,284

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(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately \$14 million per year through July 1, 2025. 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. 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):

Fiscal Years	Moscone Convention Center	Other	Total
2005	\$ 6,758	\$ 645	\$ 7,403
2006	18,741	424	19,165
2007	18,744	65	18,809
2008	19,441	-	19,441
2009	19,510	-	19,510
2010-2014	98,708	-	98,708
2015-2019	98,414	-	98,414
2020-2024	16,744	-	16,744
2025-2026	2,956	-	2,956
Total minimum lease payments	300,016	1,134	301,150
Less amounts representing interest	(106,298)	(37)	(106,335)
Present value of maximum lease payments	\$ 193,718	\$ 1,097	\$ 194,815

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$904 million at June 30, 2004.

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, 2004, the City contributed approximately \$8.6 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

(16) RISK MANAGEMENT

Risk Retention Program Description

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

The City maintains limited excess coverage for certain facilities. The SFO carries liability insurance coverage of \$750 million and commercial property insurance coverage for full replacement value on all facilities owned by the SFO. The SFO does not carry insurance for losses due to seismic activity. The

**CITY AND COUNTY OF SAN FRANCISCO
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SFO is self-insured for general liability up to the first \$10,000 and the SFO carries liability insurance for any amounts in excess of \$10,000. The Port carries commercial insurance for all general liability, property and casualty risks of loss. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums.

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

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

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

Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as 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, 2004, has been actuarially determined, and includes an estimate of incurred but not reported losses. In addition, various businesses in the City had filed suit in California Superior Court challenging the constitutionality of the City Gross Receipts and Payroll Expense Tax Ordinances. The majority of these suits have been settled for approximately \$63 million. The City has issued debt to pay off this liability over 10 years. A few remaining unsettled claims may be settled over the next 12 months and funds are included in the City's estimated claims payable to cover these expected expenses.

Changes in the reported estimated claims payable since June 30, 2002, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2002-2003	\$ 86,731	\$ 35,793	\$ (29,220)	\$ 93,304
2003-2004	\$ 93,304	\$ 71,967	\$ (37,835)	\$ 127,436

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Breakdown of the estimated claims payable at June 30, 2004 is as follows (in thousands):

Governmental activities:	
Current portion of estimated claims payables.....	\$ 19,881
Long-term portion of estimated claims payable.....	59,924
Business-type activities:	
Current portion of estimated claims payables.....	15,463
Long-term portion of estimated claims payable.....	32,168
Total.....	<u>\$ 127,436</u>

The Retirement System is involved in two class action type lawsuits which are collectively referred to as "Final Compensation" cases. These lawsuits allege that the Retirement System should include additional "pay types" in pension calculations. The most significant pay types common to all members of the Retirement System are lump sum payments after termination of employment for sick leave and vacation. The police, fire, and transit employees have additional claims for special pay types specific to those employee groups. There is also a new lawsuit against the Retirement System by the Veteran Police Officers Association (VPOA) that alleges that the Retirement System should include Police Officers' Standards Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. These cases are being vigorously contested. The City Attorney has sought outside counsel to help defend the claims. The possible loss to the Retirement System, should these cases be successful, while difficult to estimate, could range between \$500 million and \$750 million. The actual loss could exceed this range. No liability has been accrued by the City relating to these lawsuits as of June 30, 2004.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2004 has been actuarially determined and includes an estimate of incurred but not reported losses. The total amount estimated to be payable for claims incurred as of June 30, 2004 was \$397.1 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, 2002, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2002-2003	\$ 304,181	\$ 127,008	\$ (66,933)	\$ 364,256
2003-2004	\$ 364,256	\$ 108,177	\$ (75,307)	\$ 397,126

**CITY AND COUNTY OF SAN FRANCISCO
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June 30, 2004**

Breakdown of the accrued workers' compensation liability at June 30, 2004 is as follows (in thousands):

Governmental activities:	
Current portion of accrued workers' compensation liability.....	\$ 45,138
Long-term portion of accrued workers' compensation liability.....	168,492
Business-type activities:	
Current portion of accrued workers' compensation liability.....	40,108
Long-term portion of accrued workers' compensation liability.....	143,388
Total.....	\$ 397,126

(17) SUBSEQUENT EVENTS (UNAUDITED)

Short-term Debt

In August 2004, the Water Department issued an additional \$25 million of commercial paper notes to fund capital projects associated with Proposition A, which passed in November 2002 to support the renovation of the water system. As of that date, the commercial paper program had a weighted average interest rate of 1.2% and a weighted average term of 112 days.

In September 2004, the San Francisco County Transportation Authority issued the second tranche of \$100 million of the programmed \$200 million aggregate principal amount of Commercial Paper Notes (Limited Tax Bonds), Series A and B. In September 2004, the Authority entered into a loan agreement with MUNI in the amount of \$22.6 million and authorized a draw against the loan of \$12 million for reimbursement of construction costs for the Metro East Maintenance Facility of the Third Street Light Rail Project.

Long-term Debt

In July 2004, the City issued Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) in the amount of \$39.4 million. The Series 2004-R1 were issued to provide funds to refinance an existing City courthouse building located at 400 McAllister Street in the City by refunding in whole a series of certificates of participation executed and delivered to finance the construction, furnishing and equipping of said building, \$40.6 million of which are currently outstanding. The Series 2004-R1 bonds have interest rates ranging from 3.0% to 4.5% and mature April 2007 through April 2021. The refunding resulted in gross debt service savings of \$7.4 million.

In August 2004, the Port issued Refunding Revenue Bonds, Series 2004 in the amount of \$19.9 million. The 2004 Bonds were issued to provide funds to refund and redeem all \$23.2 million in aggregate principal amount of the Port's outstanding Refunding Revenue Bonds, Series 1994. The Series 2004 Bonds have interest rates ranging from 2.25% to 4.0% and mature July 2005 through July 2009. The Series 2004 Bonds are secured by revenues of the Port. The refunding resulted in gross debt service savings of \$5.2 million.

In October 2004, the City issued a total of \$76.9 million in General Obligation Bonds. They consist of the following two bonds: \$68.8 million Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2004A and \$8.1 million California Academy of Sciences Improvement Bonds, Series 2004B. The 2004A Bonds will finance the acquisition, construction, and reconstruction of certain improvements to recreation and park facilities. The 2004B will finance the acquisition, construction, and reconstruction of certain improvements to the California Academy of Sciences.

**CITY AND COUNTY OF SAN FRANCISCO
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Elections

On November 2, 2004 the San Francisco voters approved the following propositions that will have fiscal impact on the City.

Proposition C – Health Service System This Charter amendment removes the Health Service System from the Department of Human Resources and makes it a separate City department. There is no immediate fiscal impact on the City. However, the amendment may affect costs in that it changes the composition of the Health Service Board, which oversees City employee and retiree health benefits, from a majority of members who are appointed by City officers to a majority of members who are elected from among the beneficiaries of the system.

Proposition E – Police Fire Survivor Benefits This Charter amendment provides that when a police officer or firefighter dies in the line of duty, his or her survivor receives 100% of the retirement benefits, regardless of when the officer or firefighter was hired. Formerly, if the police officer or firefighter was hired after 1976, the survivor received 75% of the retirement benefits. The cost to the City and County will increase, as estimated by the Retirement System Actuary, by approximately \$1.0 million per year, approximately .05% of payroll at current rates, for the next 20 years.

Proposition G – Health Plans for City Residents This Charter amendment authorizes the Health Service Board, by a two-thirds vote of its members, to establish medical and dental plans for City residents, in addition to the other plans currently available to City employees and retirees. This measure does not require the City to pay any portion of the cost of these plans. However, the cost to research, establish and fund any health plan that would offer coverage to City residents could be significant.

Proposition I – Economic Analysis of Legislation This ordinance creates an Office of Economic Analysis that would employ two staff economists. This Office would analyze proposed City legislation and report on the likely impact of the legislation on the City's ability to attract and retain businesses, create and retain jobs, and other matters affecting the overall economic health of the City. The salary and fringe benefit cost of staff economists can be expected to be approximately \$250,000 annually depending on the qualifications desired. It is also estimated that the cost of preparing a required economic development plan and funding for survey and research work can be at least an additional \$250,000 per year.

Proposition AA – Bart Earthquake Safety Bond This authorizes the San Francisco Bay Area Rapid Transit District to issue bonds not to exceed \$980 million dollars to make earthquake safety improvements to BART facilities in Contra Costa, San Francisco and Alameda Counties, including strengthening tunnels, bridges, overhead tracks and the underwater Transbay tube, and establish an independent citizens' oversight committee to verify bond revenues are spent as promised.

On November 2, 2004 the San Francisco voters did not approve the following propositions that would have allowed the City to increase taxes to minimize budget shortfalls and maintain City Services.

Proposition J – Sales Tax Increase This was an ordinance that would have allowed the City to increase the local sales tax by ¼% (one-quarter-of-one percent) to 8 ¾%. The City would have controlled the additional tax funds and could have spent them for any public purpose. This proposed ordinance would have generated additional sales tax revenue for the City of approximately \$8 million in the fiscal year which began on July 1, 2004, and total revenues of approximately \$33.6 million annually beginning in fiscal year 2005-06, the first full fiscal year that the new tax rate would have been effective. Although Proposition J failed to pass, the Mayor's

CITY AND COUNTY OF SAN FRANCISCO
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Office has already begun to implement an 18-month plan to cover the funding shortfall and the Controller is controlling expenditures to ensure that no structural shortfall occurs.

Proposition K – Business Tax This was an ordinance that would have created a temporary four-year “gross receipts” tax on certain companies and individuals doing business with the City. In 2005, the City would have collected 0.1% (one-tenth-of-one percent) of gross receipts from companies and individuals doing business in the City. The gross receipts tax funds would have been used by the City for any public purpose. This proposed ordinance would have generated business tax revenues for the City of approximately \$17 million in the fiscal year which began on July 1, 2004, and total revenues of approximately \$43 million annually beginning in fiscal year 2005-06, the first fiscal year that the new tax rate would have been effective. Although Proposition K failed to pass, the Mayor’s Office has already begun to implement an 18-month plan to cover the funding shortfall and the Controller is controlling expenditures to ensure that no structural shortfall occurs.



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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City and County of San Francisco (the “City”) in connection with the issuance of its \$69,000,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005I (the “Bonds”). The Bonds are issued pursuant to (i) Ordinance No. 24-04 adopted by the Board of Supervisors of the City (the “Board”) on February 10, 2004, and approved by the Mayor of the City (the “Mayor”) on February 19, 2004 (the “Ordinance”), (ii) Resolution No. 585-05 adopted by the Board on August 9, 2005, and approved by the Mayor on August 12, 2005 (the “Resolution”), (iii) the Charter of the City and (iv) Constitution of the State of California. The Ordinance and the Resolution are collectively referred to herein as the “Resolution.” The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the “S.E.C.”) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Bonds or to dispose of ownership of any Bonds; or (b) is treated as the owner of any Bonds for federal income tax purposes.

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

“Holder” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. A list of the current National Repositories approved by the S.E.C. may be found at the S.E.C. website: <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the S.E.C. As of the date of this Disclosure Certificate, there is no State Repository. The current status should be checked on the S.E.C. website, <http://www.sec.gov/info/municipal.shtml>.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which is June 30), commencing with the report for the 2004-05 Fiscal Year (which is due not later than March 27, 2006), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

1. determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

2. (if the Dissemination Agent is other than the City), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain CUSIP numbers of the Bonds and contain or include by reference the following information, as required by the S.E.C.:

- (a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities;
- (b) a summary of budgeted general fund revenues and appropriations;
- (c) a summary of the assessed valuation of taxable property in the City;
- (d) a summary of the *ad valorem* property tax levy and delinquency rate;
- (e) a schedule of aggregate annual debt service on tax-supported indebtedness of the City; and
- (f) a summary of outstanding and authorized but unissued tax-supported indebtedness of the City.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the S.E.C. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of Bondholders.
4. Optional, contingent or unscheduled bond calls.
5. Defeasances.
6. Rating changes.
7. Adverse tax opinions or events affecting the tax status of the Bonds.
8. Unscheduled draws on debt service reserves reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with each National Repository or with the Municipal Securities Rulemaking Board and, in either case, the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in Sections 3(a)(4) and 3(a)(5) need not be

given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Bonds pursuant to the Resolution.

SECTION 6. Use of Central Post Office. The City may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as that for giving notice of the occurrence of a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

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

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

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

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the

basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

Date: _____, 2005

**CITY AND COUNTY OF SAN
FRANCISCO**

By _____
Edward M. Harrington
Controller of the City and
County of San Francisco

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of City: City and County of San Francisco

Name of Bond Issue: City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005I (the "Bonds")

Date of Issuance: _____, 2005

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco dated _____, 2005. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Title:

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix E concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds, registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for each principal payment date of the Bonds, each in the aggregate principal amount represented by such Bonds, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments for over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system, in denominations of \$5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC.

The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Treasurer, acting as paying agent, to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Treasurer, acting as paying agent,, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or

registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Treasurer, acting as paying agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Treasurer, acting as paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Treasurer, acting as paying agent,. Under such circumstances, in the event that a successor securities depository is not obtained, physical certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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APPENDIX F

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[Closing Date]

Board of Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place
San Francisco, California 94102-4682

Re: City and County of San Francisco General Obligation Bonds
(Laguna Honda Hospital, 1999) Series 2005I

Ladies and Gentlemen:

We have acted as co-bond counsel to the City and County of San Francisco (the "City") in connection with the issuance of its \$69,000,000 City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999) Series 2005I (the "Bonds"), pursuant to the authority granted by the Constitution of the State of California and the Charter of the City.

In our capacity as co-bond counsel to the City, we have reviewed copies, certified to us as being true and complete copies, of the record of the proceedings of the City for authorization and issuance of the Bonds. We have also examined such certificates of public officials and officers of the City and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Declaration of Trust of the Treasurer of the City, dated as of September 1, 2005 (the "Declaration of Trust").

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the documents, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for Federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Declaration of Trust are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

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

1. Such proceedings show lawful authority for the issuance and sale of the Bonds pursuant to the Constitution of the State of California and the Charter of the City, including a ballot measure approved by not less than a two-thirds vote of the qualified electors of the City voting at the November 2, 1999 election and Ordinance No. 24-04 adopted by the Board of Supervisors of the City on February 10, 2004, and approved by the Mayor of the City on February 19, 2004 and Resolution No. 585-05 adopted by the Board on August 9, 2005, and approved by the Mayor on August 12, 2005.

2. The Bonds constitute valid and binding general obligations of the City, and are secured by a covenant by the City to levy *ad valorem* taxes upon all property subject to taxation by the City, which taxes are unlimited as to rate or amount (except for certain personal property which is taxable at limited rates), for the payment of the principal of the Bonds and the interest thereon.

3. Under existing statutes and court decisions, interest on the Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. In rendering the opinion in this paragraph, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the City with respect to the use of proceeds of the Bonds and the investment of certain funds, and other matters affecting the non-inclusion of interest on the Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the City with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Declaration of Trust as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

4. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 3 and 4 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under State and local tax law.

With respect to matters expressed in paragraphs 1 and 2 above, we have relied in part upon an opinion from the City Attorney.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

Respectfully submitted,

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL
SECURITY
ASSURANCE®**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 560NY (CA 1/91)

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